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MODERNIZING MILITARY PAY. VOLUME I. ACTIVE DUTY COMPENSATION. REPORT OF THE FIRST QUADRENNIAL REVIEW OF MILITARY COMPENSATION

Assistant Secretary of Defense
Washington, D. C.

1 November 1967

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20. ABSTRACT (Continue on reverse side if necessary and identify by block number) This is a report of the first Quadrennial Review of Military Compensation, as required by law, and is considered the most comprehensive and factual study of military pay ever undertaken. Fact finding included: Survey of civilian occupations held by 280,000 Ready Reservists with more than 2 years of active service; Collection of Bureau of Census data on earnings in 66 civilian occupations; Survey of occupations and earnings of 100,000 retirees; 5% sample of active duty pay records to establish typical earnings based on length of service and dependency status; (cont'd

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OFFICE OF THE SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301

5 SEP 1967

MEMORANDUM FOR THE SECRETARY OF DEFENSE

SUBJECT: Summary of First Quadrennial Pay Study

As you know, Title 37, U.S. Code, Section 1008b, required the President to begin a quadrennial structural review of military compensation not later than January 1, 1967, and to submit a detailed report of the results to the Congress. In accordance with your direction, the Military Compensation Policy Board was convened in December 1966 to conduct the first Quadrennial Review of Military Compensation. We have held twenty meetings to date, and directed our staff to analyze and study all aspects of military compensation. This was done over and beyond the previous work of the staff, which has been conducting research and analysis since March 1966. Throughout our deliberations, we have benefited by the advice and support of the Bureau of the Budget and the Civil Service Commission. We reviewed and discussed each topic in considerable depth. The product of our efforts is summarized in the attached report we are submitting to you. This report, we feel, satisfies your guidance to the effect that:

- it provides fairness and equity to the military individual, the Government, and the taxpayer; and

- it should assist in attracting, retaining and motivating into the career force the kinds and numbers of personnel the uniformed services need.

We believe that this report, if approved, will have a significantly beneficial effect on the entire military manpower position of the Department of Defense. Although individually we may have reservations about some details, as members of the Military Compensation Policy Board we strongly endorse the report and recommend your favorable consideration.

It is essential to recognize that what is recommended here is the most fundamental change ever proposed in the military compensation system. To be successful in our presentations to the Congress, to the military themselves, and to the public generally, we believe it vital to carefully prepare communications which explain the proposals to all groups. Such information, planned even at this early date, will be of fundamental importance to the attainment of the prospective benefits. Within the military, changes will be required in the methods of explaining the advantages of making a career decision and thus all levels throughout the force must have an in-depth understanding of these proposals.

Attachment a/s

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SUMMARY OF FIRST QUADRENNIAL PAY STUDY

BACKGROUND

- A quadrennial review of the military pay structure is required by law.

- The current study was begun in March 1966 by an Interservice Task Force headed by Rear Admiral L. E. Hubbell, supplemented by outside consultants. Every finding of the study has been reviewed and voted upon by a Military Compensation Policy Board composed of Assistant Secretaries of Defense (Manpower and Comptroller), principal service officials (Under Secretaries, Deputy Under Secretaries, Deputy Chiefs of Staff (Personnel)), and the Special Assistant to the Director, Bureau of the Budget. Bureau of the Budget and the Civil Service Commission have provided technical help.

- Fact finding has included:

  - Survey of civilian occupations held by 280,000 Ready Reservists with more than two years of active service.

  - Collection of Bureau of Census data on earnings in 88 civilian occupations.

  - Survey of occupations and earnings of 100,000 retirees.

  - 5% sample of active duty pay records to establish typical earnings based on length of service and dependency status.

  - Comparison (performed by Budget Bureau and Civil Service Commission experts) of enlisted and officer grades with blue collar and Class Act grades based on duties and responsibilities.

- This is without a doubt the most comprehensive and factual study of military pay ever undertaken.

FINDINGS WITH RESPECT TO NONCAREER ENLISTED FORCE (E-1, E-2, E-3, and E-4 with between 2 and 4 years of service whose total active service commitment is less than 6 years)

- The noncareer enlisted force (52% of all personnel) is appropriately compensated both in method and amounts. 80% serve but one term; 84% are single; the average age is 20. We recommend the following pay and promotion policies in this part of the force:

  - RECOMMENDATION NO. 1:

    a. That the average residual income[1] of all military noncareer

---

[1] Residual Income is the cash left after providing for food, housing, clothing, medical care and taxes. For the minimum wage earner this is $984.

members exceed that of the civilian minimum wage earner and that the average residual income for the normal noncareer member exceed that of the single male high school graduate of the same age employed full time in the civilian economy over the same period. This will insure that military service imposes no net economic penalty.

b. That the maximum promotion time for fully qualified personnel shall be four months' active service to E-2 and 12 months' active service to E-3 so as to insure an earnings stream that will meet the second standard above.

c. That Dependents Assistance Allowances be continued as a supplemental payment to the 16% who have dependents.

- We have determined that after the pay increase recommended for October 1, 1967, the residual income standard will be met as shown below:

Years of Service	Age	Residual Income: Military	Residual Income: Civilian High School Graduate
1	19	$1,202	$1,198
2	20	1,522	1,296
3	21	1,985	1,393
4	22	2,403	1,471
Cumulative		$7,112	$5,358

- RECOMMENDATION NO. 2: For the future, it is recommended that noncareer compensation be adjusted annually. The annual adjustment should be the average increase in career force salaries awarded to keep career force salaries abreast of changes in private sector salaries as derived from the annual BLS salary survey.[1] The Dependents Assistance Act allowances should be maintained as a separate payment and kept in alignment with movements in the rent component of the Consumer Price Index.[2]

- The one exception to the above is recommended for men reaching grade E-4 between two and four years, whose total active service commitment is six years or more. These will be called "career-committed" men. They may become career-committed at the two-year point or later. At the time of their commitment, they should be advanced to a new pay table conformed to the new "parity salary" which will be discussed later. The regular enlistment bonus will be discontinued, with the money now being spent on it ($179 million

---

[1] National Survey of Professional, Administration, Technical, and Clerical Pay, U.S. Dept. of Labor, Bureau of Labor Statistics. (Annually)

[2] DAA rates proposed for October 1, 1967, are adequate to match the average rental expenses of civilian families in the same income class.

in FY 1968) going to finance the payment of career salaries to these career-committed people with less than four years of pay service.

FINDINGS AFFECTING THE CAREER FORCE ("Career-committed" E-4's, all E-4's over 4 and above, and all officers)

- A basic overhaul in compensation for this group is needed.

- The key problem, discussed by every study of the subject during the past ten years, is the mid-range experience deficit:

  - Overages exist in the 0 to 3 year group; significant deficits exist in the 4 to 14 year group. These imbalances were as follows on June 30, 1965:

Completed Years of Service	Officer Overage/Deficit	Enlisted Overage/Deficit
0-3	+50%	+14%
4-14	-25%	-28%
15 & above	--	+50%

- While this mid-range experience deficit is most apparent in fields such as doctors, lawyers, pilots--it is a problem in most officer grades and in technical enlisted skills. It reduces effectiveness as junior people are used to fill in middle level jobs and it increases costs because of excessive turnover.

- Compensation is a major cause of the problem. Military personnel lack confidence in the present pay system because:

  - It is complex and confusing.

  - It does not reward men equitably.

  - It cannot be compared and adjusted objectively in relation to trends in civilian earnings.

FIRST PROBLEM: CAREER COMPENSATION IS COMPLEX AND CONFUSING

- There are 26 separate elements making up military pay as shown in Exhibit 1. It is doubtful that as many as 1% of the officer and enlisted men know how to compute the value of these compensation elements. Those who can have no way of comparing their earnings with those of the civil servant alongside of whom they work, or with a counterpart in civilian life.

Exhibit 1

ITEMS THAT HAVE BEEN TREATED AS COMPENSATION

($ Million, FY 1968, including proposed 1 Oct 67 increases)

Salary	**$16,707.0**	**Special & Premium Pays**	**$1,370.4**
Basic Pay	11,431.9	Hostile Fire	N/A
Quarters	2,663.7	Incentive Pay:	
Subsistence	1,750.4	Hazardous Duty	397.7
Tax Advantage	861.0	Diving	3.7
(Imputed retirement contribution of $533.2 is sometimes used in making certain comparisons.)		Sea & Certain Places	149.4
		Reenlistment Bonus:	272.7
		Normal . . . 178.5	
		Variable . . 94.2	
		Proficiency Pay:	147.9
		Specialty. . 129.2	
		Sup. Perf. . 18.7	
		Special Pay to Medical Personnel	42.5
		Separation Pays	356.5
Supplemental Benefits	**$ 3,722.3**	**Noncompensation Personnel Costs**	**$ 874.1**
Current Year Retirement Accrual	2,502.2	Clothing Issues & Allowances	445.9
Dependents Indemnity Compensation	130.5	Personal Money Allowance	0.2
Death Gratuity	34.1	Family Separation Allowance	128.2
Social Security	469.3	Dislocation Allowance	66.7
Medical Care	441.0	Overseas Station Allowance	142.9
Commissary & Exchange	110.2	Burial Costs	10.0
Mortgage Insurance	5.4	SGLI (extra hazard premium)	80.2
Unemployment Compensation	29.6		

TOTAL MILITARY COMPENSATION: $21,799.7

- A Louis Harris survey for the Navy asked officer and enlisted personnel who had completed an initial tour and who were potential careerists to estimate their military earnings. They consistently underestimated military earnings throughout a career by 10% to 24%.

- We asked banks and finance companies how they valued military compensation for lending purposes. We found that they underestimated actual salaries as follows: 50% for an E-3; 34% for an O-1; 13% for an E-7; and 4% for an O-6.

  - RECOMMENDATION NO. 3: The military counterpart of civilian salary should be identified and displayed as the "military salary." This salary should include (1) basic pay, (2) quarters and subsistence allowances, (3) tax advantage (resulting from nontaxable allowances), and (4) the imputed retirement contribution.

- The second reason why military pay is undervalued is the numerous ways in which it is received. Unlike the civilian, most of whose compensation is in taxable cash, less than 60% of the military compensation is in taxable cash:

Military Compensation

Method of Payment	Per Cent of Total
• Taxable cash	58.8%
• Nontaxable cash allowances	11.5
• Allowances in kind, nontaxable	8.7
• Savings (medical, tax advantage, etc.)	9.5
• Deferred compensation (Retirement accruals, not now vested)	11.5
TOTAL	100.0%

- This leads to the fourth recommendation:

  - RECOMMENDATION NO. 4: A career force member should be fully paid in taxable cash just as a civilian is. He would then pay his full taxes, pay either in cash or by a payroll deduction, for any subsistence and housing furnished by the Government, except for housing furnished when he is in the field or on shipboard. Like the civil servant, he would contribute 6 1/2% of his salary to his retirement account and would have a vested equity in this contribution. (Exhibit 2 summarizes the values that would accrue to the member and the Government costs of the vesting provision.)

Exhibit 2

EXAMPLES OF INDIVIDUAL RETIREMENT CONTRIBUTIONS AND ACCUMULATED RETIREMENT FUND[1]

Year of Active Service	OFFICER Annual Retirement Contribution	OFFICER Year End Accumulated Retirement Balance	ENLISTED Annual Retirement Contribution	ENLISTED Year End Accumulated Retirement Balance
1	$ 524	$ 524	$ 0	$ 0
2	555	1,079	0	0
3	579	1,658	238	238
4	649	2,307	331	569
5	695	3,002	368	937
6	719	3,721	380	1,317
7	747	4,468	396	1,713
8	750	5,218	404	2,117
9	766	5,984	421	2,538
10	794	6,778	425	2,963
11	828	7,606	438	3,401
12	824	8,430	441	3,842
13	845	9,275	451	4,293
14	854	10,129	457	4,750
15	880	11,009	466	5,216
16	899	11,908	478	5,694
17	965	12,873	485	6,179
18	960	13,833	496	6,675
19	1,014	14,847	515	7,190
20	1,064	15,911	524	7,714

[1] Contribution equals 6.5% of 1967 Parity Salary

Annual Payout Costs:	1st year:	$ 25.7 million
	5th year:	$159.9 million
	36th year:	$207.1 million
Level Annual Premium:		$179.8 million

SECOND PROBLEM: MILITARY SALARIES DO NOT NOW REWARD CAREER MEN EQUITABLY

- Only 60¢ out of the military salary dollar is related to services performed. The remainder is determined by dependency status, whether the member is provided his allowances in kind or draws them in cash, and whether he stays to collect retirement.

  - For example, an E-5 (sergeant) with eight years of service receives a salary in the following range:

Bachelor living on base.....	$4,630
Bachelor living off base.....	5,395
Married man living off base.....	5,842
Married man in Government quarters.....	6,247

- Allowances bear little relationship to actual costs, and have been adjusted only sporadically for many years.

  - Only three adjustments have been made in quarters allowances since 1946 versus 10 basic pay adjustments.

  - Subsistence allowances for officers ($47.88 month) were last adjusted in 1952.

  - The family living off base spends substantially more than the BAQ for housing. The one-third of our career families who can be housed on base forfeit only the BAQ and are generally subsidized compared to those who live off base.

- The imputed retirement contribution is considered to be a part of total salary for all members for the purpose of setting basic pay. However, only a minority of the force (46% of career enlisted men and 18% of officers will retire) ever realize any benefit in return for this deduction. Hence, it discourages mid-length careers and does not become a positive incentive factor for retention until about the eighth year. Then it tends to lock people in the system until they retire--most at the 20-year point.

  - RECOMMENDATION NO. 5: The same salary should be paid to all career personnel of the same grade and years of service without regard to dependency status or quarters occupancy status. The retirement contribution should be vested to the member and withdrawable upon termination of active duty short of retirement.[1]

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[1] Unless the member transfers to a reserve component and thereby retains his potential eligibility for military retirement, in which case the vested contribution would be withdrawable only when potential retirement eligibility was terminated.

THIRD PROBLEM: CAN AN OBJECTIVE SYSTEM BE DEVISED TO KEEP MILITARY SALARIES IN ALIGNMENT WITH CHANGES IN CIVILIAN EARNINGS?

- Part of the answer has been furnished by the President's commitments in his April 5, 1967 pay message. He said that military personnel should be compensated on a scale comparable to civil servants and that, in the future, military salaries should increase as civil service salaries are increased.

  - The latter policy has been the basis for across-the-board adjustments in 1966 and 1967.

  - The President has proposed two additional civil service pay raises in 1968 and 1969 (estimated at about 4.4% and 7.4% respectively) to bring civil service salaries into full comparability with private enterprise, based on annual BLS surveys.

- The next question is whether military salaries (as defined above) are now at "parity" with civil service salaries to conform to the President's first policy.

  - A related question is whether across-the-board pay increases in all grade and ranks are proper--or whether differential pay increases by grade (such as now provided in the civil service) are more appropriate to conform to trends in the private sector.

- To answer these questions, two independent studies were made of military versus civilian salary levels. Both revealed a significant gap today between military and civilian salaries.

FIRST TEST OF SALARY PARITY: CIVILIAN EARNINGS OF FORMER SERVICEMEN

- The occupations of 280,000 reservists were obtained and analyzed by education, years of work experience and military occupational background. Earnings of civilians by these same characteristics were collected from the Bureau of Census.

- This permitted for each of the 409 military occupations (enlisted and officer) a determination of the average earnings of their civilian counterparts with similar education and years of work experience.

- This, in turn, made it possible to derive the average salary for each enlisted and officer grade (E-4 through O-8) required to match the average earnings of civilian counterparts. This is the salary required for full comparability by this test. To compare it to civil service salaries it was reduced at each grade by the percentage lag which exists at that grade today between the civil service and private enterprise (7.2% overall). This produced a

"parity salary" for each grade required to match civil service.

- The resulting analysis shows that on October 1, 1967--after the presently proposed pay adjustment of $822 million--military salaries will lag the "parity salaries" computed under this test by $925 million--a net lag of 6.9% in military career force salaries behind civil service. Exhibit 3 shows the detailed computations.

TEST NUMBER 2: APPLICATION OF FEDERAL SALARY COMPARABILITY PROCESS TO MILITARY GRADES

- Independent of the above analysis, a team of Budget Bureau and Civil Service experts applied to the military grades the same techniques they used to link the Foreign Service and Postal Field Service pay structures to the Classification Act structure. The key to this technique is a standardized and systematic job evaluation of a large number of positions in the two systems to find grades that correspond on the basis of work requirements, such as FSO-8 and GS-7, PFS-4 and GS-3, etc.

  The group analyzed job descriptions of 60% of the O-8 grade, 90% of the O-1 grade, and specialties accounting for 83% of the E-3 grade. They found that the valid linkage points could be established as follows:

  - O-8 with GS-18; O-1 with GS-7; E-3 with GS-3 for white collar jobs and Wage Board 5 for blue collar jobs.

  - They further established that the typical E-8 and the typical O-2 should be paid the same salaries, then developed rates for other grades based on internal work relationships among military grades. Supplemental analyses of pay grades E-7 and O-5 confirmed the validity of these results.

- Based on the payline derived from this test, the lag between military parity and civil service salaries was priced at $824 million after October 1, 1967, military and civilian raises--a net lag of 6.2% in military career force salaries behind parity with civil service. Exhibit 4 shows the detailed computations.

- The close correspondence of results from the two independent tests gives the Board added confidence in their validity.

  - RECOMMENDATION NO. 6: The Military Compensation Policy Board recommends that the Federal Comparability Process linking pay grades O-8 to GS-18, O-1 to GS-7, and E-3 to GS-3 and WB-5 be adopted as the basis for setting military career salaries. This will insure a common salary policy throughout the Federal

Exhibit 3

MILITARY CAREER FORCE LAG BEHIND COHORT PARITY

Pay Grade	Average Salary Required for Parity with Cohort	Adjusted Average 1 October 1967 Military Salary[1]	Difference $	Difference %	Amount of Lag ($ Million)
0-10	$40,138	$35,614	$4,524	11.3%	$ 0.2
0-9	34,602	31,070	3,532	10.2	0.4
0-8	29,324	27,151	2,173	7.4	1.1
0-7	28,559	23,562	4,997	17.5	3.3
0-6	24,287	19,724	4,563	18.8	78.3
0-5	19,759	16,670	3,089	15.6	127.4
0-4	15,201	13,736	1,465	9.6	101.7
0-3	11,188	11,403	-215	-1.9	-23.8
0-2	8,353	8,852	-499	-6.0	-29.4
0-1	7,700	6,615	1,085	14.1	78.1
Comm Off	$12,435	$11,528	$ 907	7.3%	$337.3
W-4	$15,473	$12,904	$2,569	16.6%	$ 10.8
W-3	11,836	10,887	949	8.0	3.3
W-2	10,151	9,310	841	8.3	6.2
W-1	8,459	8,217	242	2.9	2.4
Warr Off	$10,595	$ 9,694	$ 901	8.5%	$ 22.7
All Off	$12,319	$11,412	$ 907	7.4%	$360.0
E-9	$12,050	$10,633	$1,417	11.8%	$ 23.2
E-8	9,670	9,301	369	3.8	15.7
E-7	8,112	8,191	-79	-1.0	-11.4
E-6	7,271	7,134	137	1.9	38.5
E-5	6,552	5,918	634	9.7	318.1
E-4	5,830	5,123	707	12.1	181.0
Career EM	$ 6,927	$ 6,472	$ 455	6.6%	$565.1
			TOTAL		$925.1

[1] Proposed 1 October 1967 regular military compensation rates adjusted to reflect imputed retirement credit of 6½% of salary, where salary equals regular military compensation plus retirement contribution (salary = regular military compensation/.935).

Exhibit 4

MILITARY CAREER FORCE LAG BEHIND CIVIL SERVICE

1 OCTOBER 1967 SALARIES

Pay Grade	Average Salary Required for Parity with Civil Service	Adjusted Average 1 October 1967 Military Salary[1]	Difference $	Difference %	Total FY 1968 Amount of Lag ($ Million)
O-10	$33,791	$35,614	$-1,823	-5.4%	$ -0.1
O-9	30,144	31.070	-926	-3.1	-0.1
O-8	27,055	27,151	-96	-0.4	-0.1
O-7	25,356	23,562	1,794	7.1	1.2
O-6	22,387	19,724	2,663	11.9	45.7
O-5	18,709	16,670	2,039	10.9	84.1
O-4	14,858	13,736	1,122	7.6	77.9
O-3	11,737	11,403	334	2.8	37.0
O-2	9,327	8,852	475	5.1	28.0
O-1	7,548	6,615	933	12.4	67.2
Comm Off	$12,444	$11,528	$ 916	7.4%	$340.8
W-4	$15,126	$12,904	$ 2,222	14.7%	$ 9.3
W-3	12,431	10,887	1,544	12.4	5.4
W-2	10,029	9,310	719	7.2	5.3
W-1	8,406	8,217	189	2.2	1.9
Warr Off	$10,568	$ 9,694	$ 874	8.3%	$ 21.9
All Off	$12,325	$11,412	$ 913	7.4%	$362.7
E-9	$11,330	$10,633	$ 697	6.2%	$ 11.4
E-8	9,432	9,301	131	1.4	5.6
E-7	8,219	8,191	28	0.3	4.1
E-6	7,242	7,134	108	1.5	30.4
E-5	6,356	5,918	438	6.9	220.3
E-4	5,865	5,123	742	12.7	189.8
Career EM	$ 6,843	$ 6,472	$ 371	5.4%	$461.6
			TOTAL		$824.3

[1] Adjusted to reflect imputed retirement credit of 6½% of military salary.

Government and is consistent with the President's policy statement. The resulting salary comparisons are as follows:

Grade	Payline Military Salary 10/1/67	Payline Salary Required for Parity w/Civil Service on 10/1/67	Salary Required When Civil Service is Fully Comparable w/Private Enterprise	Cost of Parity 10/1/67 (Million)
0-8	$25,386	$25,990	$34,940	$ -
0-7	22,029	25,434	29,370	1.2
0-6	17,808	21,878	24,175	45.7
0-5	15,385	18,107	19,575	84.1
0-4	12,768	14,519	15,645	77.9
0-3	10,634	11,650	12,380	37.0
0-2	8,645	9,254	9,710	28.0
0-1	5,760	7,409	7,555	67.2
		Total Officers (including WO's)		$362.7
E-9	9,541	11,057	11,700	11.4
E-8	8,439	9,254	9,780	5.6
E-7	7,538	8,108	8,265	4.1
E-6	6,773	7,142	7,185	30.4
E-5	5,614	6,355	6,355	220.3
E-4	3,877	5,700	5,700	189.8
		Total Enlisted		$461.6
		Grand Total Career Force		$824.3

- The President is committed to bringing civil service to full comparability with private enterprise by 1969. Ideally, military salaries will be brought to parity with civil service in 1968 and to full comparability with private enterprise at the same time as civil service. The parity lag of $824 million is the net salary cost to Government, after collection of the Federal income taxes of $879 million. The gross budgetary cost to Defense would be approximately $1.5 billion to permit payment of a total taxable salary, as shown in Exhibit 5. It is estimated that the catch-up increases for civil service in 1968 and 1969 will generate additional increases of $1.8 billion, so that the total DOD budget increase by 1969 to achieve both parity with civil service and full comparability with private enterprise is approximately $3.0 billion, with a net after-tax cost to the Government of $2.0 billion.

Exhibit 5

ESTIMATED SALARY AND BUDGET IMPLICATIONS OF CONVERTING

TO PARITY SALARY AT 1 OCTOBER 1967 RATES

(Based on FY 1968 Career Force)

($ Million)

BASIC PAY AND ALLOWANCES SYSTEM		PROPOSED SALARY SYSTEM	
Salary Implications			
Fully Visible Elements:		Fully Visible Elements:	
Basic Pay after Taxes	$ 7,640.3	Salary after Taxes and Collections	$10,050.4
Cash Quarters	1,282.1	Quarters Rental	503.5
Cash Subsistence	470.6	Subsistence Charges	402.1
Taxes Withheld	678.4	Taxes Withheld	1,557.6
		Retirement Contribution	869.9
Subtotal	$10,071.4	Subtotal	$13,383.5
Elements Not Fully Visible:		Elements Not Fully Visible:	
Quarters in Kind	$ 656.3	None	
Subsistence in Kind	391.6		
Tax Advantage	623.6		
Retirement "Contribution"	816.3		
Subtotal	$ 2,487.8	Subtotal	$ ---
Grand Total	$12,559.2	Grand Total	$13,383.5
Net Salary Increase = $824.3			
DOD Budget Implications			
"True Salary Equivalent" Per Above	$12,559.2	Salary Per Above	$13,383.5
Less Items Not Budgeted:		Less Items Not Budgeted:	
Qtrs Amortization[1]	(264.6)	Qtrs Collection[2]	(111.8)
Retirement "Contribution"	(816.3)	Retirement Contribution	(869.9)
Tax Advantage	(623.6)	Subsistence[3]	(10.5)
		Plus Other Budget Costs:	
		Vesting, First Year[4]	25.7
Net Budget	$10,854.7	Net Budget	$12,417.0
Total Increase in DOD Budget = $ 1,562.3			

[1] Included in "Quarters in kind" entry of regular compensation. Total quarters in kind of $656.3 million equals O&M budget of $391.7 plus unfunded quarters amortization of $264.6.

[2] Excess of total collections of $503.5 million over O&M budget for career housing of $391.7 million.

[3] Excess of total collections of $402.1 million over raw food costs of $391.6 million.

[4] Return of vested retirement contributions to separatees and survivors. Costs after 5 years rise to $159.9 million annually, level off after 36 years at $207.1 million; level annual accrual cost is $179.8 million.

OTHER SALARY STRUCTURE REFORMS

- The remaining salary changes required are primarily of a technical nature. The most important will be to recast the pay table to provide longevity steps with intervals of 3% for the officer grades, and 2% for the enlisted grades. (Present intervals are the result of ad hoc changes in past years and are inconsistent and erratic.) Some additional longevity steps will be provided in the senior grades to reward those with longer service, and at the over one-year point as an added incentive for second lieutenants (O-1), privates (E-3), and corporals (E-4).

OTHER COMPENSATION REVISIONS REQUIRED UPON CONVERSION TO A SALARY PLAN

- With the adoption of full parity in salaries, all other elements of compensation need to be examined from four points of view:

  - First, should any present benefit be reduced or eliminated, on the grounds that it has been needed because of the absence of the full salary system for the military?

  - Second, are there any elements of compensation which should be increased so as to assure full equality with civil service?

  - Third, what other changes are required to compute other elements of compensation under the salary concept?

  - Fourth, if we move to full equality of salary, are there other elements that should be added because of the nature of military service?

  These questions have been examined in respect to the categories of compensation appearing in Exhibit 1.

RECOMMENDATIONS REGARDING SUPPLEMENTAL BENEFITS

These benefits are of two types. The first group comprise savings to military families, justified by the disadvantages of service life resulting from frequent moves and the uneven availability of commercial services (commissary, post exchange and medical care). The second group relates to the military estate benefits (retirement, dependents indemnity compensation, Social Security and death gratuity).

- RECOMMENDATION NO. 7: With respect to the first group, the objective under a salary system should be to retain these justified activities but in conjunction with the move to parity salaries reduce or eliminate any Government subsidy. Our specific recommendations are:

a. Convert post exchange and commissary operations to self-supporting operations by discontinuing direct Government subsidies with certain exceptions, and classify these benefits permanently as noncompensation elements. This means that approximately $105 million of annual costs (now contributed in the form of free personnel and O&M support) would be recovered. The exceptions would be Government support of extraordinary costs incurred in overseas operations or in war zones. Begin immediately a further study of sources and uses of revenues to determine proper reallocations required by this policy.

b. Increase the daily charge for inpatient dependents' care in military facilities from $1.75 to $5.00 per day for a maximum of 10 days with the rate reverting to $1.75 thereafter. This increase recognizes the increase in hospital operating costs since 1948 when the $1.75 per day rate was established and equalizes the cost sharing (approximately 10% member, 90% Government) of those treated in Government and civilian facilities. This will recover an estimated $10 million annually. No increase in future medical benefits would be made except (1) to match a corresponding benefit in civil service, or (2) to overcome a serious disadvantage experienced by the military family, such as dental care in a "remote" area.

c. Discontinue payment of FHA mortgage insurance premiums for military homebuyers ($5.4 million annually). The benefit is no longer necessary because the Veterans Readjustment Act of 1966 makes VA home loan provisions applicable to career members.

RECOMMENDATION REGARDING SPECIAL AND PREMIUM PAYS

In this area, there are a large number of items, some of which vary with basic pay and allowances, and others of which are fixed amounts.

- RECOMMENDATION NO. 8:

a. The following should remain fixed at present dollar amounts:

- Proficiency pay (although the number of awards and the multiples should be closely controlled and reduced wherever the new parity salary will achieve the desired incentive effect).

- Sea pay and Certain Places pay.

- Hazardous duty incentive pays (except glider pay which should be abolished as an outmoded benefit). The rationale for paying flight pay and the appropriate rates under the salary system need further study, with special emphasis on flight pay for warrant officers.

- Special pays to veterinarians, dentists and physicians.

- Hostile fire pay.

- (Note: Responsibility pay should be eliminated since it is not used.)

- Dislocation allowances.

- Family Separation allowances.

b. <u>The following special pays should remain at present dollar levels and be subject to automatic adjustment on the basis of annual increases in career salaries needed to match salary moves in the civilian economy as measured by the annual BLS survey</u>:

- Pay for Service Academy Cadets and Midshipmen.

- Drill pay for Reserves and National Guardsmen.

c. <u>The following pay formulae should be revised as indicated</u>:

- Normal reenlistment bonus should be considered to be fully incorporated into the career salary as explained earlier. No more normal reenlistment bonuses should be paid. This results in an annual saving of $178.5 million.

- Variable reenlistment bonus should be computed at 50% of one month's salary, in lieu of the present one month's basic pay, with the total cost of the program not to exceed the FY 1968 level of $94.2 million. As in case of proficiency pay, VRB awards should be closely controlled and reduced or eliminated wherever the new parity salary provides a sufficient retention incentive.

- Separation pays should be based on salary, using a formula of one month's salary per year of service with a one-year maximum to replace the existing two months' basic pay with a two-year or $15,000 maximum. Those separated for "show cause" reasons would receive one-half month's salary per year of service, with a half-year maximum. Separation pays other than Disability Severance would be available only to officer and enlisted personnel having four or more years of service.

d. For purposes of paying unused accrued leave to departing personnel, leave credit should begin to accumulate at the salary rate effective on the date of the transition to salary. Payment for any unused leave in excess of that accrued under the salary system shall be at rates that would have applied in the absence of the transition to the salary.

RECOMMENDATION REGARDING MILITARY ESTATE BENEFITS

This is the most complex of the compensation categories, and it is unlikely that major revisions can be developed in time for inclusion in the current quadrennial pay study. The Policy Board makes two recommendations:

- RECOMMENDATION NO. 9: The following principles should be applied in the continuing study of this area:

a. Before any basic change is made in present retirement and estate benefits, each service should develop a program of force management under which potential excessive retention up to the 20-year point will be curtailed, and desirable retention of individuals beyond the 20-year point will be sought--both for enlisted and officer personnel. This means that an optimum "force structure profile" and techniques of achieving this profile under the new salary program must be developed.

b. As an aid in implementing the above concept, determine the annuity that should be provided to the early (20-year) retiree to recompense him for the conditions of service for which comparability of salaries does not provide. To avoid penalizing those who, at our option, must start a second career at this point in their lives and who suffer an economic disadvantage in so doing, this annuity should not be less than the amount needed on the average to offset the second career income loss of early retirees.

c. Develop a graduated scale of annuities for those remaining beyond 20 years which will assure full equality with the civil servant at the 29 to 30-year point and beyond.

d. In developing revised retirement plans under the above principles, design a transition system which will maximize incentives for the future force, but which will not penalize any member in the career force at time of implementation.

e. Consider incorporating Social Security insurance benefits in the retirement programs by deducting, for example, one-half of the Social Security annuity (attributable to military service) when actually paid to the individual, in the form of a reduction in the military annuity payment.

f. Design a new survivor benefit package which is fully equal to that of the civil servant, and consolidate in this package the DIC, the RSFPP and Social Security survivor benefits. Also match the group insurance program of the civil service, absorbing the death gratuity within this revised program.

- RECOMMENDATION NO. 10: Pending development of the above revisions:

a. Maintain present retirement and survivor benefit provisions. This would be accomplished by applying present percentage formulae to a table of Military Benefit Base Amounts equal to the basic pay rates that would have been in effect in the absence of transition to a salary. As long as it is retained, the table of Military Benefit Base Amounts should be adjusted to reflect salary increases.

b. During the period the table of Military Benefit Base Amounts is used, the member's covered wages for Social Security purposes should be determined from this table and not from his salary.

COST IMPLICATIONS: The DOD Budget and new Government cost impact of the recommendations contained herein are summarized in Exhibit 6. Although the DOD budget increase occasioned by the transition to the salary alone is $1.5 billion, recoveries of costs from other recommendations and increased tax collections reduce the net new cost to the Federal Government of the recommendations to $460 million. As pointed out earlier, the President's 1967 pay message already implies substantial military pay increases over the next two years as the civilian system is taken all the way to full private enterprise comparability. Exhibit 7 summarizes the projected costs of these increases at FY 1968 force levels under the assumptions now being used in BOB to estimate costs on the civilian side.

The necessity for temporary "save cash take home pay" provisions shown in Exhibit 6 arises because the vested retirement contribution to be made out of the new salary exceeds the salary increase for some 415,000 personnel whose current military salaries even with no contribution counted are within 6 1/2% of, or ahead of, parity with civil service salaries. Therefore, a one-time provision to save cash take home pay (salary less taxes and retirement contribution) is necessary to preclude reducing any member's take home pay as a result of the transition to the salary.

The save pay provision for separation pays is required until the member's vested retirement credit has built up to a point where the return of vested credits plus revised separation pays equals currently authorized separation payments.

Exhibit 6

SUMMARY OF ESTIMATED FULL YEAR DOD BUDGET AND NET GOVERNMENT COST IMPLICATIONS OF RECOMMENDATIONS

(Assuming FY 1968 Force Level)

RECOMMENDATION	BUDGET COST ($ Million)
Pay Parity Salaries (See Exhibit 1)	$1,562.3
Put PX and Commissaries on Self-Supporting Basis	-105.0
Terminate payment of FHA Mortgage Insurance Premiums	- 5.4
Incorporate Normal Reenlistment Bonus in Salary	-178.5
Revise rules for payment of Terminal Leave Pay	44.0
Revise Separation Pay Rules	- 3.4
Revise Charges for Dependent Medical Care[1]	- 10.0
Save Pay Provisions:[2]	
Take Home Pay[3]	33.2
Separation Pay[4]	2.4
DOD Budget Increase	$1,339.6
Less Increased Federal Income Tax Collections	-879.2
Net New Government Cost	$ 460.4

[1] Administrative action to increase charges for inpatient care in service hospitals from $1.75 per day to $5.00 per day for the first ten days, after which the rate reverts to $1.75 daily.

[2] Required if transition to salary were made at 1 October 1967 rates. If transition is made in conjunction with a salary increase, these amounts will be smaller, reducing to an estimated $1.0 million for a 5.0% salary increase.

[3] Salary less Federal income taxes and retirement contribution.

[4] Total of separation pay plus return of vested retirement credit to be no less than currently authorized separation pay.

Exhibit 7

ESTIMATED COSTS OF PROSPECTIVE SALARY INCREASES TO ATTAIN FULL PRIVATE ENTERPRISE COMPARABILITY BY 1 JULY 1967[1]

	($ Million)	
FY 1969	Budget	Net Cost
Convert to salary on 1 October 1968[2]	$ 982.2	$ 327.3
Step 1 increase (4.4%) on 1 October 1968[3]	593.6	489.0
Total FY 1969	$1,575.8	$ 816.3
FY 1970		
Carry over of conversion costs	$ 327.4	$ 109.1
Step 2 increase (7.4%) on 1 July 1969[3]	1,341.1	1,096.4
Total FY 1970	$1,668.5	$1,205.5
Total through end FY 1970	$3,244.3	$2,021.8

[1] Assumes force distribution projected in President's FY 1968 budget.

[2] Conversion costs reduced by an estimated $30.0 million of budget and $24.0 million of net cost in reduced save pay requirement if conversion is made in conjunction with Step 1 increase.

[3] Assumes military salary increases awarded to parallel salary movements in civil service of 4.4% in FY 1969 and 7.4% in FY 1970.

To minimize the necessity for save take home pay provisions we recommend that the transition to the salary system be accomplished in conjunction with the next general increase in Federal salary rates, presently scheduled for October 1, 1968 under the President's plan for attaining full Federal salary comparability by October 1, 1969. Since the specific amount of the October 1, 1968 increase will not be known until early in 1968, the costs shown in Exhibit 7 are necessarily broad estimates. The costs shown in Exhibits 5 and 6 are those that would result from a transition to parity salary levels in the absence of any general pay increase.

It is important to keep in mind that the DOD and the Government are already effectively committed by the President's announced objectives to spending huge sums on military compensation, to include sizeable future increases. The recommendations contained herein are designed to insure the maximum effectiveness of these expenditures.

LIST OF FINDINGS AND RECOMMENDATIONS

CHAPTER 1 - BACKGROUND

FINDING	RECOMMENDATION
1. Compensation principles and concepts must be evaluated separately for career and noncareer members of the force because there are fundamental compensation-related differences in their conditions of service.	1. That for compensation purposes: a. noncareerists be defined as (1) all personnel in pay grades E-1, E-2, and E-3 plus (2) those personnel in pay grade E-4 who have either (i) less than two years' completed service for pay or (ii) between two and four years' completed service for pay and a total active duty service commitment, including time served, of less than six years. b. careerists be defined as (1) those personnel in pay grade E-4 who have either (i) between two and four years' completed service for pay and a total active duty service commitment of at least six years, or (ii) more than four years' completed service for pay; plus (2) all personnel in pay grades E-5 and above, to include all officers.

CHAPTER 2 - NONCAREER COMPENSATION

2. Existing principles and concepts of military compensation are appropriate in the noncareer portion of the force.	
3. The provision of a large part of the noncareer member's income in kind requires that a standard for noncareer cash compensation be based on residual income; which is the cash left over after procuring food, housing, clothing, and medical care and paying Federal income and Social Security taxes.	2. That two standards for minimum noncareer residual income be adopted to insure that satisfactory service involves no net economic penalty: a. Standard I--The Minimum Wage Floor: Military pay rates should be such that, regardless of pay grade or longevity step, a noncareer member's residual income at least equals the average residual income of a single full time employed male civilian earning the legal minimum wage. b. Standard II--Parity with Civilian Counterpart: Military pay rates should be such that the residual income of the noncareer member whose performance is fully satisfactory is at least equal to the average residual income of his civilian counterpart, defined as a single male high school graduate of the same age employed full time in the civilian economy.
4. Rates proposed in the Uniformed Services Pay Act of 1967 in combination with promotion rates in effect in FY 1967 and projected for FY 1968 are adequate to meet both residual income standards.	

FINDING	RECOMMENDATION
5. A minimum standard noncareer promotion policy is required to insure continued attainment of a noncareer pay progression that meets Standard II in case future force changes restrict future promotion opportunities.	3. That fully qualified noncareerists should be promoted to pay grade E-2 not later than on completion of 4 months of active service and to pay grade E-3 not later than on completion of 12 months of active service. 4. That the pay grade "E-1 (under 4 months)" be eliminated, inasmuch as Recommendation 3 makes it superfluous.
6. People underestimate total military income because they tend to ignore or undervalue that part of income provided in kind. Basic pay, which is only one part of total military income, tends to get compared wrongly to total civilian cash income.	5. That basic pay for noncareerists be redesignated "Personal Money Pay" to make its true nature more readily apparent.
7. Dependents Assistance Act allowances are appropriate supplements to noncareer income to enable the few noncareerists with dependents to meet their reasonable family financial obligations. Rates proposed in the Uniformed Services Pay Act of 1967 are adequate as of 1 October 1967.	
8. Noncareer pay, including Dependents Assistance Act allowances, is sufficient at rates proposed in the Uniformed Services Pay Act of 1967 to insure that no military family of 3 or fewer persons has an income below the "poverty line" as defined by the Office of Economic Opportunity. Military families with incomes below the poverty line are the result of exceptional circumstances, usually substandard performance by or disciplinary action against the member. Hardship discharge provisions exist in each service for those isolated cases where military pay is insufficient to permit the member to meet reasonable family financial obligations.	
9. Increases in civilian pay expected in the normal growth of the economy will cause noncareer residual income to fall below the recommended standards unless personal money pay is reviewed on a regular basis and adjusted as required.	6. That noncareer compensation be adjusted as follows to assure its continued attainment of the recommended standards: a. That personal money pay be adjusted annually as required to keep it abreast of pay increases in the private sector. b. That Dependents Assistance Act allowances be reviewed annually and adjusted as required to reflect increases in rental costs.

CHAPTER 3 - CAREER FORCE PAY METHODS

FINDING	RECOMMENDATION
10. A mid-range experience deficit in the career force--substantial and continuing shortages in the 4 to 14 years of service groups in both officer and enlisted grades--exists now and has existed for many years. Despite a 40.4% increase in basic pay since 1962, costing more than $3.5 billion in basic pay and other compensation costs through fiscal year 1968, reenlistment and retention rates continue at levels substantially below those required to fill this gap. The hard facts are that we are not now attracting, retaining, and motivating to career military service the kinds and numbers of people our uniformed services need.	
11. Compensation is a major cause of inadequate retention.	
12. There are three major deficiencies in the career compensation system that markedly diminish its effectiveness:	
a. Military pay is unduly complex and confusing.	7. That a standardized definition and classification of military compensation be adopted to reduce the ambiguity about what military compensation is.
b. Military pay is not equitably distributed to the force:	8. That for the career force the five separate compensation elements of (1) basic pay, (2) quarters (cash allowances or furnished), (3) subsistence (cash allowances or furnished), (4) the Federal income tax advantage, and (5) the imputed retirement contribution be incorporated into a schedule of full salaries based only on pay grade and years of service for pay.
c. Most important, there is no agreed upon quantitative standard for applying the accepted principle of comparability to military pay at each grade.	(See Finding 14 and Recommendation 12 below.)
13. The existing career compensation system is generating unintentional pay inequities because changes in compensation methods have not kept pace with changes in conditions relevant to compensation.	9. That collections out of a full military salary for Government quarters furnished be at the lower of: (1) fair rental value of quarters furnished or (2) the 75th percentile of housing expense for FHA mortgagees of equal salary.
	10. That collections out of a full military salary for Government subsistence furnished to career personnel be at the rate of: (1) raw food cost to the Government when the member has no option about whether to subsist in Government facilities or (2) raw food cost plus a reasonable preparation and serving charge when the member has an option and chooses to subsist in Government facilities.

FINDING	RECOMMENDATION
	11. That out of a full military salary the career member make a vested contribution of 6.5% of that salary to military retirement.
CHAPTER 4 - CAREER FORCE PAY STANDARDS	
14. The Work Level standard based on the application of the Federal Comparability Process to the military grade structure is the appropriate quantitative standard for measuring the comparability of military to civilian salaries.	12. That the Work Level standard derived from applying the Federal Comparability Process to the military grade structure and linking pay grades 0-8 to GS-18, 0-1 to GS-7, and E-3 to GS-3 and WB-5 be adopted as the quantitative standard for measuring the comparability of military salary rates to Federal Classification Act salary rates and, through them, to private enterprise salary rates.
CHAPTER 5 - THE CAREER SALARY TABLE	
15. Total service creditable for pay purposes (longevity) is the proper basis for in-grade salary increments under current and projected military personnel management practices.	13. That the longevity structure be retained as the basis for in-grade salary increases in the military salary system.
	14. That existing categories of constructive longevity credit awards be retained, but that no new categories be established.
16. Minor structural reforms in the existing longevity pay table are required to conform career pay progression more closely to normal career promotion progression.	15. That in-grade longevity increases be regularized to correspond to normal military career progression, with promotion to the next higher grade always being rewarded more than the accumulation of additional longevity in grade.
17. Minor save pay provisions may be required in the transition to salary to protect the after-tax take home pay of some military members.	16. That a one-time save pay provision be incorporated in the conversion to the salary system to insure that no member suffers a reduction in cash take home pay, defined as salary less Federal income taxes, Social Security (FICA) taxes, and the vested retirement contribution.
CHAPTER 6 - NONSALARY COMPENSATION ELEMENTS	
18. Pay distinctions other than those in the salary table are justified within the military career force only (1) to meet hard retention or manning requirements, (2) to secure the requisite number of volunteers for special duties, or (3) to compensate for unusually arduous or dangerous conditions of service.	
19. Because the recommended standard for military salaries discloses a lag of military career salaries behind Federal civilian salaries, it is not now possible to evaluate with precision the adequacy of existing special pay rates.	17. That pending an evaluation of the effects of the recommended salary system the following special pays remain fixed at existing rates: (1) Proficiency Pay; (2) Hazardous Duty Incentive Pays, except glider pay which should be abolished as outmoded; (3) Diving Duty Pay; (4) Special Pay to Physicians, Dentists, and Veterinarians; (5) Sea and Certain Places Pay; and (6) Hostile Fire Pay.

FINDING	RECOMMENDATION
20. "Responsibility Pay" is an inappropriate element of the military compensation system.	18. That the existing authorization for special pay for officers holding positions of unusual responsibility and of a critical nature be repealed.
21. Several compensation elements in the present system are inconsistent with the concept of full parity of military and civil service salaries. These are: (1) certain Government subsidies to exchange and commissary operations, (2) payment of FHA mortgage insurance premiums for military homebuyers, and (3) the normal reenlistment bonus.	19. That exchanges and commissaries be removed from the elements of compensation and be operated at no net cost to the Government except where Government support is merited by special conditions. 20. That the payment by the Government of a military member's FHA mortgage insurance premium be discontinued concurrent with the enactment of parity salaries. 21. That the normal reenlistment bonus be considered as incorporated into the recommended parity salaries and that the payment of the normal reenlistment bonus be discontinued.
22. The mechanical computation of the following payments, most involving no changes in pay policy, must be revised because they are now computed from one of the compensation elements recommended for incorporation into the career salary: (1) pay for Service Academy Cadets and midshipmen, (2) pay for paid drill periods of Reserves and National Guardsmen, (3) pay for ROTC and NROTC members, (4) the Variable Reenlistment Bonus, (5) unused accrued leave pay, (6) Dislocation Allowances, and (7) Family Separation Allowance (Type I).	22. That pay for Service Academy Cadets and Midshipmen and for paid drill periods for Reserves and National Guardsmen be established on separate tables at rates current at the time of the transition to the salary; that members of the ROTC or the NROTC on field duty or cruises be paid at the rate of an E-1 (under one year of service) for the first four months of such duty, after which they be paid at the rates prescribed for Service Academy Cadets and Midshipmen; and that these rates be increased in the future whenever career salaries are increased by the average percentage increases in career force salaries. 23. That the Variable Reenlistment Bonus base be established at one-half of one month's salary per year of enlistment or extension; that existing multiples one through four be retained; that the bonus continue to be payable at the discretion of the Service Secretary concerned in either a single lump sum or annual installments at his discretion; and that it be payable without regard to years of service or enlistment period. 24. That entitlement to payment for unused accrued leave begin to accrue at the salary rate effective on the date of the conversion to a salary system. Payment for unused accrued leave in excess of that accrued since the effective date of the change to salary will be computed in the current manner. 25. That Dislocation Allowances and Family Separation Allowance (Type I) be established on separate tables at rates applicable on the date of conversion to salary.

FINDING	RECOMMENDATION
23. Minor additional changes in pay policy with respect to reserve members in paid drill status are needed to guarantee the fully equitable treatment of these members with respect to active duty members.	26. That enlisted reservists on active duty for training for periods of 30 days or more, in the noncareer pay grades, be eligible to receive Dependents Assistance Act allowances, and that officer, as well as enlisted, reserve members be entitled to rations in kind when engaged in a drill period that extends for at least eight hours in one calendar day.

CHAPTER 7 - MILITARY ESTATE PROGRAM

24. Current separation pay provisions are appropriate with minor modifications required (1) to relate the separation pay to the recommended salary concept and (2) to remove an inequity between separation pay now paid Navy and Marine Corps officers vs. Army and Air Force officers who are separated for the same reasons. Separation pay provisions corresponding to those for officers are required for enlisted personnel to provide the military force managers with a fair and effective method for tailoring the career force to specific manning requirements.	27. a. That disability severance pay be payable at the rate of one month's salary per year of active service up to a maximum of one year's salary. b. That separation pays computed in accordance with the following formulae be payable to officer and enlisted personnel who are involuntarily separated from active duty after completing four or more years of continuous active Federal military service: (1) For nonpromotion and reduction in force separations: one month's salary per year of active service up to a maximum of one year's salary; (2) For "show cause" separations: one-half of one month's salary per year of active service up to a maximum of one-half of one year's salary.
25. Extensive further study is needed to develop retirement annuities and survivor benefits related to parity salaries and derived from the application of a common policy to the widely different conditions of military service and Federal civilian employment	
26. Revision of the Military Estate Program survivor benefit and retirement annuity provisions is not required to move to the salary system and to begin to realize the benefits of such a move.	28. a. That when the conversion to salary is made, retirement annuities, survivor benefits, and social security-covered wages be computed by applying present formulae to a table of Military Benefit Base Amounts (MBBA) to be established initially at rates equal to the basic pay rates that would have been in effect had the military continued on the basic pay system. b. That the MBBA table be adjusted in the future by the average percentage by which Federal salaries are increased to stay abreast of salary increases in the private sector as measured by the annual BLS salary survey. 29. That continued study be given to designing a Military Estate Program based on the parity salary.

FINDING	RECOMMENDATION
27. The recommended vested retirement contribution of 6.5% of parity salary is a fair and reasonable interim measure until the precise contribution to be made by military personnel to the Military Estate Program has been determined from further study of Military Estate Program provisions.	30. That a vested retirement contribution of 6.5% of salary continue to be included in the full parity salaries paid to military career members as long as the table of Military Benefit Base Amounts and existing formulae are used to compute military retirement annuities.

CHAPTER 8 - ESTIMATED COST AND BUDGET IMPLICATIONS

28. The prospect of substantial military pay increases in fiscal years 1969 and 1970 makes early conversion to the salary system highly desirable to realize the most effective use of these compensation increases. Failure to convert before the increases would put the military system even further out of line with the parity salary structure than it now is, thereby increasing future conversion costs and magnifying future save pay problems.	31. That the military career force compensation system be converted to the salary system recommended in this report in conjunction with the next general increase in military pay scales, presently scheduled under the policy set out in the President's 5 April 1967 pay message for 1 October 1968.

CHAPTER 1

BACKGROUND

Why the Study Was Done

Section 1008(b), title 37, United States Code, requires the President not later than 1 January 1967 and not less than once each four years thereafter to ". . . direct a complete review of the principles and concepts of the compensation system for members of the uniformed services . . ." and, on completion of the review, to ". . . submit a detailed report to Congress summarizing the results of such review together with any recommendations he may have proposing changes in the statutory salary system and other elements of the compensation structure provided members of the uniformed services." This report summarizes the results of the first such review.

Study Goals

The study had two specific goals. The first was to evaluate the existing military compensation system's effectiveness in attaining a two-part objective:

- to provide a fair and equitable relationship between military compensation and that of civilians with similar qualifications; and

- to attract, retain, and motivate to career service the kinds and numbers of people our uniformed services need.

The second study goal was to develop specific recommendations on those changes needed to insure the compensation system's maximum effectiveness in attaining this objective.

Policy Guidance for the Study

Detailed policy guidance for the review was provided by a Military Compensation Policy Board chaired by the Assistant Secretary of Defense (Manpower) and comprised of the Under Secretaries and the Deputy Under Secretaries for Manpower of the three Military Departments, the Assistant Secretary of Defense (Comptroller), the Special Assistant to the Director of the Bureau of the Budget, and the Deputy Chiefs of Staff for Personnel of the four Military Services. This Board reviewed in detail and voted on each major finding and recommendation.

Two basic policy decisions were made at the outset of the study. First, no uniformed services member was to suffer any net reduction in total pay as a result of the study's recommendations. This did not mean that no single element of pay would be reduced or eliminated; it meant instead that the total value of the pay package to the individual member would be no less after than before the review.

Second, the study was to concentrate on the principles and concepts of military compensation rather than try to justify a military pay raise. It was clear from the outset that any change in the structure of military pay would mean a realignment of internal pay relationships. Given the first policy decision on save pay, such realignments could be accomplished only by differential increases where required throughout the pay structure. Therefore, if the study found that structural changes in the compensation system were required, it could not result in a general across-the-board pay raise for all members.

How the Study Was Done

The study began in March 1966 with the formation in the Office of the Assistant Secretary of Defense (Manpower) of a special task force of military and civilian personnel with Rear Admiral L. E. Hubbell, U.S. Navy, as Director. The task force has been augmented for specific projects by representatives of the Civil Service Commission, the Bureau of the Budget, other Federal agencies, and civilian contractors and consultants. Continuous liaison with the four Military Services, the Office of the Assistant Secretary of Defense (Comptroller) and the Bureau of the Budget has been maintained through weekly meetings with a Steering Committee made up of a representative of each.

During 1966 the task force collected information and conducted background studies. Major fact-finding included:

(1) Collecting from each military service its best estimate of present and projected officer and enlisted manpower needs[1] and resources in each of 409 military occupational specialties.

(2) Sampling 5% of all military pay and personnel records to find out what characteristics influence military pay and to what extent.

(3) Compiling Bureau of the Census data, including special tabulations done on contract for the study, on the earnings of male full time paid civilian workers classified by age and education level into 88 occupational categories. These data shed light on what characteristics influence civilian earnings and to what extent.

(4) Surveying the civilian work experience and earnings of former military personnel. This effort included:

- determining from personnel records and surveys the civilian occupations held by 280,000 Ready Reservists who had spent more than two years on active duty, and

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[1] Consistent with Five Year Defense Plan approved end strengths.

- surveying the post-retirement work experience and earnings of 100,000 retired officer and enlisted personnel of all services.

(5) Evaluating by Classification Act and Wage Board job evaluation standards the work content (duties, responsibilities, and qualifications required) of substantial numbers of positions at each of several military grades. This permitted a comparative analysis of the relationship between pay and work content of grades in the military and other Federal compensation systems.

(6) Reviewing in detail the historical development of existing compensation principles, concepts, and practices.

(7) Studying compensation principles, concepts, and practices in

- military forces of other nations,
- other Federal salary systems, and
- the private sector of the economy.

What the Study Found

The review disclosed both a need for and an opportunity to make, at reasonable Government cost, substantial improvements in a basically sound but partially outmoded compensation system. A simple pay raise is not the answer, nor is minor tinkering with existing compensation elements. We need important structural changes, detailed in the body of this report, to bring the compensation system abreast of some fundamental changes that have occurred since existing principles and concepts were fully appropriate to the circumstances at hand.

Four changes stand out as especially relevant:

(1) We need larger and different kinds of active military forces. The concept that was for so long the foundation of our national security strategy--small, cadre-type active forces augmented by extensive mobilization in time of emergency--is no longer valid. Free World leadership has brought with it global security commitments of an immediate nature. Meeting them requires that the keystone of our present national military strategy be the instant operational readiness of large, standing forces supplemented by a mobilization capability.

Table 1-1 shows the growth in active forces between 30 June 1938 and 30 June 1965 (before the Vietnam build up).

TABLE 1-1

ACTIVE DUTY MILITARY STRENGTHS
(As of 30 June)

YEAR	Officers	Enlisted	Total	Active Forces as Percent of Total Labor Force
1938	26,073	296,859	322,932	0.7%
1965	338,822	2,316,567	2,655,399	3.6%

On 30 June 1965, active military forces made up five times as big a share of the total labor force as they did on 30 June 1938.

Table 1-2 compares some of the major force structure increases since 1938 that have generated these increased manpower needs.

TABLE 1-2

MAJOR MILITARY FORCES
(As of 30 June)

Service	1938	1965
Army		
Divisions	6	16
Separate Regiments/Brigades	41	76
Navy		
Ships in Commission	627	880
Active Aircraft	1,771	6,666
Marine Corps		
Ground forces	2 Brigades	3 Divisions
Air forces	12 Squadrons	3 Air Wings
Active Aircraft	259	1,390
Air Force		
Wings	5	78
Active Aircraft	2,402	14,475

The 1965 forces were not only larger than the 1938 cadre forces, but also were more complex, more extensively deployed around the world,

and kept in a much more advanced state of operational readiness. These changes in the size, composition, and missions of the military forces required to provide for the national security have completely changed the scope and nature of the pay job to be done in getting and holding an adequate career force.

(2) We need different military career patterns. The optimum distribution by years of service of operationally ready forces differs markedly from that of cadre forces. Operational units require a far higher proportion of their personnel in the younger, more vigorous age groups than do cadre forces, which are heavily weighted with more senior leaders and trainers. Military force managers once could offer a reasonable prospect of a full career to retirement to all who entered the career force. Now they need large numbers of people for mid-length careers extending some years beyond obligated service, but terminating short of retirement. Whereas at one time the compensation system could be aimed principally at the full career man, a modern military compensation system must be fair and equitable to three groups of people and attractive to at least the last two: (i) those who serve only their initial military obligation, (ii) those who voluntarily serve for some added period but must be separated short of retirement, and (iii) those who voluntarily serve to retirement. Only such a system can offer proper incentives, both to members so they will continue in military service as long as they are needed and to force managers so they will tailor the force to best meet operational requirements.

(3) We need a different mix of skills in the force. The technological revolution that has swept through our society has had an especially severe impact on the military. The weapons and equipment in our present forces are vastly more complex than those in the 1938 forces. New complexities of organization and new missions have been added. Yet many military functions remain unchanged. Men must still be fed, housed, clothed, equipped, trained, promoted, and--of central importance to this study--paid.

To respond to both the new and the continuing skill requirements of the force, demands for scores of new skills have been piled on top of continued demands for the traditional military skills. Table 1-3 illustrates one dimension of the change in enlisted skill requirements.

TABLE 1-3

PERCENTAGE DISTRIBUTION OF AUTHORIZED ENLISTED POSITIONS BY OCCUPATIONAL GROUP, SELECTED YEARS
(As of 30 June)

Occupational Group	1941	1953	1957	1960	1963	1965
Technical & Scientific	10.4%	17.8%	20.8%	21.4%	22.4%	25.6%
Mechanics & Repairmen	16.6	22.4	24.9	24.7	24.5	22.2
Combat & other Exclusively Military	38.8	17.3	15.1	13.4	14.1	11.8
All other	34.2	42.5	39.2	40.5	39.0	40.4
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

The requirement for technical and scientific skills has more than doubled over the period shown, while the requirement for exclusively military skills has declined by two-thirds. An increasingly complex military force serves and is drawn from an increasingly complex society. Distinctions between military and civilian skills that once were clear have begun to blur. The military finds itself in active competition with other segments of society for the same kinds of technical, managerial and leadership skills that are everywhere and increasingly in short supply.

The impact of these changes on compensation is no less important for being obvious. A modern military compensation system must be geared to the competitive demands on it and aimed at new kinds of people with new ranges of options.

(4) Perhaps most important for pay purposes, the military is no longer so different from the rest of society that meaningful comparisons cannot be made between the two. In an earlier time the military community was rather sharply segregated from the civilian segment of society. Although the military still retains many of its unique features, on balance it has become a much more integral part of society than it once was.

The large manpower needs of modern forces have caused millions of eligible young men to serve at least one tour of military duty. A lively interest in military matters on the part of the general public has kept the military aware of and responsive to reactions in society as a whole. Military participation in the society's affairs, and with it the interchange of ideas and information between military and civilians, has expanded at all levels.

Sheer size has caused much of the military population to spill over into the civilian communities adjacent to military bases and to mingle there with civilians from all walks of life. The traditional isolation of the military community has been replaced by new patterns of extensive social integration.

The net result of these and other forces has been to reduce markedly the differences between the military and other segments of society. This has had its impact on compensation as well as on most other facets of military life. Military personnel, especially careerists, are placed today in positions where they compare their compensation to that of their civilian counterparts much more often than in the past.

This report of the first Quadrennial Review of Military Compensation develops some of the major compensation implications of these and other changes. It recommends a number of improvements that, in the considered judgment of the Military Compensation Policy Board, are essential to insure the military compensation system's continued relevance and maximum effectiveness in a rapidly changing world.

Two Parts of the Force

Early in the study it became apparent that there are in the military force two distinct groups, noncareerists and careerists, for which compensation principles and concepts must be evaluated separately.

The vast majority of noncareerists are young, single citizen-soldiers discharging a military obligation. Their average entry age is 19; 84% have no dependents; only 2% have 3 or more dependents. The prospect of training--estimated to cost the Government an average of some $4,800 per man--in a technical skill for later use in the civilian economy is for many a major inducement to enlistment. More than three-quarters will return to civilian life at the end of their first tour; less than one in ten will serve to retirement.

They spend most of their military service either in training or deployed with operational units and activities. Economy, convenience, and military necessity require that they be housed, fed, clothed, provided medical care, dental care, and other essential services in kind in Government facilities.

Adequate numbers of noncareer personnel to meet service needs are assured by the draft, both directly through inductions and indirectly through the draft's influence on enlistments. In return for the individual's obligation to serve, society incurs what should be an equally binding obligation to compensate the temporary citizen-soldier fairly and equitably compared to his civilian counterparts

who do not serve. This becomes especially important when not all serve. Fairness and equity with respect to civilian counterparts are the main considerations in noncareer compensation; supply and demand considerations are secondary.

Careerists differ from noncareerists in many respects, but the fundamental distinction is the truly voluntary nature of the careerist's commitment to military service. This distinction is central to any consideration of compensation. Supply and demand, as well as fairness and equity, unavoidably become central issues in evaluating the effectiveness of career compensation.

Careerists are older (average age 30), trained, experienced or specially qualified professionals, who will spend a major part of their working life in the military. Career reenlistment rates exceed 85% overall; some 37% will serve to retirement.

Most careerists are family breadwinners; 83% have dependents and share with their civilian counterparts the normal financial responsibilities and aspirations this status entails in an affluent society. As opposed to the past, when the majority of military career families were housed on base, only one-third of military families can now be provided Government quarters. The other two-thirds must live on the local economy, where they meet, make friends with--and compete in the marketplace with--civilians from all walks of life.

There is no assured supply of careerists and principally only one source: reenlistments or extensions from the noncareer force. Training, experience, and education make most careerists hard to replace in the military while at the same time giving them excellent civilian employment opportunities. Their daily associations with civilians and the active recruiting efforts of nonmilitary employers provide wide knowledge of alternative job opportunities. The Government must compete with other employers for the services of potential careerists. Serious military manpower shortages can and do develop when that competition is not effective. Careerists must be compensated fairly and equitably not only as a matter of simple justice, but also as a practical necessity to assist in attracting, retaining, and motivating to fully voluntary military service the kinds and numbers of career people our uniformed forces need.

Identification of these fundamental compensation-related differences between career and noncareer members led to the study's first finding.

FINDING 1. Compensation principles and concepts must be evaluated separately for career and noncareer members of the force because

there are fundamental compensation-related differences in their conditions of service.

The compensation distinction between a noncareerist and a careerist hinges on two conditions: (1) the nature of the individual's commitment to military service and (2) the manner in which his compensation is received.

Those with a truly voluntary intention to serve beyond their initial obligation are careerists with respect to their service commitment. Because most are family men, most of their regular compensation is received in cash. As pointed out in the preceding discussion, one of the central changes to which the compensation system must adjust is the inability of the military to provide, to anything like the extent it once could, compensation in kind (especially housing) to military men with families. The military even permits many single men, most of them in the senior enlisted and officer grades who are on a fully voluntary service commitment, to draw their cash allowance and live off base because of the shortage of adequate on base bachelor housing.

On the other hand, the vast majority of those serving their initial obligation are single men who live on base and therefore receive a large part of their regular compensation in kind. Family allowances are provided to the 16% who have dependents, but they are exceptions to the general rule.

Thus, while the coincidence of the two characteristics is less than complete, voluntary service usually goes hand-in-hand with receipt of most regular compensation in cash, while obligated service is usually accompanied by receipt of much regular compensation in kind.

Existing practices have recognized this distinction by providing the senior enlisted and officer grades an entitlement to public quarters (or a basic allowance for quarters in lieu thereof) in military pay legislation and making separate provision in the Dependents Assistance Act for a scale of family maintenance allowances in the lower enlisted grades. The same principle is applied in the transportation of dependents, shipment of household effects, and other areas.

A precise pay table distinction based on these conditions cannot be drawn because both careerists and noncareerists can occupy the same pay grade and longevity step at the same time. Nonetheless, on the basis of the 30 June 1965 force distribution that served as the principal data base for the review, the Policy Board recommends the following definition as a workable way to establish the two categories for purposes of evaluating compensation principles and concepts.

RECOMMENDATION 1. That for compensation purposes:

a. noncareerists be defined as (1) all personnel in pay grades E-1, E-2, and E-3 plus (2) those personnel in pay grade E-4 who have either (i) less than two years' completed service for pay or (ii) between two and four years' completed service for pay and a total active duty service commitment, including time served, of less than six years.

b. careerists be defined as (1) those personnel in pay grade E-4 who have either (i) between two and four years' completed service for pay and a total active duty service commitment of at least six years, or (ii) more than four years' completed service for pay; plus (2) all personnel in pay grades E-5 and above, to include all officers.

The distinction based on length of active duty service commitment at pay grades E-4 between two and four years' service for pay is designed to permit those E-4's who so desire to become "career committed" on completion of two years of pay service by incurring an active service obligation that extends to at least six years. At the same time this distinction recognizes that in some services a four-year initial enlistment is common for the noncareerist who may have no intention of reenlisting.

Under this definition, the noncareer portion of the active force projected in the President's FY 1968 Budget will include an estimated 1,773,429 man years, or 52% of the total force, and the career portion will include an estimated 1,638,578 man years, or 48% of the total force.

Chapter 2 contains the study's findings and recommendations with respect to the noncareer force. Chapters 3 through 5 deal with career force compensation. Chapter 6 treats nonsalary compensation elements other than those incorporated into the Military Estate Program (separation pays, survivor benefits, and retirement annuities), which are treated in Chapter 7. Chapter 8 develops the cost implications of the study's recommendations.

CHAPTER 2

NONCAREER COMPENSATION

This chapter contains the study's findings and recommendations with respect to the noncareer force. For purposes of the study noncareerists are defined to include: (1) all personnel in pay grades E-1, E-2, and E-3 and (2) those personnel in pay grade E-4 who have either (i) less than two years completed service for pay or (ii) between two and four years completed service for pay and a total active duty service commitment, including time served, of less than six years. Noncareerists make up an estimated 1,773,429 man years, or 52%, of the active force projected in the President's FY 1968 Budget.

Compensation Concepts

FINDING 2. Existing principles and concepts of military compensation are appropriate in the noncareer portion of the force.

Food, clothing, shelter, medical care, and other basic necessities are provided by the Government in kind to most noncareer members most of the time. This is appropriate and necessary because of the nature of the military activities--mostly training and operations--in which noncareer personnel are predominately engaged. The residual of basic pay after taxes is available to the single noncareer member to spend on other than basic necessities. In those few cases where necessities are not furnished in kind, nontaxable cash allowances are furnished in lieu thereof.

This concept of compensation assures that young, single soldiers, sailors, airmen, and marines who are members of largely self-contained military communities are properly cared for. These practices are in their own best interests as well as in the best interests of the units and activities to which they belong. Provision of necessities in kind is a common practice in military forces to maintain the health, welfare, and basic human needs of members so they will be able to perform assigned military duties. 84% of noncareer members have no dependents; therefore, measures designed to support most effectively the individual member himself under his particular conditions of service are appropriate in this part of the force.

FINDING 3. The provision of a large part of the noncareer member's income in kind requires that a standard for noncareer cash compensation be based on residual income; which is the cash left over after procuring food, housing, clothing, and medical care and paying Federal income and Social Security taxes.

Basic equity demands that noncareer members be compensated so that they incur no net economic penalty compared to their counterparts

who do not serve.[1] Translating this policy into practice requires a definition of what an economic penalty is and the ability to measure with reasonable accuracy the components of that definition.

Judgments about the adequacy of noncareer pay require specification of an appropriate standard for what that pay should be. This is more than normally difficult in the noncareer force because military necessity usually requires that the noncareer member's food, clothing, housing, medical care, and other essentials be provided in kind. These items must be counted as part of total military income. They substitute for expenditures the military member would have had to make out of his total salary were he employed as a civilian, and for expenditures his civilian counterpart has to make out of his total cash salary.

Valuation of Income in Kind

However, providing income in kind creates troublesome valuation problems because of the divergence between Government cost and income value to the recipient. For example, the raw food cost to the Government of the daily ration is $1.30 per day. No individual could secure the amount and quality of food served by the Government for this amount. Similar differences exist for other in kind elements.

The alternatives for making total income comparisons are (1) to estimate the value to the member of those items furnished in kind and attribute those amounts to his salary or (2) to pay him a total cash salary and collect for items furnished.

The first approach would create as much or more confusion and controversy than it would dispel. It raises the possibility of disagreements about the proper valuation of the various elements furnished in kind. How much income is represented by a bunk in a basic training barracks?

The second approach involves huge budgetary expenditures and complex administrative procedures to collect for barracks space, clothing furnished, food, etc. It, too, involves the same kinds of arbitrary judgments about the proper charges to levy the various items furnished, the extent to which items furnished are compensation or "costs of doing business" not properly chargeable to the member's pay, and related issues.

The absence of an established retail market for the items in question means that the valuations under either approach will necessarily be arbitrary.

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[1] As long as noncareer personnel are for the most part citizen-soldiers discharging a civic obligation, the question of rates and methods of pay needed to attract and retain an all-volunteer noncareer force does not arise.

A Noncareer Pay Standard

A third procedure can avoid these troublesome issues and provide a more precise standard, thereby assuring that noncareer members are neither credited nor charged inappropriate amounts for income furnished in kind. Rather than aiming at comparisons of total money incomes, this approach focuses on the discretionary spendable income the member has left over for his own personal disposition after provision has been made for his basic necessities and taxes.

Using this standard, a net economic penalty can be defined as a shortfall in residual income, which is total income less basic necessities and taxes. The minimum basic necessities that should be included in such an approach are food, housing, clothing, and medical care. A residual income standard is clearly more meaningful in that part of the force that is provided a large part of its regular compensation in kind than is any standard based on necessarily arbitrary constructions of total income.

These considerations led the Policy Board to recommend the following standard for pay in the noncareer force.

RECOMMENDATION 2. That two standards for minimum noncareer residual income be adopted to insure that satisfactory service involves no net economic penalty:

a. Standard I--The Minimum Wage Floor: Military pay rates should be such that, regardless of pay grade or longevity step, a noncareer member's residual income at least equals the average residual income of a single full time employed male civilian earning the legal minimum wage.

Any active military service should produce more residual income than full time work at the minimum wage ($1.60 per hour effective February 1968). Our society cannot in good conscience ask those who serve in its defense to accept less.

b. Standard II--Parity with Civilian Counterpart: Military pay rates should be such that the residual income of the noncareer member whose performance is fully satisfactory is at least equal to the average residual income of his civilian counterpart, defined as a single male high school graduate of the same age employed full time in the civilian economy.

Those who satisfactorily perform obligated service deserve at least as much residual income as those who do not serve because the obligated service is for the most part involuntary.[1] Any lower standard imposes a net economic penalty on those who serve compared to those who do not.

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[1] Many "volunteers" are to a large extent motivated by the necessity to serve; they are exercising some option about the timing and particular military service in which they serve rather than truly volunteering for military service in the rigorous sense.

Evaluation of Existing Rates

FINDING 4. Rates proposed in the Uniformed Services Pay Act of 1967 in combination with promotion rates in effect in FY 1967 and projected for FY 1968 are adequate to meet both residual income standards.

The average residual income of single minimum wage earners employed full time (52 weeks at 40 hours each) at the $1.60 hourly rate is estimated to be $984.00 annually (Table 2-1). The residual income of the lowest paid single military member (E-1 less than four months' service) under rates proposed in the 1967 pay act is $1,065 annually (Table 2-2). Therefore, 1967 proposed rates meet residual income Standard I, the Minimum Wage Floor, by a reasonable margin.

Total residual income during a period of military service is a function of both pay rates at each grade and promotion progression through the various grades. At estimated FY 1968 promotion rates, the average residual income of single noncareerists will exceed the estimated average residual income of single full time employed male civilian high school graduates of corresponding ages (Table 2-3) as shown in Table 2-4. These calculations show that the present noncareer pay progression meets residual income Standard II, Parity with Civilian Counterpart, by substantial margins: 9.2% for the two-year man, 21.1% for the three-year man, and 32.7% for the four-year man. Thus, the noncareer military man has a greater opportunity to save or sperd on personal consumption than does his civilian counterpart.

In evaluating these margins it is important to remember that the noncareerist is likely to be serving involuntarily and that he has a severely restricted choice in the form and amount of his income received in kind. Some of it--especially field and shipboard "housing" accommodations and some of the food ("C" rations)--differs markedly from that which his civilian counterpart buys on the market.[1]

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[1] For this reason equality of residual income does not necessarily mean equality of total income. The difference is in the noncash elements of income, however, rather than in cash income. The oft-mentioned "tax" on those whose service is less than completely voluntary takes the form of a consumption "tax" imposed by making them live, wear, eat, and work in ways they would prefer not to do. Society is not now imposing any net cash tax on members who serve involuntarily. On the average they have more cash to save or spend on other than necessity items than do their civilian counterparts who do not serve. Society may elect to give them even more extra cash than it now does as recompense for the disutilities caused by severely restricting their consumption choices. However, this is a separate value judgment apart from the question of adequate cash income.

TABLE 2-1

RESIDUAL INCOME[1] STANDARD I: THE MINIMUM WAGE FLOOR

(Annual Rates)

Civilian Urban Single Consumer
(under 25 years of age)

Minimum Wage Income	$3,328
Less Federal Income Tax	- 385
After-Tax Income	$2,943

Necessity Expenditures as a Percentage of After-Tax Income[2]

Food	21.3%
Housing	23.7
Clothing	13.3
Medical	3.3
	61.6%

Residual Income: (38.4% of After-Tax Income)	$1,130.00	
Less Social Security Taxes	- 146.43	
Net Residual Income of minimum wage earner	$ 983.57	Test

[1] Residual income equals civilian earnings less Federal income and Social Security taxes and expenditures for food, clothing, shelter, and medical care for the single individual.

[2] Consumer Expenditures and Income, Supplement 3 - Part A to BLS Report 237-38, Survey of Consumer Expenditures 1960-61, Bureau of Labor Statistics, United States Department of Labor: Washington, 1964.

TABLE 2-2

NONCAREER RESIDUAL INCOME[1] 1 OCTOBER 1967 (PROPOSED)
BASIC PAY RATES, SINGLE MEMBERS
(Annual Rate)

Pay Grade	Years of Service for Pay: Under 2	Over 2	Over 3	Over 4
E-4				
BP	$2,134.80	$2,678.40	$2,826.00	N/A
FIT	183.00	274.00	299.00	
SS	93.93	117.85	124.34	
RI	$1,857.87	$2,286.55	$2,402.66	
E-3				
BP	$1,544.40	$2,156.40	$2,307.60	$2,455.20
FIT	91.00	187.00	211.00	236.00
SS	67.95	94.88	101.53	108.03
RI	$1,385.45	$1,874.52	$1,995.07	$2,111 17
E-2				
BP	$1,274.40	$1,785.60	$1,785.60	$1,785.60
FIT	51.00	128.00	128.00	128.00
SS	56.07	78.57	78.57	78.57
RI	$1,167.33	$1,579.03	$1,579.03	$1,579.03
E-1				
BP	$1,227.60	$1,634.40	$1,634.40	$1,634.40
FIT	47.00	106.00	106.00	106.00
SS	54.01	71.91	71.91	71.91
RI	$1,126.59	$1,456.49	$1,456.49	$1,456.49
E-1 (Under 4 mos)				
BP	$1,148.40			
FIT	33.00			
SS	50.53			
RI	$1,064.87			

MINIMUM WAGE TEST: $983.57[a]
CONCLUSION: Rates proposed for 1 October 1967 effective date meet Residual Income Standard I: Minimum Wage Floor.

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[1] Residual Income (RI) = Basic pay (BP) less Federal income taxes (FIT) less Social Security taxes (SS).

[a] See Table 2-1.

TABLE 2-3

RESIDUAL INCOME[1] IN 1966 OF FULL TIME PAID CIVILIAN HIGH SCHOOL GRADUATE BY AGE, FOR THE UNITED STATES

Age	18	19	20	21	22
Before-Tax Income, 1966:	$3,756	$4,111	$4,465	$4,820	$5,175
Federal Income Taxes:	462	521	581	641	750
After-Tax Income:	$3,294	$3,590	$3,884	$4,179	$4,425
Expenditures on Food, Housing, Clothing, Medical Care (61.6%)	$2,029	$2,211	$2,392	$2,574	$2,726
Residual Income (38.4%)	$1,265	$1,379	$1,492	$1,605	$1,699
Less Social Security Taxes:	165	181	196	212	228
Net Residual Income	$1,100	$1,198	$1,296	$1,393	$1,471

SOURCE: 1966 before-tax income from special Bureau of Census Tabulation, date 17 Oct 1967. Expenditures as a percentage of after-tax income reported in Table 12a of Supplement 2, Part A, BLS Report 237-38, July 1964, for single urban consumers less than 25 years of age in 1960-61.

[1] Residual Income equals civilian earnings less income and Social Security taxes and expenditures for food, clothing, shelter and medical care for the single individual.

TABLE 2-4

RESIDUAL INCOME[1] STANDARD II: PARITY WITH CIVILIAN COUNTERPART

Year of Service (Mil.)	Age (Civ.)	Military Residual Income[2]					Civilian HS Grad Residual Income[3]
		Army	Navy	USMC	USAF	DOD Average	
1	19	$1,224	$1,196	$1,133	$1,150	$1,202	$1,198
2	20	1,700	1,385	1,385	1,385	1,522	1,296
3	21	2,287	2,046	1,909	1,874	1,985	1,393
4	22	2,403	2,403	2,403	2,403	2,403	1,471
TOTAL		$7,614	$7,030	$6,830	$6,812	$7,112	$5,358

CONCLUSION: 1 October 1967 rates and FY 1968 projected promotion flows produce a noncareer pay progression that meets Residual Income Standard II.

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[1] Military residual income is basic pay less income and Social Security taxes. Civilian residual income is total income less income and Social Security taxes and expenditures on food, clothing, housing, and medical care.

[2] Values differ among services because of different promotion times.

[3] See Table 2-3.

Also, the noncareerist spends some of his residual income on civilian clothes and on food and shelter off base while on pass and leave. Therefore, the existing margins are considered reasonable to guarantee the validity and fairness of the residual income standard.

Another consideration reinforcing the fairness and equity of the recommended standards is the noncareer member's access to exchanges, commissaries, and other on base facilities where goods and services are available at less than civilian retail market prices. Thus, the military member's residual cash income represents more real income than does the same amount of residual cash income for his civilian counterpart.

The finding of adequacy of present rates rests on current promotion patterns. These are to some degree influenced by the Vietnam build up and are unlikely to persist at FY 1968 rates in periods of stable or declining force levels. This consideration led to the Policy Board's next finding.

FINDING 5. A minimum standard noncareer promotion policy is required to insure continued attainment of a noncareer pay progression that meets Standard II in case future force changes restrict future promotion opportunities.

RECOMMENDATION 3. That fully qualified noncareerists should be promoted to pay grade E-2 not later than on completion of 4 months of active service and to pay grade E-3 not later than on completion of 12 months of active service.

This policy, coupled with rates of pay derived from Recommendation 6, will assure continued attainment of residual income Standard II by acceptable margins. Determination of promotion qualifications would continue to be the province of each individual service.

RECOMMENDATION 4. That the pay grade "E-1 (under 4 months)" be eliminated, inasmuch as Recommendation 3 makes it superfluous.

Under the policy proposed in Recommendation 3, a promotion and pay increase would be assured no later than at the end of 4 months of service to all fully satisfactory performers. This will accomplish the same pay result as does the present special pay grade for an E-1 with less than 4 months' service.

Noncareer Pay Terminology

FINDING 6. People underestimate total military income because they tend to ignore or undervalue that part of income provided in kind. Basic pay, which is only one part of total military income, tends to get compared wrongly to total civilian cash income.

The term "basic" is used in general compensation terminology to distinguish straight time wages or salaries from premium pay for overtime, shift differentials, and the like. In the normal case it refers to the total cash pay for the normal work period at standard rates.

In the military compensation system, basic pay is only part of what corresponds to basic salaries in most civilian compensation systems. For example, the sum of four separate elements of military compensation--(1) basic pay, (2) quarters (cash allowance or furnished), (3) subsistence (cash allowance or furnished), and (4) the Federal income tax advantage that arises because quarters and subsistence are nontaxable--compares to 93.5% of the basic salaries of Federal civil servants (total basic salary net of a 6.5% retirement contribution).

The different meanings of the word "basic" in civilian and military compensation systems foster inaccurate comparisons of military to civilian pay. Construction of accurate pay comparisons requires thorough familiarity with the unique military compensation system and a series of complicated calculations. This is especially true in the noncareer force, where so much of total income is provided in kind. These facts lead to the study's next recommendation.

RECOMMENDATION 5. That basic pay for noncareerists be redesignated "Personal Money Pay" to make its true nature more readily apparent.

Although no terminology change alone can eliminate all confusion about noncareer pay, this one should reduce that confusion by making clearer just what the noncareer pay policy really is and how it is applied. The recommended terminology will support the concept of the residual income standards considerably better than will the existing term, basic pay. Residual income will be more easily understandable as personal money pay minus taxes. The designation "personal money pay" should also make it easier for the interested but nontechnical layman to grasp the crucial distinction between what is now basic pay and a full civilian salary. It will be much more readily apparent that total military noncareer income is the sum of personal money pay plus income in kind (or cash allowances in lieu thereof) and any special cash pays received.[1]

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[1] Present law authorizes for certain senior officers a personal money allowance. This allowance is not part of regular pay; instead, it has the nature of an expense allowance to enable the recipient to meet the unusual obligations and expenses that go with the grade or position in question. To avoid confusion with the recommended personal money pay terminology, this allowance could be designated a "supplemental money allowance."

Supplemental Allowances

FINDING 7. Dependents Assistance Act allowances are appropriate supplements to noncareer income to enable the few noncareerists with dependents to meet their reasonable family financial obligations. Rates proposed in the Uniformed Services Pay Act of 1967 are adequate as of 1 October 1967.

The proposed rates ($60.00, $90.60, and $105.00 monthly) generally exceed both (1) the average family expenditures on housing of civilian urban families of the same size and age bracket (head of family under 25) and (2) the average amounts actually spent on rent in 1966 by personnel receiving the allowance. Detailed comparisons are shown in Table 2-5.

FINDING 8. Noncareer pay, including Dependents Assistance Act allowances, is sufficient at rates proposed in the Uniformed Services Pay Act of 1967 to insure that no military family of 3 or fewer persons has income below the "poverty line" as defined by the Office of Economic Opportunity. Military families with incomes below the poverty line are the result of exceptional circumstances, usually substandard performance by or disciplinary action against the member. Hardship discharge provisions exist in each service for those isolated cases where military pay is insufficient to permit the member to meet reasonable family financial obligations.

The only military families of size 4 (member, wife, and two children) whose incomes might fall below the OEO poverty line would be the E-1's and E-2's with less than two years of service for pay. At present no member with more than one dependent is drafted or permitted to enlist as an E-1. Under FY 1968 promotion rates--and the proposed noncareer promotion policy in Recommendation 3--no military member who enters the force with only one dependent, acquires his family in a normal manner, and performs his duty satisfactorily will be paid below the OEO poverty line. The frequent allusions to large numbers of military families below the poverty line are usually based on comparing basic pay--only one element of cash income--to the poverty line.

Table 2-6 contains detailed comparisons of noncareer cash income to the OEO poverty line for various pay grade and family size combinations.

Noncareer Pay Adjustment

FINDING 9. Increases in civilian pay expected in the normal growth of the economy will cause noncareer residual income to fall below the recommended standards unless personal money pay is reviewed on a regular basis and adjusted as required.

Section 1008(a) of title 37, U.S.C., requires an annual review of the adequacy of military pay rates. This review should include an evaluation of the degree to which noncareer pay meets the proposed standards. Movements in pay in the private sector should be matched by corresponding adjustments in personal money pay.

TABLE 2-5

ADEQUACY OF DEPENDENTS ASSISTANCE ACT ALLOWANCES

Pay Grade	Family Size	Civilian Rental Expense[1]	Military Rental Expense[2]	Proposed DAA Allowance[3]	Margin of DAA Allowance Over Civilian Expense	Margin of DAA Allowance Over Military Expense
E1-E3[a]	2	$612	$ 985	$ 720	$108	$ -265
	3	733	1,010	1,087	354	77
	4	731	1,075	1,260	529	185
E4 (Under 4)	2	845	1,080	1,087	242	7
	3	933	1,080	1,087	154	7
	4	931	1,140	1,260	329	120

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[1] Average rental expense (rent plus fuel, light, refrigeration, water) of urban families of same size, income class, and age of family head (under 25) in the United States. Average rental expenditures in 1961 multiplied by 1.05 to account for increase in the rent component of the Consumer Price Index, All Cities Average since 1961. Source: Tables 12c, d, e, and 14a, Supplement 2 - Part A of Bureau of Labor Statistics Report 237-38, July 1964, Consumer Expenditures and Income.

[2] Median rental expense (rent plus fuel, light, refrigeration, water) of military families from U.S. Air Force survey of DOD Family Housing expenses conducted in 1966. (All services covered.)

[3] Uniformed Services Pay Act of 1967.

[a] The structure of the allowances at these grades recognizes the ability of the wife to supplement the member's income. Thus, as family size increases from two to three, the allowance increases to recognize the diminished employment opportunity of the wife.

TABLE 2-6

NONCAREER MILITARY CASH-EQUIVALENT INCOME[1] COMPARED TO OFFICE OF ECONOMIC OPPORTUNITY POVERTY LINE

(Annual Rates)

		Family Size					
		1	2	3	4	5	6
OEO Poverty Line:		$1,600	$2,000	$2,500	$3,200	$3,800	$4,200
Pay Grade	Years of Service for Pay						
E-1	Under 2	$2,640	$2,557	$2,868	$2,962	$2,962	$2,962
	Over 2	3,065	3,028	3,340	3,429	3,369	3,369
	Over 3	3,065	3,028	3,340	3,429	3,369	3,369
	Over 4	3,065	3,028	3,340	3,429	3,369	3,369
E-2	Under 2	2,692	2,611	2,922	3,013	3,009	3,009
	Over 2	3,219	3,180	3,521	3,608	3,520	3,520
	Over 3	3,219	3,180	3,521	3,608	3,520	3,520
	Over 4	3,219	3,180	3,521	3,608	3,520	3,520
E-3	Under 2	2,970	2,930	3,236	3,325	3,279	3,279
	Over 2	3,591	3,558	3,959	4,035	3,923	3,891
	Over 3	3,744	3,712	4,131	4,216	4,095	4,042
	Over 4	3,893	3,863	4,280	4,386	4,271	4,190
E-4	Under 2	3,573	3,972	3,931	4,013	3,894	3,869
	Over 2	4,120	4,517	4,512	4,647	4,529	4,417
	Over 3	4,269	4,663	4,663	4,825	4,698	4,586

[1] Regular military compensation =
Basic Pay + Quarters + Subsistence + Tax Advantage.
In addition an estimated $350 million in special pays other than Hostile Fire Pay will be paid to noncareer members in FY 1968. These are:

	Annual Rate
Sea Duty or Duty at Certain Places	$96.00 to $156.00
Incentive Pay - Hazardous Duty	$660.00

RECOMMENDATION 6. That noncareer compensation be adjusted as follows to assure its continued attainment of the recommended standards:

a. That personal money pay be adjusted annually as required to keep it abreast of pay increases in the private sector. To assure the internal equity of military pay adjustments, the amount of the personal money pay adjustment should be the average percentage increase made in career force salaries to match increases in private sector salaries. An appropriate measure of the annual change in private sector salaries is derived each year by the Bureau of Labor Statistics through its annual survey of professional, technical, administrative and clerical salary rates.

b. That Dependents Assistance Act allowances be reviewed annually and adjusted as required to reflect increases in rental costs. The allowances should be adjusted in conjunction with actions growing out of the annual pay review whenever the rent component of the Consumer Price Index (All Cities Average) increases by as much as three per cent over its level at the time of the last adjustment. The amount of the adjustment should be the per cent, to the nearest one-tenth of one per cent, by which the rent index has increased over its level at the time of the last adjustment. This will insure that these allowances continue to provide an adequate supplement to noncareer income for those few with dependents.

Summary

Existing principles, concepts, and rates of compensation are appropriate in the noncareer force. Those performing obligated military service are now being compensated in cash fairly and equitably compared to their counterparts who do not serve.

The recommended adjustment policy will assure continued fair and equitable treatment of noncareer members by adjusting all elements of their total income as appropriate:

- in kind income will be "adjusted" as required by continuing to provide necessary goods and services in kind, regardless of Government cost;

- the cash component of noncareer income, personal money pay, will be adjusted to keep pace with movements of cash pay in the civilian economy; and

- the family maintenance allowances paid to those few noncareerists with dependents will be adjusted to reflect increases in rent, which is the major additional expense incurred by the member with dependents.

Thus, total noncareer pay, made up of both cash and in kind elements, will be kept abreast of relevant pay and cost trends in the civilian economy. This will assure the continued attainment of the proposed noncareer pay standards.

CHAPTER 3

CAREER FORCE PAY METHODS

This and the next two chapters contain the study's findings and recommendations with respect to the career force. The recommended definition of the career force, based on 30 June 1965 force characteristics, includes "career committed" E-4's and all personnel in pay grades E-5 and above, to include all officers. Career committed E-4's are those who have either (1) between two and four years' completed pay service and a total active duty service commitment, including time served, of six or more years or (2) more than four years' completed pay service. The career force so defined will comprise some 1,638,578 man years, or 48%, of the total active force projected in the President's FY 1968 Budget.

Results of Existing Pay Methods

THE STUDY'S MOST IMPORTANT CONCLUSION IS THAT A BASIC OVERHAUL IN CAREER FORCE COMPENSATION IS NEEDED. THE EXISTING SYSTEM IS NOT ATTAINING ITS OBJECTIVES TO THE EXTENT DESIRED. MOREOVER, IT IS INEFFICIENT IN ACCOMPLISHING AS MUCH AS IT DOES.

The very characteristics that make the military compensation system fit so well the needs and conditions of the noncareer part of the force impair the system's effectiveness in the fundamentally different circumstances found in the career portion of the force. When existing compensation practices were designed and adopted they were appropriate for the environment in which they operated. Since then fundamental changes have occurred in the compensation-related conditions pertaining to the career portion of the force, but changes in the compensation system have not kept pace.

FINDING 10. A mid-range experience deficit in the career force--substantial and continuing shortages in the 4 to 14 years of service groups in both officer and enlisted grades--exists now and has existed for many years. Despite a 40.4% increase in basic pay since 1962, costing more than $3.5 billion in basic pay and other compensation costs through FY 1968, reenlistment and retention rates continue at levels substantially below those required to fill this gap. The hard facts are that we are not now attracting, retaining, and motivating to career military service the kinds and numbers of people our uniformed services need.

The Cordiner Committee in 1958 and each major force management study since has found the same kind of imbalance in our career force structure. Table 3-1 and Charts 3-1 and 3-2 compare actual experience distributions as of 30 June 1965[1] to those experience distributions desired by the military services. The shortage of 37,000 officers

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[1] This date was selected to avoid the impact of the Southeast Asia build up and thereby give a picture of a more nearly "normal" situation.

TABLE 3-1

OFFICER AND ENLISTED, INVENTORY, REQUIREMENTS AND IMBALANCES, DEPARTMENT OF DEFENSE, AS OF 30 JUNE 1965

OFFICER

Years of Active Service Completed

	0-3	4-8	9-13	14-18	19-23	24-28	29+
Inventory	119,144	59,771	51,427	42,900	33,133	7,096	888
Requirement	79,069	83,045	64,972	43,399	24,714	11,916	2,355
Imb (Inv-Req)	+40,075	-23,274	-13,545	- 499	+ 8,419	- 4,820	-1,467
% Imbalance	+ 50.7%	- 28.0%	- 20.9%	- 1.1%	+ 34.1%	- 40.4%	-62.3%

ENLISTED

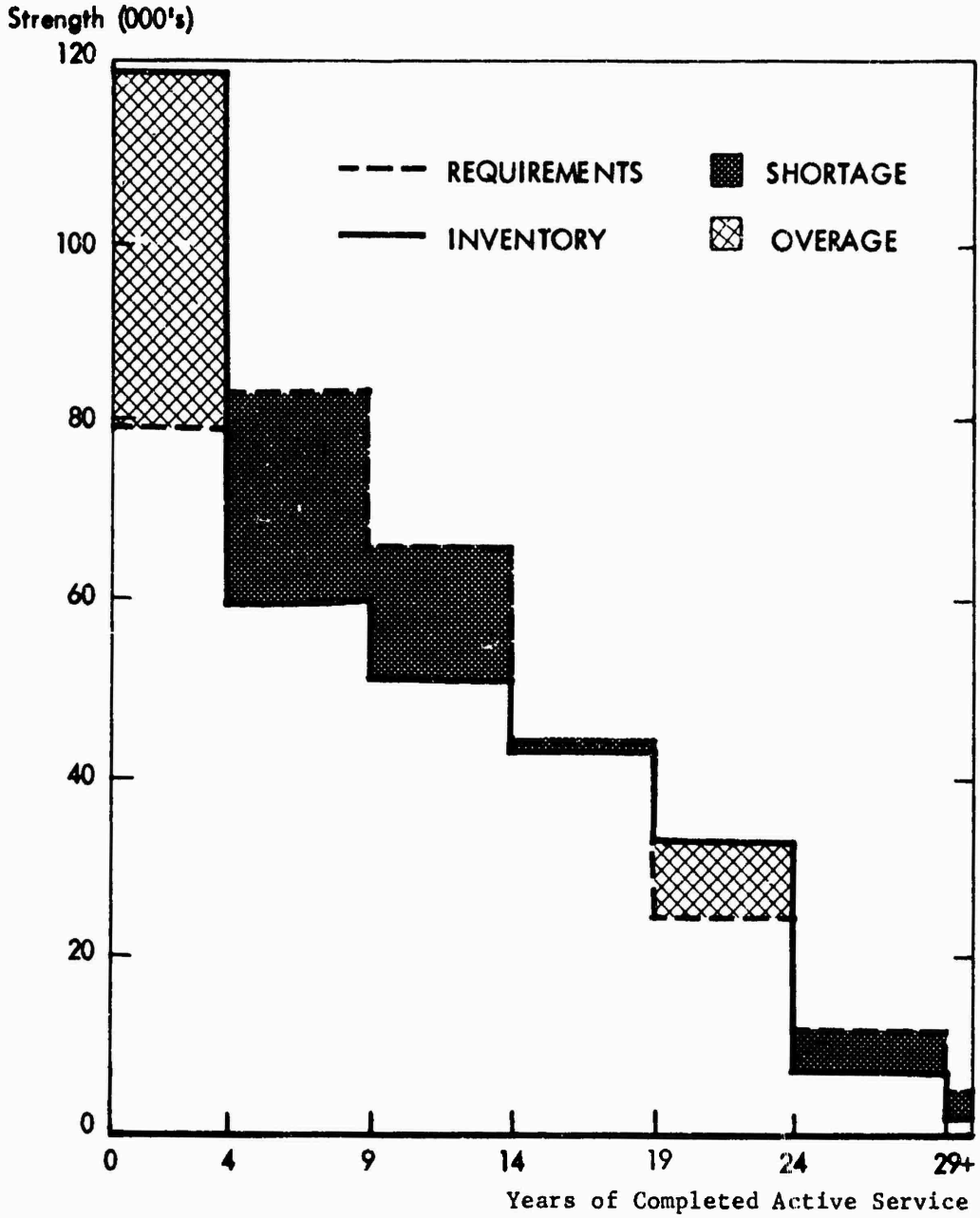
Years of Active Service Completed

	0-3	4-7	8-11	12-15	16-19	20-23	24+
Inventory	1,347,867	261,797	218,289	197,656	199,912	68,980	14,128
Requirement	1,189,172	504,532	260,513	181,290	130,128	42,498	14,419
Imb (Inv-Req)	+158,695	-242,735	- 42,224	+ 16,366	+ 69,784	+24,482	- 291
% Imbalance	+ 13.3%	- 48.1%	- 16.2%	+ 9.0%	+ 53.6%	+ 57.6%	- 2.0%

Source: Special submissions by the military services to the Quadrennial Review of Military Compensation, Office of the Assistant Secretary of Defense (Manpower).

CHART 3 - 1

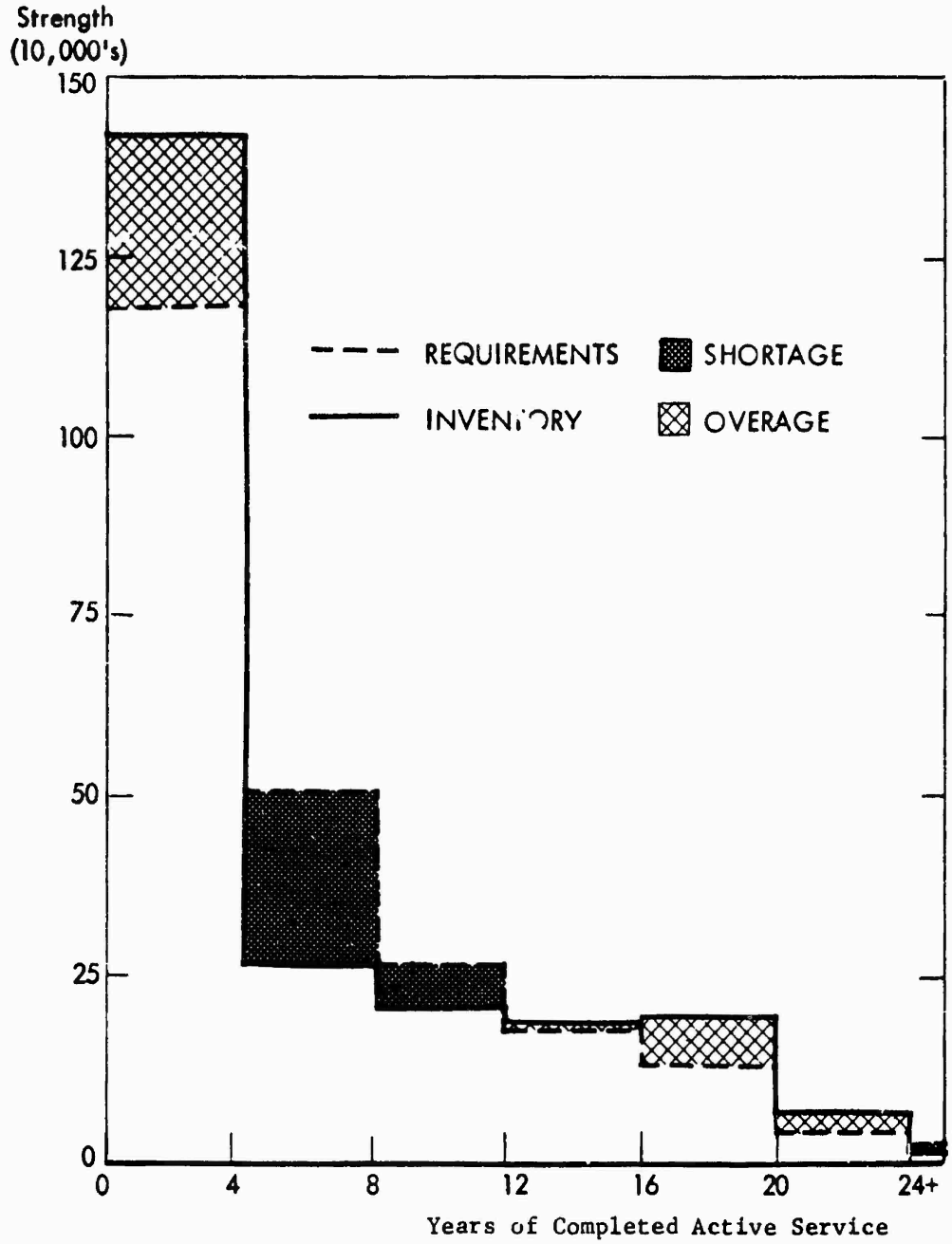
OFFICER REQUIREMENTS AND INVENTORY DEPARTMENT OF DEFENSE, 30 JUNE 1965,



Source: Inventories were compiled from active duty personnel strengths as of 30 June 1965 submitted by the Services to the Quadrennial Review of Military Compensation, OASD(M). Personnel requirements, as of 30 June 1965, were submitted by the Services to the Quadrennial Review of Military Compensation, OASD(M).

CHART 3-2

ENLISTED REQUIREMENTS AND INVENTORY
DEPARTMENT OF DEFENSE, 30 JUNE 1965



Source: Inventories were compiled from active duty personnel strengths as of 30 June 1965 submitted by the Services to the Quadrennial Review of Military Compensation, OASD(M). Personnel requirements, as of 30 June 1965, were submitted by the Services to the Quadrennial Review of Military Compensation, OASD(M).

in the 4 to 14 years' experience group represented a 25% deficit from stated requirements. These jobs were filled by using 40,000 more officers in the 0 to 3 years of service group than would have been required in the balanced force. In the enlisted force the 267,000-man shortage in the 4 to 15 years' experience group constituted a deficit of 28% below stated requirements. This deficit was covered by using some 160,000 more personnel in the 0 to 3 years' service group and almost 100,000 more personnel in the 16 and more years of service category than are needed in balanced force. To compensate for the mid-range experience deficit of career personnel the services are forced to bring in far more noncareer personnel than they would require in a balanced force and at the same time retain substantial numbers of personnel beyond their optimum career length.[1]

This mid-range experience deficit impacts adversely on both military effectiveness and costs. Effectiveness suffers when junior people have to move up and fill positions above their experience and training qualifications. Costs are unduly increased both by the excessive turnover of first term personnel that boosts training and other turnover costs[2] and by keeping on higher paid, more senior people beyond optimum career lengths to fill jobs that could have been handled by lower paid, less senior people. Retirement costs soar as these more senior people serve to the 20-year point, retire at an early age, and draw retired pay for an extended period.[3]

The same kinds of force imbalances will persist unless existing retention rates change. Table 3-2 and Charts 3-3 and 3-4 compare actual FY 1965 continuation rates[4] to those required to support

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[1] For more detail on officer and enlisted imbalances see Appendix I: "Officer Imbalances" and Appendix II: "Enlisted Imbalances."

[2] Studies indicate that in some high training cost specialties, (e.g., Nuclear Powerman, Ballistic Missile Inertial Guidance Systems Repairman) it costs the services as much as $25,000 to replace a single nonreenlistee.

[3] An E-6 who retires at 20 years of service can expect to draw $83,000 in retired pay over the remainder of his lifetime. In addition the Government is obligated to provide medical care to him and his dependents.

[4] A continuation rate shows the per cent of members on active duty at the beginning of a year who are still on active duty at the end of the year. It reflects all losses (and gains, if any) and applies to the total population in the year group. A continuation rate differs from a reenlistment rate, which is reenlistments as a per cent of those eligible to reenlist and therefore has meaning only at specific decision points.

TABLE 3-2

ACTUAL AND REQUIRED OFFICER AND ENLISTED CONTINUATION RATES[1]

DEPARTMENT OF DEFENSE, FY 1965

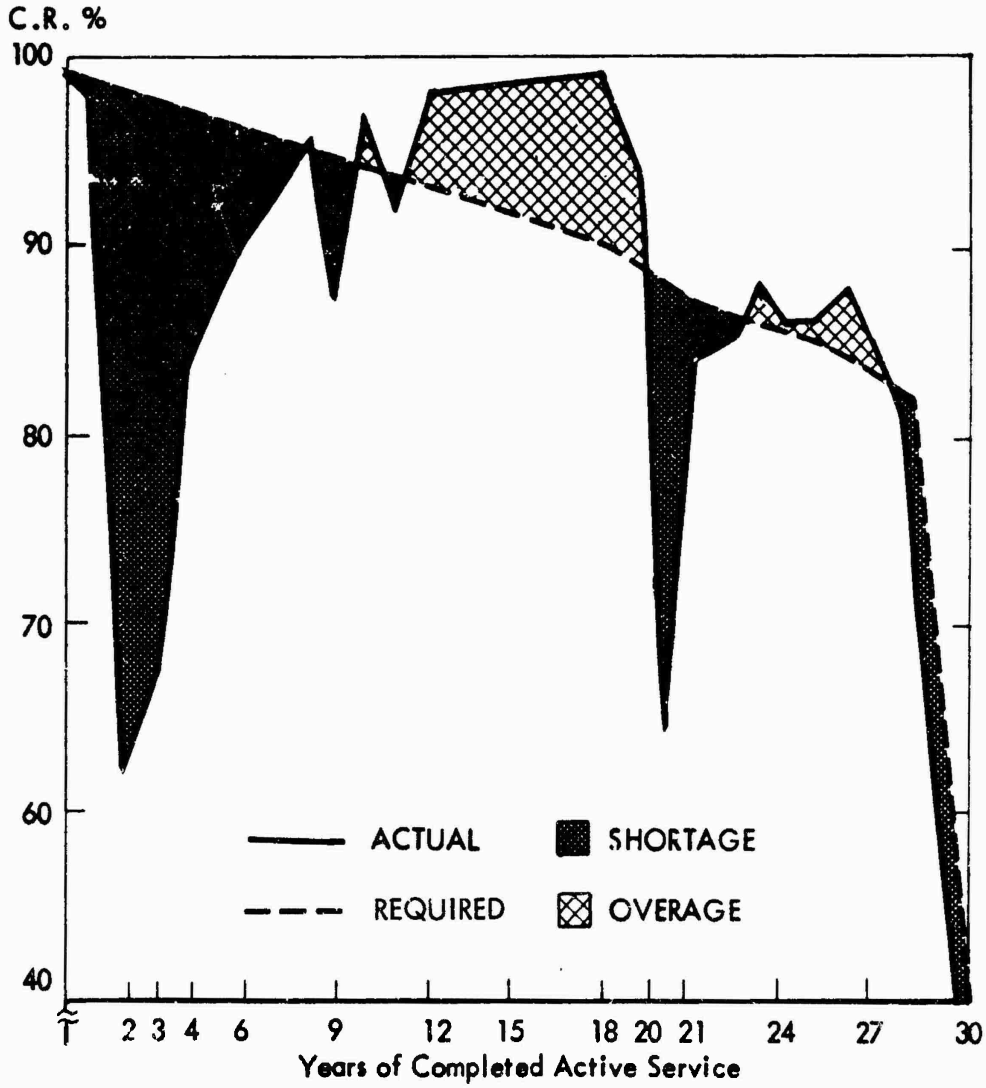
Years of Active Service Completed	OFFICER			ENLISTED		
	Actual	Required	Act.-Req.	Actual	Required	Act.-Req.
0	99	99	0	92	94	- 2
1	98	98	0	66	92	-26
2	63	98	-35	72	85	-13
3	68	97	-29	40	82	-42
4	84	97	-13	86	78	+ 8
5	87	96	- 9	93	80	+13
6	91	96	- 5	91	82	+ 9
7	93	95	- 2	89	85	+ 4
8	95	95	0	91	87	+ 4
9	87	94	- 7	94	89	+ 5
10	97	94	+ 3	95	91	+ 4
11	92	93	- 1	97	92	+ 5
12	98	93	+ 5	98	92	+ 6
13	98	92	+ 6	98	92	+ 6
14	98	92	+ 6	98	92	+ 6
15	98	91	+ 7	99	91	+ 8
16	99	91	+ 8	99	90	+ 9
17	99	90	+ 9	99	89	+10
18	99	90	+ 9	99	85	+14
19	94	89	+ 5	71	82	-11
20	66	88	-22	66	80	-14
21	84	87	- 3	72	78	- 6
22	85	87	- 2	73	75	- 2
23	88	86	+ 2	79	72	+ 7
24	86	85	+ 1	81	69	+12
25	86	85	+ 1	84	65	+19
26	88	84	+ 4	81	60	+21
27	85	83	+ 2	83	55	+28
28	82	82	0	82	49	+33
29	52	63	-11	0	0	0

Source: Actual continuation rates derived from 1965 Multiple Decrement table prepared by the Actuarial Consultant, Office of the Assistant Secretary of Defense (Manpower). Required continuation rates derived from FY 1965 personnel requirements submitted by services to Quadrennial Review of Military Compensation, OASD(M).

[1] A Continuation Rate equals $\frac{\text{Strength at Beginning of Year X+1}}{\text{Strength at Beginning of Year X}} \cdot (100)$

CHART 3-3

ACTUAL AND REQUIRED OFFICER CONTINUATION RATES, 1/ DEPARTMENT OF DEFENSE, FY 1965



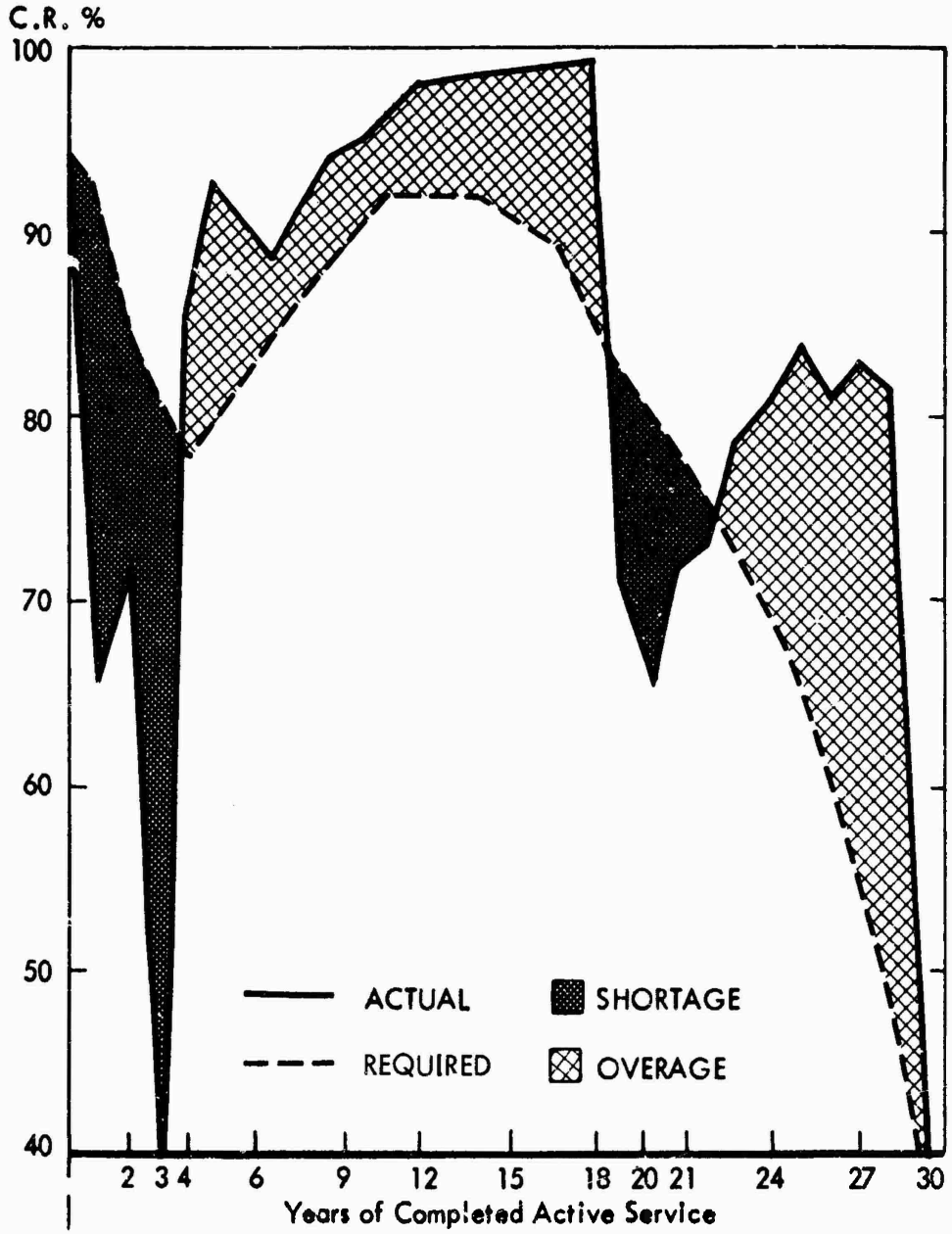
1/ A Continuation Rate (C.R.) equals

$$\frac{\text{Strength Beginning of Year X + 1}}{\text{Strength Beginning of Year X}} \text{ X (100)}$$

Source: Actual C.R. derived from 1965 Multiple Decrement table prepared by the Actuarial Consultant, OASD(M). Required C.R. derived from FY 1965 Personnel Requirements submitted by Services to Quadrennial Review of Military Compensation, OASD(M).

CHART 3-4

ACTUAL AND REQUIRED ENLISTED CONTINUATION RATES 1/
DEPARTMENT OF DEFENSE, FY 1965



1/ A Continuation Rate (C.R.) equal

$$\frac{\text{Strength Beginning of Year X + 1}}{\text{Strength Beginning of Year X}} \times (100)$$

Source: Actual C.R. derived from 1965 Multiple Decrement table prepared by the Actuarial Consultant, OASD(M). Required C.R. derived from FY 1965 Personnel Requirements submitted by Services to Quadrennial Review of Military Compensation, OASD(M).

the balanced force structure shown in Table 3-1 as "requirements." While it is recognized that the specific numerical requirements in any category may be open to question, the overall pattern clearly shows three results:

(1) the excessively low retention at the end of obligated service that generates shortages of career personnel;

(2) the attempt to compensate for this low career input by keeping as many as possible of those who do reenlist for as long as possible, thereby increasing active force pay costs; and

(3) the large losses at 20 years of service that add to retirement costs.

As long as this general pattern of continuation rates persists, the services will continue to suffer a deficit of career personnel in the mid-range experience groups, causing both unduly high costs and an adverse impact on military effectiveness. Comparative cost analyses indicate that the desired military force distribution of the same total size not only would be more effective, but also would be less costly by approximately $700 million per year at 1 October 1967 proposed pay rates when all system costs (training, pay, future retirement, etc.) are considered. We are now paying a very high price indeed for inadequate retention.

FINDING 11. Compensation is a major cause of inadequate retention.

Survey after survey and study after study have cited compensation as a major cause of our failure to attract, retain, and motivate to career service the kinds and numbers of career personnel our armed forces need. Table 3-3 summarizes some of these study results.

Analyses during this review disclosed a clear and statistically significant inverse relationship between continuation rates and civilian earnings opportunities. The lower the ratio of military to civilian compensation, the lower the continuation rate at the end of obligated service.

The question arises as to why more than $3.5 billion in pay raises given since 1962 have not solved the retention problem. Some explanation other than parsimony must be sought. The Administration has proposed and the Congress has enacted generous increases in military pay since 1962. What, then, is the problem?

FINDING 12. There are three major deficiencies in the career compensation system that markedly diminish its effectiveness:

a. Military pay is unduly complex and confusing. Members do not know the true value of their compensation, hence it suffers in comparison with the pay of others. Potential reenlistees underestimate the true value of their pay by almost one-fourth. We do not get the maximum retention return from our compensation dollars.

TABLE 3-3

THE INFLUENCE OF COMPENSATION ON REENLISTMENT AND RETENTION ATTITUDES OF SERVICE PERSONNEL

Survey of Military Personnel Management, January-April 1967. Regular Army enlisted specialists eligible for proficiency pay were asked to respond to the question: "What do you think the Army could do to retain more qualified individuals?" Pay and related items were cited by 60.5% of the population as important to retention.

"Navy Personnel Survey 65-1," 1965. Officers and enlisted men were asked to evaluate the adequacy of pay. 85% of the officers considered it "fair" or "bad." Initial tour officers intending to separate were asked the most important reason for leaving; low pay ranked second (family separation ranked first). 28% of initial tour EM cited low pay as the main reason for leaving. Pay and allowances were ranked No. 1 as the change that would make the Navy more attractive.

"Results of a Survey to Identify Factors Affecting Reenlistments," by R. V. Macy, Jr., August 1963. U.S. Naval Personnel Research Activity, San Diego, California. A survey population of 400 officers and enlisted men were asked to recommend specific actions to improve Navy retention. The most frequently mentioned action was increased pay.

Bureau of Naval Personnel Technical Bulletin 63-3, "Training, Utilization, and Proficiency of Navy Electronics Technicians, Vol. VI," Adolph V. Anderson, January 1963. A survey of electronics technicians revealed that of the group eligible for reenlistments, 58% listed low pay as the major reason for not reenlisting.

"USMC October Retention Test Program," October 1966. 3,736 involuntarily extended enlisted men were polled on reasons for not reenlisting. 42.8% listed pay-related reasons.

"The USAF Personnel Report: Characteristics and Attitudes from a Sample Survey," November 1966. First term (0-4 years' active service) officers and airmen were asked to list the most unfavorable aspects of USAF life. Pay-related items were cited by 57.2% of the airmen in February 1965 and by 60.8% in May 1965. Pay-related items were cited by 41.3% of the officers in February 1965 and 48.9% in May 1965.

OSD Draft Study, 1964-1965, Table: "Evaluation of Inducements to Reenlistment of First Term Regulars Intending to Separate or Undecided." Two groups of first term regular enlisted men were polled; of the "undecided" group, 44.4% responded that they would remain in service if pay were equal to civilian pay and 65.1% if service pay were higher than civilian pay. Of the group intending to separate 17.2% stated that they would reenlist if military pay were greater than civilian pay.

b. Military pay is not equitably distributed to the force:

(1) Only 58% of total pay depends on the work done by the member. The rest depends on family size, accidents of quarters availability, and whether the member serves to retirement. Potential reenlistees cannot be sure what their pay will be. Many, especially bachelors, dislike a system that does not pay equal pay for equal work.

(2) All career members are charged with an imputed retirement contribution as part of their basic salary, but fewer than four in ten (37%) will actually retire. Those who leave before retirement realize no value whatsoever from the imputed retirement contribution; they have been made to help finance someone else's retirement out of their own salary, which was intended as pay for services rendered. This discourages the mid-length careers needed for balanced force manning.

(3) Allowances have not kept pace with costs. Thus, members who draw cash allowances must often spend more than their allowances on food and housing. They are thereby penalized compared to those who are furnished these items in kind. Potential reenlistees see these results and are apprehensive. They cannot be reasonably sure what their living conditions will be, hence cannot predict what their pay will be if they do reenlist.

c. Most important, there is no agreed upon quantitative standard for applying the accepted principle of comparability to military pay at each grade. As a result:

(1) Military pay has tended to lag behind civilian pay. From 1945 through 1962 there were 5 military raises that increased pay by 76%, compared to 9 Classification Act raises that increased pay by 126% and 9 Postal Field Service raises that increased pay by 177%.

(2) There has been no consistent policy for computing the value of military pay increases. Since 1963 overall military increases have paralleled overall Federal civil service increases. Still, the absence of an agreed upon pay standard has led to disagreements on the amounts of some increases, and the method of computing raises has changed from year to year. Not until 1965 was there established a method of matching military to Federal civilian increases.

(3) There has been no way to assure the most effective use of the increases that have been awarded. Sometimes rates at junior grades were raised to try to increase retention. At other times rates in the senior grades were raised to relieve the pay compression caused by concentrating previous increases in the junior grades. Other raises have been across-the-board write ups.

(4) The whole pay system lacks credibility. Neither members nor managers can evaluate with precision the adequacy of military pay

levels. Members lack confidence in how their pay is set, how it compares to, and how it is kept abreast of civilian pay. Although curing the defects of complexity and inequitable distribution would help, even this would not establish full credibility in the system. Until recipients believe they are being paid fairly and equitably, the pay system is going to be inefficient. They cannot be convinced of this, nor can managers be confident in advertising as much to them, until there is an accepted quantitative standard against which to measure pay.

The remainder of this chapter deals with the first two deficiencies, undue pay complexity and inequitable pay distribution, which are functions of pay methods. Chapter 4 develops a quantitative standard for military pay at each pay grade. Chapter 5 covers the other issues involved in constructing a specific pay table.

Pay Complexity

The first deficiency identified in the career compensation system is that military compensation is unduly complex and confusing. Members do not know the true value of their compensation. Hence, it suffers in comparison with the pay of others, and the Government does not get the maximum retention return for its compensation dollars.

Secretary McNamara in testimony before the House Armed Services Committee during hearings on the 1965 military pay bill said, "I think any compensation system that is so complex that the people being compensated don't understand it, and in some cases the employer doesn't understand it, is a poor compensation system--and ours fits both of these points."

Because of this complexity potential reenlistees substantially undervalue career compensation. Louis Harris Associates interviewed a sample of 500 former military personnel who had recently completed their first tour of duty and who were, therefore, potential careerists. They were asked to estimate military pay at various points in a career. Their estimates compared to actual regular military compensation (basic pay, quarters, subsistence, and tax advantage) as follows:

TABLE 3-4

FORMER MILITARY MEMBERS' PERCEPTION OF REGULAR MILITARY COMPENSATION

Estimates Made by:	Ratio of Estimated to Actual Regular Military Compensation at: 4 Years' Service	10 Years' Service	20 Years' Service
Officers	76%	87%	90%
Enlisted	76%	91%	115%

This failure to recognize fully existing military pay impairs the retention impact of the compensation dollar.

Outsiders who are professionals in the pay measurement business also underestimate military income. Several banks and finance companies in the Washington, D.C., area were contacted and asked what they used as military "salaries" for lending purposes. Their responses compared to actual regular military compensation as follows:

TABLE 3-5

COMMERCIAL CREDIT FIRMS' PERCEPTION OF MILITARY "SALARY"[1]

Pay Grade	Reg. Mil. Comp.	"Salary" Recognized by Credit Firms	Per Cent of Actual Recognized
E-3	$ 3,014	$ 1,462	48.5%
E-7	8,081	7,013	86.8
O-1	6,006	4,249	70.7
O-6	18,006	17,214	95.6

The underestimation of income by the potential military careerist, confirmed when he talks to his bank about a loan, is caused by the undue complexity of the compensation system. Analysis disclosed four major sources of this complexity.

(1) There exists no generally accepted definition of military compensation. Different combinations among a wide variety of items have been treated as compensation at one time or another. In Table 3-6, 27 such items have been classified into salary, supplemental benefits, special and premium pays, and noncompensation personnel costs.

A compensation element is defined as one that both (a) costs the Government money (either now or in the future) and (b) is of value to the recipient in one or more of the following ways: (i) it adds net cash to his current income, (ii) it permits him to realize a current net cash saving, or (iii) it creates a present value to him based on the prospect of future receipt.[2]

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[1] Regular Military Compensation.

[2] For a detailed treatment of each compensation item according to this rule, see Appendix III: "Definition and Classification of Military Compensation." The net concept rules out payments that are reimbursements for employer-induced costs (travel allowances, dislocation allowance, etc.). The restriction that the items must cost the Government money rules out self-supporting benefits (Officer and NCO clubs, theatres, etc.) that are run at no cost to the Government even though they may generate a saving to the member.

TABLE 3-6

ITEMS THAT HAVE BEEN TREATED AS COMPENSATION

($ Million, FY 1968, including proposed 1 Oct 67 increases)

"Salary"[1]	$16,707.0	Special & Premium Pays	$1,370.4
Basic Pay	11,431.9	Hostile Fire	N/A
Quarters	2,663.7	Incentive Pay:	
Subsistence	1,750.4	Hazardous Duty	397.7
Tax Advantage	861.0	Diving	3.7
		Sea & Certain Places	149.4
		Reenlistment Bonus:	272.7
		Normal . . . 178.5	
		Variable . . 94.2	
		Proficiency Pay:	147.9
		Specialty . . 129.2	
		Sup. Perf. . 18.7	
		Special Pay to Medical Personnel	42.5
		Separation Pays	356.5
Supplemental Benefits	$ 3,722.3	Noncompensation Personnel Costs	$ 874.1
Current Year Retirement Accrual	2,502.2	Clothing Issues & Allowances	445.9
Dependents Indemnity Compensation	130.5	Personal Money Allowance	0.2
Death Gratuity	34.1	Family Separation Allowance	128.2
Social Security	469.3	Dislocation Allowance	66.7
Medical Care	441.0	Overseas Station Allowance	142.9
Commissary & Exchange	110.2	Burial Costs	10.0
Mortgage Insurance	5.4	SGLI (extra hazard premium)	80.2
Unemployment Compensation	29.6		

TOTAL MILITARY COMPENSATION: $21,799.7

[1] Regular military compensation. An imputed retirement contribution, not counted as current salary because it is not vested to members, is sometimes used in making certain comparisons. In this table the imputed retirement contribution charged to career members is included as part of the Current Year Retirement Accrual entry under Supplemental Benefits.

The variety of items included as compensation, the many special conditions attaching to their receipt, and the confusion of pay, personnel cost, and nonpay benefit items all generate confusion as to exactly what military pay is. This confusion is responsible for much of the uncertainty about military income. The uncertainty, in turn, leads to underestimation of income by current and potential recipients.

(2) Military compensation is paid and received in a confusing variety of ways: taxable cash, nontaxable cash, income in kind nontaxable, current savings, and deferred income. Table 3-7 summarizes total military compensation for FY 1968 by method of receipt. Total cash pay amounts to 70.3% of all military compensation, which approximates closely the percentage of pay recognized by potential career personnel and by financial institutions.[1]

(3) Recipients and lenders both tend to ignore or undervalue income in kind. This occurs for a number of reasons: they forget it; it is "involuntary" income over which they exercise limited, if any, discretion; it is deferred to such a long time in the future that they do not count its full value now; its receipt is contingent on completing additional service; or they simply do not know what it is worth.

Almost a fifth (18.2%) of military pay is received either in kind (quarters and subsistence) or as a savings through the operation of exchanges and commissaries, provision of medical care, survivor benefits coverage, etc. This income tends to be undervalued because the member is not quite sure just how much he is saving. When one doesn't pay rent or utilities it is easy to underestimate the value of quarters furnished. Even if accurately estimated, the value to the member may differ substantially from the Government cost that is attributed to the member's salary.

Total savings include $861 million of Federal income tax advantage on nontaxable quarters and subsistence (cash allowances and furnished). This is clearly an element of military compensation because it represents both a cost to the Government in foregone tax receipts and a current net tax savings to the individual. The amount depends on family size, income tax bracket, tax deductions, and all other influences that bear on the individual's income tax liability. It can be calculated only by going through a complete set of Federal income tax calculations. It is never seen by military members. Because they pay taxes on their basic pay, many do not realize that a tax advantage accrues on the nontaxable allowances. The tax advantage is the least understood and most universally ignored element of military income. Table 3-8 shows the average tax advantage for career pay grades at pay rates proposed for 1 October 1967. Few military members can verify these figures; fewer still actually

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[1] In the words of one lender, "If the man doesn't get it in cash, then I don't even stand a chance of getting my hands on it, and it's not income as far as I'm concerned."

TABLE 3-7

DISTRIBUTION OF TOTAL MILITARY COMPENSATION BY METHOD OF RECEIPT

($ Million, FY 1968)

		Million Dollars	Per Cent of Total
Taxable Cash:		$12,802.3	58.8%
(Basic Pay.	$11,431.9)		
(Special Pays	1,370.4)		
Nontaxable Cash:.		2,513.5	11.5
(Quarters allowance	$1,699.6)		
(Subsistence allowance. . .	813.9)		
In kind, nontaxable		1,900.6	8.7
(Quarters	$964.1)		
(Subsistence.	936.5)		
As a savings.		2,081.1	9.5
(Exchange & Commissary. . . .	$110.2)		
(Medicare	441.0)		
(Survivor Protection - DIC, Death Gratuity, Social Security)	633.9)		
(Unemployment Compensation. .	29.6)		
(FHA Insurance Premium. . . .	5.4)		
(Tax Advantage.	861.0)		
As Deferred Income:		2,502.2	11.5
(Retirement Accruals)			
TOTAL ACTIVE DUTY COMPENSATION.		$21,799.7	100.0%

TABLE 3-8

AVERAGE TAX ADVANTAGE[1] BY PAY GRADE, PROPOSED
1 OCTOBER 1967 BASIC PAY RATES

Pay Grade	Average Tax Advantage Annual	Average Tax Advantage Monthly
0-10	$2,843	$236.94
0-9	2,180	181.67
0-8	1,553	129.42
0-7	1,215	101.25
0-6	918	76.50
0-5	750	62.50
0-4	617	51 42
0-3	491	40.92
0-2	413	34.42
0-1	333	27.75
W-4	553	46.08
W-3	451	37.58
W-2	405	33.75
W-1	362	30.17
E-9	405	33.75
E-8	381	31.75
E-7	355	29.58
E-6	323	26.92
E-5	264	22.00
E-4 (Over 4)	261	21.75

[1] Tax advantage is the amount of additional cash income a serviceman would need in order to leave him with the same take home pay he now has were all of his regular military compensation subject to federal income taxation. The tax advantage is computed under the assumption that (a) the serviceman takes the standard exemption and the deduction that results in minimum federal income tax, (b) the married serviceman files a joint income tax return, (c) servicemen with family sizes 2 through 6 are married, (d) the serviceman and his family have no income other than the military income of the serviceman himself, (e) the serviceman has no tax credits, and (f) the serviceman with less than $5,000 of taxable income files the "short form" (Income Tax Form 1040A). Because taxes vary by family size, the tax advantage accruing to persons of differing family sizes with the same basic pay and allowances may vary. The average tax advantage for each pay grade is the tax advantage computed for each longevity step and family size in that pay grade averaged over all longevity steps and family sizes (from 1 to 6) in the pay grade.

recognize them as a valid part of the military equivalent of a civilian's salary. The length of the footnote (Table 3-8) required to be precise about how the tax advantage was computed shows why most people do not even bother trying to understand it. This particular $861 million of Government cost is buying very little retention, indeed.

Retirement accruals represent 11.5% of total military compensation. This includes two components: (i) the total current service accrual costs[1] of military retirement amounting to $2,365.5 million for FY 1968, and (ii) the current service accrual cost of medical care to be provided after retirement to those on active duty in FY 1968 of $136.7 million. This part of total income is contingent on continued service to retirement. If received at all, it is deferred until retirement and beyond. This means to potential reenlistees at the four-year point that they may never realize any of this income and that even if they do it will be at least 16 years in the future before they can even begin to receive it.

Many young people at this stage of their careers give little thought to retirement. Moreover, surveys of the preference of military personnel for present as opposed to future income indicate that aside from the question of the contingent nature of this income, young members place a very high value on present money as opposed to the prospect of future money. The median "discount rate"[2] disclosed in these surveys was 18% for enlisted personnel and 9% for officers. The large share of total compensation going into deferred income has, therefore, a very small impact on reenlistment incentives at the initial career decision point. Increasing 20-year retirement benefits by a dollar will have less retention influence than increasing next year's compensation by 25 cents. As the 20-year point gets closer, of course, the prospect of retirement creates powerful incentives to stay in the force to protect one's "investment" in retirement equity and to begin to collect an income that gets ever closer with the passage of time.

(4) <u>The military equivalent of civilian salary includes four separate compensation elements</u>. Regular military compensation, used since 1965 as the military pay equivalent of Federal civilian salaries for the purposes of computing adjustments, includes: (i) basic pay,

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[1] The amounts that, if deposited in a fund at 3.5% interest, would be just sufficient to enable the fund to pay the retirement annuities that will be paid to those now on active duty.

[2] The premium the members were willing to pay to convert future (certain) money into present money. This can be thought of as the interest rate they would be willing to pay on a loan to be repaid out of an assured future income.

(ii) quarters (furnished in kind or nontaxable cash allowance), (iii) subsistence (furnished in kind or nontaxable cash allowance), and (iv) the Federal income tax advantage on quarters and subsistence.

Basic pay is a different part of regular military compensation for each pay grade, ranging from 63% for an E-4 to 80% for an O-6 as shown in Table 3-9. The member should not compare his basic pay to civilian salaries, but he cannot compare his own "salary" to that of a civilian without doing an extensive and complicated series of calculations. The tendency is to compare basic pay to a full civilian salary. Military pay obviously comes off poorly in any such comparison.

To compare accurately his salary to that of a civilian, a military careerist must first add to basic pay his quarters and subsistence (when these are furnished a troublesome valuation problem is posed) then compute his Federal income tax advantage on quarters and subsistence, however valued, and add this amount to arrive at his regular compensation. Table 3-9 displays the averaged results of these calculations for each pay grade, based on rates proposed to be effective on 1 October 1967.

Even after regular military compensation has been computed, it cannot be compared to a full civilian salary because regular military compensation includes no retirement contribution. The military member must adjust full civilian salaries by subtracting any retirement contribution before the comparison can be precise.

No compensation system this complex can hope to attain credibility. Without credibility it cannot attain maximum retention and motivation effectiveness for the dollars spent. This leads to the Policy Board's first recommendation on career force compensation.

RECOMMENDATION 7. That a standardized definition and classification of military compensation be adopted to reduce the ambiguity about what military compensation is.

This is a minimum first step in gaining among recipients a better understanding of their pay.

Inequitable Pay Distribution

The second major deficiency in career compensation is that pay is not equitably distributed to the career force. Three major sources of inequitable distribution have been identified.

(1) Retirement benefits are actually realized by only a minority of careerists, yet all "contribute" to retirement by having their basic pay reduced in recognition of retirement benefits. The legislative history of military pay makes it clear that an imputed contribution to

TABLE 3-9

COMPOSITION OF AVERAGE ANNUAL REGULAR MILITARY COMPENSATION BY P.

(All DOD Personnel, Proposed 1 October 1967 Rates)

Pay Grade	Total[1] Annual Rate ($)	Average Basic Pay Annual Rate ($)	Average Basic Pay Per Cent of Total "Salary"	Average Quarters[2] Annual Rate ($)	Average Quarters[2] Per Cent of Total "Salary"	Average Subsistence[3] Annual Rate ($)	Average Subsistence[3] Per Cent of Total "Salary"	Ta Ann Ra ($
				Commissioned Officers				
0-10C/S	$38,773	$27,986	72.18%	$ 6,000	15.47%	$575	1.48%	$4,
0-10	33,299	25,366	76.18	4,516	13.56	575	1.73	2,
0-9	29,050	22,345	76.92	3,951	13.60	575	1.98	2,
0-8	25,386	20,178	79.48	3,080	12.13	575	2.27	1,
0-7	22,030	17,546	79.65	2,694	12.23	575	2.61	1,
0-6	18,442	14,815	80.33	2,135	11.58	575	3.12	
0-5	15,586	12,338	79.16	1,923	12.34	575	3.69	
0-4	12,843	9,873	76.87	1,779	13.85	575	4.48	
0-3	10,662	8,030	75.31	1,566	14.69	575	5.39	
0-2	8,277	6,000	72.49	1,290	15.59	575	6.95	
0-1	6,185	4,215	68.15	1,062	17.17	575	9.30	
Total Comm. Officers	$10,778	$ 8,144	75.56%	$1,535	14.24%	$575	5.33%	$
Commissioned Officers who have been credited with over 4 years' Active Service as an Enlis								
0-3	$11,768	$ 9,090	77.24%	$1,566	13.31%	$575	4.89%	$
0-2	9,858	7,550	76.59	1,290	13.09	575	5.83	
0-1	8,087	6,070	75.06	1,061	13.13	575	7.11	
Commissioned Officers who have not been credited with over 4 years' Active Service as an Enl								
0-3	$10,456	$ 7,833	74.91%	$1,566	14.98%	$575	5.50%	$
0-2	8,057	5,784	71.79	1,290	16.01	575	7.14	
0-1	6,080	4,113	67.65	1,062	17.47	575	9.46	
				Warrant Officers				
W-4	$12,065	$ 9,288	76.98%	$1,650	13.68%	$575	4.77%	$
W-3	10,179	7,635	75.01	1,518	14.91	575	5.65	
W-2	8,705	6,373	73.21	1,352	15.53	575	6.61	
W-1	7,683	5,571	72.51	1,175	15.29	575	7.48	
Total Warrant Officers	$ 9,064	$ 6,716	74.10%	$1,354	14.94%	$575	6.34%	$
Total Off	$10,669	$ 8,054	75.49%	$1,524	14.28%	$575	5.39%	$
				Enlisted Members				
E-9	$ 9,942	$ 7,603	76.47%	$1,459	14.68%	$475	4.78%	$
E-8	8,696	6,420	73.83	1,410	16.33	475	5.46	
E-7	7,659	5,469	71.41	1,360	17.76	475	6.20	
E-6	6,670	4,585	68.74	1,287	19.30	475	7.12	
E-5	5,533	3,718	67.20	1,076	19.45	475	8.58	
E-4	4,012	2,708	67.50	630	15.70	475	11.84	
E-4(>4)	4,944	3,116	63.03	1,092	22.09	475	9.61	
Career Enl	$ 6,116	$ 4,168	68.15%	$1,179	19.28%	$475	7.77%	$

TABLE 3-9

ION OF AVERAGE ANNUAL REGULAR MILITARY COMPENSATION BY PAY GRADE

(All DOD Personnel, Proposed 1 October 1967 Rates)

Pay	Average Quarters[2]		Average Subsistence[3]		Average Tax Advantage[4]	
Cent Total ary"	Annual Rate ($)	Per Cent of Total "Salary"	Annual Rate ($)	Per Cent of Total "Salary"	Annual Rate ($)	Per Cent of Total "Salary"
Commissioned Officers						
2.18%	$ 6,000	15.47%	$575	1.48%	$4,212	10.86%
6.18	4,516	13.56	575	1.73	2,843	8.54
6.92	3,951	13.00	575	1.98	2,180	7.50
9.48	3,080	12.13	575	2.27	1,553	6.12
9.65	2,694	12.23	575	2.61	1,215	5.52
0.33	2,135	11.58	575	3.12	918	4.98
9.16	1,923	12.34	575	3.69	750	4.81
6.87	1,779	13.85	575	4.48	617	4.80
5.31	1,566	14.69	575	5.39	491	4.61
2.49	1,290	15.59	575	6.95	413	4.99
8.15	1,062	17.17	575	9.30	333	5.38
5.56%	$1,535	14.24%	$575	5.33%	$ 523	4.85%
n credited with over 4 years' Active Service as an Enlisted Member						
7.24%	$1,566	13.31%	$575	4.89%	$ 537	4.56%
6.59	1,290	13.09	575	5.83	443	4.49
5.06	1,061	13.13	575	7.11	381	4.71
een credited with over 4 years' Active Service as an Enlisted Member						
.91%	$1,566	14.98%	$575	5.50%	$ 482	4.61%
1.79	1,290	16.01	575	7.14	408	5.06
.65	1,062	17.47	575	9.46	330	5.43
Warrant Officers						
6.98%	$1,650	13.68%	$575	4.77%	$ 553	4.58%
5.01	1,518	14.91	575	5.65	451	4.43
3.21	1,352	15.53	575	6.61	405	4.65
2.51	1,175	15.29	575	7.48	362	4.71
4.10%	$1,354	14.94%	$575	6.34%	$ 419	4.62%
5.49%	$1,524	14.28%	$575	5.39%	$ 517	4.85%
Enlisted Members						
6.47%	$1,459	14.68%	$475	4.78%	$ 405	4.07%
3.83	1,410	16.33	475	5.46	381	4.38
1.41	1,360	17.76	475	6.20	355	4.64
8.74	1,287	19.30	475	7.12	323	4.84
7.20	1,076	19.45	475	8.58	264	4.77
7.50	630	15.70	475	11.84	200	4.96
3.03	1,092	22.09	475	9.61	261	5.28
8.15%	$1,179	19.28%	$475	7.77%	$ 294	4.81%

[1] Regular military compensation for each individual is the sum of basic pay, quarters, subsistence, and Federal income tax advantage. Average for each pay grade was derived by weighting individual values by the man years in each dependency status, quarters occupancy status, and longevity step projected for the active force contained in the President's FY 1968 Budget. Components may not add to totals because of rounding to the nearest dollar.

[2] Consists of cash BAQ and cost of quarters furnished. All personnel drawing cash BAQ are credited with the applicable statutory rate. Personnel in inadequate quarters are credited at a rate equal to the cost of the inadequate quarters.

[3] Consists of statutory subsistence: $47.88 monthly for officers, commuted rations and rations in kind for enlisted personnel at $1.30 daily rate for 365 days.

[4] Federal income tax advantage on quarters, and subsistence is the amount by which a total taxable pay would have to exceed regular military compensation to leave the same disposable income after Federal income taxes.

military retirement has been accounted for by reducing career basic pay rates below what they otherwise would have been.[1] Table 3-10 displays the average "contribution" made by enlisted and officer members at various years of service.

Also shown in Table 3-10 is the percentage of people by years of completed service who will not serve to retirement and who, therefore, will never realize any value from their imputed contribution. The amounts of their own "salary" they forfeit are shown in the cumulative contribution column of the table. These amounts consist entirely of imputed member contributions and take no account of any Government share of retirement costs.

The present imputation of retirement contributions was clearly aimed at and is entirely appropriate for the member who does serve all the way to retirement--and lives long enough after retirement to collect his imputed contributions plus accumulated interest thereon. In this case it makes no difference whether the contribution has been implicit or explicit; the overall result is the same. This used to be the career pattern that applied to the vast majority of career personnel.

However, those who will ever become retirees are now a minority (37%), even of career force members. The 63% of the career force who will not serve until retirement are now being made to contribute part of their own "salary" to someone else's retirement, in addition to forfeiting any Government contribution to their own retirement equity. This creates a clear inequity to such members; they are in fact being paid less than their full "salary" in return for the services they perform while on active duty. This was never the intent of the imputed retirement contribution, but as the composition of the career force has changed this has come to be its effect.

(2) The amount of the career member's regular military compensation is influenced by factors other than services performed.

Of the four components of regular military compensation, only basic pay depends on the individual's pay grade and longevity step, which are the best indicators of the services expected from him. Quarters rates vary, as shown in Table 3-11, both by dependency status and whether the individual is drawing the BAQ in cash or is furnished Government quarters. Subsistence allowances differ between, but are uniform within, officer and enlisted categories: $47.88 monthly for officers and $1.30 daily for enlisted grades, except for special allowances of $2.57 and $3.42 daily payable to enlisted personnel when rations in kind are not available or when assigned under emergency conditions, respectively. The Federal income tax advantage depends on income bracket and dependency status.

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[1] U.S. Congress, House of Representatives, Report No. 549 to accompany H.R. 9075, 89th Congress, 1st Session, Uniformed Services Pay Act of 1965, June 24, 1965, p. 24.

TABLE 3-10

IMPUTED RETIREMENT CONTRIBUTION NOT NOW REALIZED AS CURRENT INCOME BY CAREER MEMBERS

Completed Years of Active Service	OFFICER Average Annual Imputed Cont.	OFFICER Cum. Imputed Cont. (Year End)	OFFICER Percent Who Will Not Retire[1]	ENLISTED Average Annual Imputed Cont.	ENLISTED Cum. Imputed Cont. (Year End)	ENLISTED Percent Who Will Not Retire[1]
0	$302	$ 302	72.1%	$ -	$ -	- %
1	322	624	81.9	-	-	-
2	355	979	77.7	160	160	85.4
3	434	1,413	66.0	181	341	77.9
4	472	1,885	54.6	204	545	50.3
5	489	2,374	46.9	211	756	43.2
6	512	2,886	40.5	228	984	39.6
7	514	3,400	35.6	235	1,219	34.2
8	526	3,926	31.9	251	1,470	26.0
9	539	4,465	29.0	255	1,725	19.2
10	556	5,021	18.4	268	1,993	14.4
11	555	5,576	16.2	271	2,264	10.8
12	572	6,148	9.6	282	2,546	8.2
13	577	6,725	8.0	287	2,833	6.3
14	599	7,324	7.0	294	3,127	4.7
15	610	7,934	5.4	305	3,432	3.5
16	650	8,584	4.1	309	3,741	2.8
17	644	9,228	3.0	319	4,060	2.0
18	676	9,904	2.1	333	4,393	1.5
19	701	10,605	1.5	340	4,733	1.1

[1] Source: Table 1,073, 2 August 1966, prepared by the Actuarial Consultant, Office of the Assistant Secretary of Defense (Manpower).

TABLE 3-11

CASH BASIC ALLOWANCES FOR QUARTERS AND COSTS OF GOVERNMENT QUARTERS FURNISHED, BY PAY GRADE AND DEPENDENCY STATUS, FOR FY 1968

Pay Grade	Monthly Basic Allowance for Quarters: Without Dependents	Monthly Basic Allowance for Quarters: With Dependents	Average Monthly Cost of Quarters Furnished: Without Dependents	Average Monthly Cost of Quarters Furnished: With Dependents
O-10C/S	$160.20	$201.00	$56.00	$500.00
O-10	160.20	201.00	56.00	400.00
O-9	160.20	201.00	56.00	350.00
O-8	160.20	201.00	56.00	300.00
O-7	160.20	201.00	56.00	250.00
O-6	140.10	170.10	56.00	230.00
O-5	130.20	157.50	56.00	203.00
O-4	120.00	145.05	56.00	183.00
O-3	105.00	130.05	56.00	161.00
O-2	95.10	120.00	56.00	150.00
O-1	85.20	110.10	56.00	139.00
W-4	120.00	145.05	56.00	139.00
W-3	105.00	130.05	56.00	139.00
W-2	95.10	120.00	56.00	139.00
W-1	85.20	110.10	56.00	139.00
E-9	85.20	120.00	18.00	138.00
E-8	85.20	120.00	18.00	138.00
E-7	75.00	114.90	18.00	138.00
E-6	70.20	110.10	18.00	136.00
E-5	70.20	105.00	18.00	133.00
E-4	70.20	105.00	18.00	126.00

Military "salary" depends, therefore, on four parameters: (i) pay grade, (ii) longevity step, (iii) quarters occupancy status, and (iv) dependency status. It does not reflect equal pay for equal work, because the last two elements have nothing to do with the work a member does. For example, as shown in Table 3-12, an E-5 with over 8 years of service for pay can receive any one of eleven[1] military "salaries." These range from a low of $4,630 for a single man furnished bachelor quarters and subsistence to a high of $6,247 for a married man in family quarters. Yet, all these people are expected to do precisely the same work. The difference of $1,617 per year, or 35% of the lower "salary," clearly represents an inappropriate variation in regular military compensation.

(2) Allowances create inequities among members, even of the same family size, whenever they do not match the costs of securing quarters and subsistence on the civilian economy. A military family paying more for rent and utilities on the civilian economy than the member's cash basic allowance for quarters (BAQ) suffers a net pay cut compared to an otherwise equal family furnished public quarters. The family in quarters pays (surrenders) only the member's BAQ for quarters and utilities.

Average housing expenses exceed the cash BAQ by substantial amounts as shown in Table 3-13. Therefore, the two-thirds of career military families who cannot be provided Government quarters are being penalized substantially with respect to their counterparts who are provided family quarters.[2] Whenever allowances do not precisely cover costs, there will be unintended differences in income between those who do and those who do not draw the allowances in cash. These differences are clearly inequitable because they are not related to the work a man does.

Allowances will seldom correspond to the exact costs incurred by members for two principal reasons:

(a) Allowances are adjusted less frequently than costs change. Quarters allowances were last increased effective 1 January 1963. Enlisted subsistence allowances are reviewed periodically, but the officer subsistence allowance has not been changed since 1952.

(b) Even if allowances were adjusted frequently according to some national index, differences in costs at various geographic locations would still exist. A system of tying allowances to costs by geographic location and keeping them reasonably up to date would add markedly to

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[1] Based on the standard $1.30 daily subsistence rate. Rigorously, there are 33 separate "salaries" possible: a separate set of eleven for each of the daily subsistence rates of $1.30, $2.57, and $3.42.

[2] In those few cases where housing is available on the civilian economy at less than the BAQ rates, personnel required to occupy Government quarters are penalized compared to those who are permitted to live off post, pay for housing out of their BAQ, and pocket the difference.

TABLE 3-12

INFLUENCE OF DEPENDENCY STATUS AND QUARTERS ASSIGNMENT ON REGULAR COMPENSATION, E-5, OVER 8 YEARS OF PAY SERVICE

(Proposed 1 October 1967 Annual Rates)

Salary Element	Family Size 1	2	3	4	5	6+
	Government Quarters Furnished					
Basic Pay	$3,794	$3,794	$3,794	$3,794	$3,794	$3,794
Quarters	216	1,596	1,596	1,596	1,596	1,596
Subsistence	475	475	475	475	475	475
Tax Advantage	145	382	378	378	364	247
Salary	$4,630	$6,247	$6,243	$6,243	$6,229	$6,112
	Drawing BAQ in Cash					
Basic Pay	$3,794	$3,794	$3,794	$3,794	$3,794	$3,794
Quarters	842	1,260	1,260	1,260	1,260	1,260
Subsistence	475	475	475	475	475	475
Tax Advantage	284	313	318	316	300	187
Salary	$5,395	$5,842	$5,847	$5,845	$5,829	$5,716

TABLE 3-13

HOUSING COST COMPARED TO BASIC ALLOWANCE FOR QUARTERS

(Monthly Rates for Personnel with Dependents)

	Actual Housing Expense[1]			Difference	
Pay Grade	Military[2]	Civilian[3]	BAQ	Mil-BAQ	Civ-BAQ
O-6	$250	$212	$170	$80	$42
O-5	220	203	158	62	45
O-4	196	187	145	51	42
O-3	170	175	132	37	40
O-2	137	146	120	17	26
O-1	125	126	110	15	16
W-4	163	186	145	18	41
W-3	151	170	130	21	40
W-2	143	155	120	23	35
W-1	136	145	110	26	35
E-9	145	159	120	25	39
E-8	140	153	120	20	33
E-7	133	143	115	18	28
E-6	121	133	110	11	23
E-5	110	123	105	5	18
E-4(Over 4)	100	105	105	- 5	0

[1] Median housing expense: Shelter rent or principal, interests, taxes, and insurance plus utilities (excluding telephones) and maintenance.

[2] Median housing expense. Source: Department of Defense Family Housing Survey, March 1966.

[3] Median housing expense. Source: Table FHA-39a, Monthly housing expense, new 1-family occupant homes, Sec. 203, 1966. Same income class as corresponding military pay grade.

the complexity of the pay system. This increased complexity would in turn compound the first difficulty with the pay system: it is now so confusing that people do not understand what their pay really is.

The study evaluated three alternatives for correcting the inequity caused by quarters allowances inadequate to cover local market housing costs.

First, conduct a Government quarters construction program adequate to house all career personnel. This was rejected as impracticable and unwarranted. The changing demands imposed on our military forces require the frequent opening and closing of military bases, changes in location of units and activities, and a general degree of mobility inconsistent with a 100% Government housing program. Such a program would require a substantial excess of quarters to provide for all contingencies. Some 500,000 units in addition to the 371,500 now in the inventory would be required. New construction costs would be nearly $10 billion. Extra maintenance costs would be over $400 million annually. Many of these units would be standing idle at any one time, which would be unduly wasteful. Moreover, such a policy would ignore the civilian housing available at reasonable rentals in the vicinity of many military communities. It would represent, therefore, a very wasteful use of resources from a national standpoint.

Second, establish a Variable Housing Allowance tied to and kept up to date with housing costs in different geographic locations. This would reduce the inequities between those assigned public quarters and those required to secure housing on the local economy. It would add substantial complexity to the military pay system while leaving much of the basic inequity (especially that between bachelor and married personnel) uncorrected. Reductions in BAQ in low cost areas would be required to establish full equity among all members. "Salary" would vary not only by dependency status but also by geographic location, which would be inconsistent with practices in other Federal salary systems.

Third, incorporate the basic allowance for quarters into a total salary based on grade and years of service for pay, then charge a fair rental value[1] for any public quarters furnished. This approach has the very powerful advantage of tying the member's salary exclusively to his pay grade and longevity step as measures of the work he is supposed to do in the organization. Bachelor career members would be

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[1] With an upper limit of the FHA 75th percentile of housing expenditure for the member's income class. This will avoid unreasonable charges for large quarters and the "position housing" senior people are required to occupy and will make full occupancy requirements fair to members ordered into public quarters. Specific policies to be applied are contained in Bureau of the Budget Circular A-45 and DOD Directive 4165.42.

paid the same salary as married career members. All career members would be treated equitably with respect to housing whether they were assigned public quarters or not. Individual preferences (or accidents) of family size, assignment location, local rent levels, quarters availability, and other factors extraneous to a man's work would no longer influence his cash salary.

The full salary approach relieves the Government of any obligation, expressed or implied, to provide public quarters for all career personnel. Availability of adequate rental housing at reasonable rates in the adjacent civilian community could still be used as part of a standard for deciding whether to build more public quarters.

Finally, a salary and fair rental charge approach establishes equity among those provided Government quarters of different standards. Neither of the first two alternatives accomplishes this result. Occupants of quarters would pay a fair rental value for their quarters rather than the total BAQ they now forfeit. Some would pay more, some less than the existing BAQ. In any case, the payment would reflect the actual value of the housing received, placing all members, whether on or off base, on an equitable basis.

In summary, three major causes of inequitable pay distribution among career members have been identified:

(1) The career member's retirement contribution is very real in terms of reduced basic pay, but is not vested to him short of retirement eligibility. This is an unfair penalty against those who do not retire. It reduces substantially the attractiveness of the compensation system, especially to personnel considering mid-length careers.

(2) Regular military compensation is influenced by dependency status and quarters occupancy status as well as by the job a man is expected to do.

(3) Allowances do not cover costs.

FINDING 13. The existing career compensation system is generating unintentional pay inequities because changes in compensation methods have not kept pace with changes in conditions relevant to compensation.

Existing compensation practices were appropriate when the majority of career military members served to retirement and were furnished quarters while on active duty. The imputed retirement contribution was eventually realized as retirement income by most people. Allowances based on need were appropriate then, as they are now in the noncareer force, because they were the exception rather than the rule. Cash allowances were truly substitutes for income furnished in kind to most people.

In a permanently large, highly mobile, military career force that needs many people for mid-length careers short of retirement and in which the ability of the Government to provide adequate family housing encompasses only about one-third of the force, these compensation practices are no longer appropriate. They fit best only a minority of cases; they introduce unintended pay effects in the majority of cases.[1]

Recommended Pay Methods

Existing career compensation practices no longer fit what is actually happening to most career people. This leads to the Policy Board's recommendations on career force pay methods.

RECOMMENDATION 8. That for the career force the five separate compensation elements of (1) basic pay, (2) quarters (cash allowances or furnished), (3) subsistence (cash allowances or furnished), (4) the Federal income tax advantage, and (5) the imputed retirement contribution be incorporated into a schedule of full salaries based only on pay grade and years of service for pay.

Career force members would be paid a fully taxable salary, just as civilians now are. The same salary would be paid to all career members of the same rank and years of service for pay, regardless of family size. They would pay full Federal income taxes on their salary. They would pay, either in cash or by payroll deduction, reasonable charges for any subsistence and housing furnished by the Government.[2] They would make a vested contribution to their retirement program.

RECOMMENDATION 9. That collections out of a full military salary for Government quarters furnished be at the lower of: (1) fair rental value of quarters furnished or (2) the 75th percentile of housing expense for FHA mortgagees of equal salary.

The upper limit protects members who may have to be assigned Government quarters in excess of their individual needs, people in position housing, and others in unusual circumstances. Rules for rental charges for adequate barracks, BOQ, and BNCOQ accommodations

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[1] Bachelors especially are loath to tolerate the substantial salary discrimination against them that is a feature of the current military pay and allowances system. They soon find that civilian employers offer the same salary to bachelors as to married men. Many solve the salary discrimination problem by changing employment status rather than marital status.

[2] No charge would be made for operational type accommodations in the field or on shipboard.

should be derived on the same basis as those for family housing, except that existing permissive provisions applicable to E-7's and up should be continued. For administrative simplicity, a schedule of reasonable flat rate charges should be developed for barracks type accommodations.

RECOMMENDATION 10. That collections out of a full military salary for Government subsistence furnished to career personnel be at the rate of: (1) raw food cost to the Government when the member has no option about whether to subsist in Government facilities or (2) raw food cost plus a reasonable preparation and serving charge when the member has an option and chooses to subsist in Government facilities.

It is difficult to separate accurately Government costs of "normal" preparation and serving from those associated with training of food service personnel and maintenance of a necessary standby feeding capability. Therefore, the reasonable preparation and serving charge should correspond to the nonprofit and nonfood costs of reasonably similar nonmilitary food service operations (large institutions, university cafeterias, industrial operations, etc.), unless appropriate Government costs can be identified.

RECOMMENDATION 11. That out of a full military salary the career member make a vested contribution of 6.5% of that salary to military retirement.

This contribution (the same as that made by Federal civil servants)[1] would, by being vested, be returnable in full to the member or his survivors should he terminate his potential eligibility for military retirement short of actually beginning to receive any annuity. Should he die on active duty or should he retire but then die before collecting the full amount of his vested equity, any remaining balance would be paid to his survivors.

These recommended changes will have two important results:

(1) They will maximize the visibility of military pay to recipients and others by putting it all in a total taxable cash salary that has the same meaning as salaries in other Federal and most private systems.

(2) They will remove existing inequities in the distribution of pay that are unintentional--but nonetheless unavoidable--features of the basic pay and allowances system.

Both of these results will enhance the retention and motivation impact of military pay. A full salary is the way military career personnel should be paid.

But how much should they be paid? This is the subject of the next chapter.

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[1] Chapter 7 contains a detailed discussion of the retirement contribution rate.

CHAPTER 4

A CAREER FORCE PAY STANDARD

The third and most important shortcoming identified in the existing career compensation system is the absence of any agreed upon quantitative standard for measuring the comparability of military to other pay. Careerists do not understand how their pay rates are set or how their pay raises are computed. They have no basis for judging the adequacy of their pay.

The basic policy standard for military pay was recommended by the Hook Commission in 1948. Military pay was to be the equivalent of pay in the civilian economy, except at the highest pay grades where military pay was to match Federal civilian pay. Congress generally accepted the Commission's recommendation in the Career Compensation Act of 1949, although it modified the specific rates slightly.

Since then the general policy of pay comparability has been reaffirmed several times, most recently by the President in his 5 April 1967 Message to the Congress on Civilian and Military Pay Raises. He said, "We must assure them [military personnel] and their families that they will be compensated for their service on a scale which is comparable to that of their 2.5 million [Federal] civilian co-workers."

But the enunciation of such a policy can do more harm than good unless members are convinced that the policy is translated fairly into pay. This is why the availability of an agreed upon quantitative standard for measuring the comparability of military to civilian pay is so crucial to the establishment of compensation credibility.

Results of Having No Pay Standard

The lack of such a standard has had four especially adverse results.

(1) Military pay increases have lagged behind Federal civilian pay increases. From 1949 to 1962 military pay invariably lagged from three to five years behind civilian pay. Table 4-1 compares military and Federal civilian pay raises since 1946. Military pay raises followed a dreary pattern over most of this period. First, a lag had to develop. Then, after a lag was discovered it had to be analyzed, documented, explained to policy makers, and corrected by the introduction and passage of a pay bill. By this time another lag had already begun to develop.

Public discussions of military pay were conducted in terms of how far behind civilian pay military pay had fallen, how poorly it compared to civilian pay, and what an adverse impact it was having on retention. In the process of trying to convince others of how bad pay was so it could get raised--because that was the only way it could get raised in the absence of any accepted standard for what it ought to be--the military

TABLE 4-1

COMPARISON OF MILITARY AND CIVIL SERVICE PAY RAISES SINCE 1946

Year	Increase in Regular Military Compensation Elements Other Than Tax Advantage		Civilian Salary Increase			
			Classification Act		Postal	
	Per Cent Increase Over Previous Base	Cumulative Per Cent Increase	Per Cent Increase Over Previous Base	Cumulative Per Cent Increase	Per Cent Increase Over Previous Base	Cumulative Per Cent Increase
1945	-- %	-- %	15.9%	15.9%	20.7%	20.7%
1946	18.8	18.8	14.2	32.4	17.8	42.2
1947	--	--	--	--	--	--
1948	--	--	11.0	46.9	16.4	65.5
1949	19.2	41.6	4.1	52.9	3.8	71.8
1950	--	--	--	--	--	--
1951	--	--	10.0	68.2	14.6	96.9
1952	8.9	54.2	--	--	--	--
1953	--	--	--	--	--	--
1954	--	--	--	--	--	--
1955	7.1	65.2	7.5	80.8	8.4	113.4
1956	--	--	--	--	--	--
1957	--	--	--	--	--	--
1958	6.4	75.7	10.9	98.9	10.3	135.3
1959	--	--	--	--	--	--
1960	--	--	7.7	114.2	8.4	155.2
1961	--	--	--	--	--	--
1962	--	--	5.5	126.0	8.6	177.1
1963	13.8	100.0	4.1	135.3	2.6	184.3
1964	1.9	103.8	4.2	145.2	5.6	200.2
1965	8.3	120.7	3.6	154.0	3.6	211.0
1966	2.8	126.9	2.9	161.5	2.9	220.1
1967 [a]	4.5	137.1	4.5	173.1	6.0	239.3

[a] Proposed for 1 October 1967 effective date.

sold its own career members on how poorly paid they were. Much of this bad pay psychology remains as an integral part of the military folklore.

Since 1963 the vicious circle of repeated pay lags has been broken by the combined action of the Administration and Congress with annual military pay raises costing more than $3.5 billion. Even so, the absence of any quantitative standard for measuring the comparability of military pay has caused these military increases to parallel generally Federal civil service increases. This was not so much because it could be proven to be the right thing to do, but more because in the absence of any explicit standard it was better than doing nothing, which had been the previous practice.

(2) There has been no consistent practice for computing the value of military pay increases.

The base to which percentage compensation increases have been applied has varied from one raise to the next between basic pay, total compensation, and regular military compensation. The total value of increases so computed has been placed in different elements of compensation at different times. Table 4-2 displays increases in regular military compensation elements other than the tax advantage since 1946. Sometimes basic pay was raised; sometimes allowances were increased; sometimes nonsalary benefits were counted as part of the total raise. Sometimes the enlisted subsistence allowance declined as raw food costs went down, compounding the confusion.

For example, although quarters allowances have not been increased since 1963 nor officer subsistence allowances since 1952, the total values of these allowances have been included in the base for computing some of the intervening pay raises. Military members realized $317.1 million in total value from quarters and subsistence in the 1966 and 1967 pay raises.[1] Still, members do not recognize this increased value because it has been placed primarily in basic pay; the allowances themselves remain unchanged, except for the enlisted commuted ration rate, which follows raw food costs.

In 1966 an increase of 3.2% in total compensation translated into a 3.2% basic pay increase, considering the value of other increases. But in 1967 a 4.5% regular military compensation increase translated to a 5.6% basic pay increase because most of the increase was put into basic pay. The difference is hard to explain to military people, to Congress, and to the public.

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[1] 1966: 3.2% of $3,816.5 million = $122.1 million
1966: 4.5% of $4,333.6 million = $195.0 million
$317.1 million

TABLE 4-2

INCREMENTAL AND CUMULATIVE INCREASES IN SELECTED MILITARY PAY ELEMENTS, 1946-1967

Average Percentage Increase[1]

	Basic Pay		Quarters		Subsistence[2]		Total	
Year	INC[3]	CUM[4]	INC[3]	CUM[4]	INC[3]	CUM[4]	INC[3]	CUM[3]
1946	23.7%	23.7%	- %	- %	19.6%	19.6%	18.8%	18.8%
1949	22.9	52.0	0.6	0.6	22.1	46.0	19.2	41.6
1952	4.0	58.1	34.1	34.9	14.2	66.8	8.9	54.2
1955	10.0	73.9	--	--	-5.1[a]	58.3	7.1	65.2
1958	8.3	88.4	--	--	--	--	6.4	75.7
1963	14.2	115.1	19.8	61.6	-2.1	54.9	13.8	100.0
1964	2.3	120.0	--	--	0.5	55.7	1.9	103.8
1965	10.4[b]	142.9	--	--	1.6	58.2	8.3	120.7
1966	3.2	150.7	--	--	3.5	63.7	2.8	126.9
1967	5.6[c]	164.7	0.9[c]	63.1	11.1[d]	81.9	4.5	137.1

[1] Calculated on the basis of the active duty force reflected in the FY 1964 budget so as to get rate changes not influenced by changes in force size.

[2] Change in subsistence from 1952 on reflects changes in the commuted ration rate under existing law. Affects enlisted population only; Officer BAS has not changed since 1952.

[3] Incremental from preceding base.

[4] Cumulative since 1945.

[a] Same as foodnote [2].

[b] Under 2 years service: Officer, 22%; Enlisted, 17.3%.
Over 2 years service: Officer, 6%; Enlisted, 11.0%.

[c] Proposed for 1 October 1967 effective date.

[d] Effective 1 January 1967.

(3) Increases have not necessarily been used most effectively.

Some basic pay increases have been concentrated in the junior grades in an attempt to improve retention. Others have been concentrated in the senior grades to relieve the very pay compression created by placing previous increases in the junior grades. Still other increases have been across-the-board write ups, as in 1966 and 1967. Table 4-3 summarizes the resulting basic pay changes since 1949.

(4) Worst of all, the entire pay system lacks credibility in the absence of an accepted and understood quantitative standard for pay.

Members do not understand how their basic pay rates are derived. They do not always understand the reasons for the adjustments in basic pay rates. The absence of any agreed on standard for what pay ought to be makes it exceedingly difficult to conduct pay discussions on the basis of agreed facts.

The wide differences between the 1965 pay recommendations of Department of Defense and the House Armed Services Committee are an example of what can happen in the absence of an accepted pay standard. The protracted discussions growing out of this difference did nothing to reassure military people about the objectivity with which their pay is considered. Although the standards used by both the Department of Defense and the House Armed Services Committee to compute pay in 1965 were published in the Committee Report[1] and the Hearings,[2] the issues are so complex that few military members fully understand them.

Military people make frequent comparisons of their pay to that of their contemporaries in civilian life, especially when considering whether to reenlist and when working side-by-side with Federal civilian employees. As developed in the preceding chapter, members cannot recognize all of their military pay, much of it is contingent on serving to retirement, and it depends in large part on family size and availability of quarters. Pay computations are a mystery to all but a few technicians, and there is no single standard against which to measure the results. This leads to repeated exchanges of conflicting claims about its adequacy. Small wonder that military pay comes off poorly in too many comparisons.

Need for a Pay Standard

Policy Board recommendations developed in Chapter 3 are aimed at reducing the complexity of pay and removing the major sources of

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[1] House Report No. 549, 89th Congress, 1st Session.

[2] House Hearings, "Military Pay Bills," No. 13, 89th Congress, 1st Session.

TABLE 4-3

MODIFICATIONS TO BASIC PAY TABLE SINCE 1949

Year	Incremental % Increase	Cumulative % Increase	Comments
1952	4.0%	4.0%	Across the board increase
1955	10.0	14.4	No increase for under 2, emphasis on lower grades
1958	8.3	23.9	No increase under 2, larger increase for higher grades, established new grades, reduced influence of longevity
1963	14.2	41.5	No increase under 2, emphasis on career decision points
1964	2.3	44.8	No increase for Enlisted Men under 2 8½% increase for Officers under 2 (2.5% increase for Officer and Enlisted men over 2)
1965	10.4	59.9	Under 2 officers increase averaged 22% Under 2 enlisted increase averaged 17.3% Over 2 enlisted increase was 11% Over 2 officers increase was 6%
1966	3.2	65.0	Across the board increase
1967	5.6	74.2	Across the board increase proposed

pay inequities so as to improve the member's awareness of his pay and relate it more closely to the work he does. But this is not enough. Even a fully recognized and equitably distributed pay will be fully effective in attracting, retaining, and motivating career personnel only when it can be demonstrated to all concerned--and especially to recipients--that the total level of pay is appropriate. This requires a quantitative standard for pay that is simple, straightforward, readily visible, and credible to all.

Few people in any system will ever be fully satisfied with the amount of their pay. But this is not the function of a pay standard. Rather, an explicit quantitative pay standard--one that applies not just to the total system but to each pay grade in the system--can assure both managers and recipients that military pay is set and kept on a par with the pay of counterparts in other employment. The basic confidence in the system's fairness that comes from being able to see the announced principle of comparability translated fully into dollars across the pay table is essential to maximizing the system's effectiveness.

Two different quantitative standards for career military pay were developed completely independently of each other during the study. Both were considered in detail by the Policy Board. Both produce about the same results, but their concepts and methods differ widely.

The first standard, called the "Cohort" standard, used the same conceptual approach embodied in the Federal wage board surveys. It is based on estimating the civilian earning opportunities of military personnel. It measures the earnings of a group of civilians (the cohort) who share with the people in a particular military grade a specified set of pay-related characteristics. It asks, "What is the best estimate of what the military personnel in each grade would have been earning had they gone into a civilian career?" The answer--what people like them are now earning in the civilian economy--is used as the standard for military pay.

The second standard, called the "Work Level" standard, is adapted from the Federal Comparability Process used to set General Schedule and other Federal civilian salary rates. It asks, "What is the best estimate of what the military personnel in each grade would be paid for the work they do if they were being paid under the Classification Act salary schedule?" The answer--what Federal civilians are paid for the same levels of work--is used as the standard for military pay.

The Cohort Standard

The first standard rests on a chain of logic that runs as follows:

(1) Although comparability of salary should be based on comparability in the value of services rendered (work done), it is impracticable to

compare military to civilian work.

(2) Nonetheless, we need some quantitative standard for measuring the comparability of military to civilian pay.

(3) Therefore, use as a standard what a group of civilian veterans with the same pay-related characteristics is now making. This is the best estimate of what the military careerists would have been earning on the civilian economy had they not stayed in the military.

The Cohort approach proceeds from a judgment that since it is impracticable to pay the careerist comparably for the work he does because of its peculiar military nature, he should be paid comparably for what he could have done (earned) as a civilian. This position is consistent with the view that the military is so different from the rest of society as to be incomparable in similar terms. There are no markets on which to read the going wages of battalion commanders, squadron commanders, or destroyer captains. Applying this judgment by extension to the rest of the military career force, the Cohort standard promises military careerists that they can expect to do as well on the average over a career in the military as in civilian employment. It provides a rational method for deriving a quantitative standard for military pay by avoiding rather than solving the problem of comparing military to nonmilitary work.

The actual computation of the Cohort standard begins by identifying a group of civilians who share with the active duty military population in each pay grade a specified set of pay-related characteristics: age, sex, race, civilian educational level, and military occupational qualification.

The civilian occupational alternatives of military personnel are then estimated by analyzing the civilian occupations of the cohort, based on the records of 280,000 reservists who had spent more than two years on active duty.[1] This gives the best available (and only quantitative) estimate of how former military personnel are distributed across various civilian occupations. For example, it discloses that of former Army automotive mechanics, 20% are civilian auto mechanics, 12% are civilian construction equipment operators, 8% are civilian drivers, etc. These are then assumed to be, on the average, the same civilian job opportunities open to active duty Army auto mechanics. This same analysis is performed for each of 409 officer and enlisted specialties to get a total picture of the most likely civilian

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[1] The two-year cutoff was taken to eliminate the influence of draftees who, presumably, seldom consider the military as a real career choice.

occupational alternatives of active duty military personnel. Table 4-4 summarizes the results of this analysis by major Bureau of Census Occupational Group.[1]

Earnings of civilians with the specified characteristics in each civilian occupation are then compiled from Bureau of Census data. This produces an estimate of the average earnings of civilians who have the same education and years of work experience (age) as the occupants of each military grade in each of the 409 military specialties. For example, this discloses that, on the average, full time employed male high school graduate civilian auto mechanics age 25-34 make $6,121 per year, equipment operators $6,765 per year, drivers $7,169 per year, etc.

These civilian earnings results for each occupation are then weighted by the estimated civilian occupational alternatives of people in each military specialty. This step produces the average civilian earnings opportunities for men in each specialty at the age and years of service points represented by each pay grade. For example, in the Army automotive mechanics specialty, the average civilian earnings opportunities of E-5's (the earnings of civilians with the same characteristics as E-5's--average age 28, average years of service 9) is $6,277 per year. For E-6's this value is $6,824 per year, for E-7's it is $7,053 per year, etc.

Combining these results for each pay grade across all the 409 military occupations produces an estimate of the average civilian earnings opportunities DOD-wide of each enlisted and officer pay grade. This total DOD-wide average is the military salary required for each pay grade to make military salaries fully comparable to the average civilian earnings opportunities of the military people in that pay grade.[2]

These "full comparability" salaries were then adjusted downward at each grade to reflect the lag of General Schedule and other Federal

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[1] The major finding of this study (Appendix IV, "Military-Civilian Occupational Alternatives") is that except in a few highly technical skills a minority of servicemen go into a job directly or closely related to their military occupation. Therefore, in estimating civilian alternative earnings opportunities it would be misleading to compare earnings of military auto mechanics to earnings of only civilian auto mechanics; these are not the most likely civilian job opportunities for most military auto mechanics. Although only the 10 major Census groups are shown in Table 4-4, the detailed analysis used 88 occupations within those 10 major groups. Cf. Appendix IV.

[2] Appendix V explains the Cohort method in detail.

TABLE 4-4

PERCENTAGE DISTRIBUTION OF CIVILIAN OCCUPATIONAL ALTERNATIVES BY MAJOR BUREAU OF CENSUS CATEGORIES

(280,000 Ready Reservists, 30 June 1965)

	OFFICER (White and Non-white)				ENLISTED (White and Non-white)			
	ARMY	NAVY	USMC	USAF	ARMY	NAVY	USMC	USAF
Professional Technical								
W	52%	67%	54%	51%	9%	18%	6%	7%
NW	59	72	80	66	7	15	5	6
Farm								
W	1	0	1	2	4	1	4	1
NW	0	0	0	0	2	0	1	0
Managers								
W	20	22	21	21	4	5	4	5
NW	11	19	3	10	2	3	2	2
Clerical								
W	7	1	4	6	14	11	13	16
NW	17	0	3	8	16	16	18	24
Sales								
W	11	8	16	10	7	6	6	7
NW	4	7	10	6	3	3	3	4
Craftsmen								
W	5	1	2	7	33	38	33	38
NW	3	0	0	7	27	32	16	26
Operatives								
W	1	0	0	1	20	13	19	17
NW	2	0	0	0	22	17	16	20
Household								
W	0	0	0	0	0	0	0	0
NW	0	0	0	0	0	0	0	0
Service								
W	2	1	1	2	4	5	8	4
NW	4	1	3	3	13	9	15	10
Laborers								
W	0	0	0	0	5	5	8	5
NW	1	0	0	0	7	4	9	8

NOTE: Totals may not add precisely to 100% because of rounding.

civilian salaries behind full private enterprise comparability.[1] This adjustment produced military salary rates that would be on a par with Federal civilian salaries as of 1 October 1967. An analysis of these "parity" salaries against the 1 October 1967 average regular compensation rates (after adding the recommended military retirement contribution) is shown in Table 4-5. By this standard there exists as of 1 October 1967 a net salary lag in the career force of some $925 million. This represents an overall lag of 6.9%, since annual career regular military compensation plus imputed retirement contribution at 1 October 1967 proposed rates equals approximately $12.6 billion.

The Work Level Standard

The second, or Work Level, standard proceeds from a judgment opposite to that of the Cohort standard as to the feasibility of making meaningful comparisons between military and civilian work. The logic of the Cohort standard says that such comparisons are not feasible; the logic of the Work Level standard rejects this assertion and runs as follows:

(1) It is true that there are some military jobs where meaningful work comparisons with civilian jobs are impracticable and that there are certain unique elements of military service (e.g., military discipline, no standard workweek, operational deployment, etc.) that affect all military jobs to some degree. Still, the technological and administrative modernization of military forces has created a wide range of military work that closely parallels civilian work. Typists, truck drivers, plumbers, auditors, comptrollers, physicists, lawyers, and many others do very much the same thing much of the time in the two systems. This is especially true in that part of the military force found outside combat and combat support units.

(2) The military's own occupational classification systems of necessity have integrated into a unified personnel structure the work and pay relationships of "purely military" functions and those that can be meaningfully evaluated by civilian work standards.

(3) Therefore, it is not necessary to measure the work of all military jobs by civilian standards to extend the principle of equal pay for equal work from the civilian grade structure into the military grade structure. All that is required is that those military jobs that can be measured adequately by civilian job evaluation techniques be evaluated. Then, the military's own occupational classification systems can be used to extend these results into the purely or predominately military part of the personnel structure.

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[1] See Table 4-8.

TABLE 4-5

MILITARY CAREER FORCE LAG BEHIND COHORT PARITY

Pay Grade	Average Salary Required for Parity with Cohort	Adjusted Average 1 October 1967 Military Salary[1]	Difference $	Difference %	Amount of Lag ($ Million)
0-10	$40,138	$35,614	$4,524	11.3%	$ 0.2
0-9	34,602	31,070	3,532	10.2	0.4
0-8	29,324	27,151	2,173	7.4	1.1
0-7	28,559	23,562	4,997	17.5	3.3
0-6	24,287	19,724	4,563	18.8	78.3
0-5	19,759	16,670	3,089	15.6	127.4
0-4	15,201	13,736	1,465	9.6	101.7
0-3	11,188	11,403	-215	-1.9	-23.8
0-2	8,353	8,852	-499	-6.0	-29.4
0-1	7,700	6,615	1,085	14.1	78.1
Comm Off	$12,435	$11,528	$ 907	7.3%	$337.3
W-4	$15,473	$12,904	$2,569	16.6%	$ 10.8
W-3	11,836	10,887	949	8.0	3.3
W-2	10,151	9,310	841	8.3	6.2
W-1	8,459	8,217	242	2.9	2.4
Warr Off	$10,595	$ 9,694	$ 901	8.5%	$ 22.7
All Off	$12,319	$11,412	$ 907	7.4%	$360.0
E-9	$12,050	$10,633	$1,417	11.8%	$ 23.2
E-8	9,670	9,301	369	3.8	15.7
E-7	8,112	8,191	-79	-1.0	-11.4
E-6	7,271	7,134	137	1.9	38.5
E-5	6,552	5,918	634	9.7	318.1
E-4	5,830	5,123	707	12.1	181.0
Career EM	$ 6,927	$ 6,472	$ 455	6.6%	$565.1
			TOTAL		$925.1

[1] Proposed 1 October 1967 regular military compensation rates adjusted to reflect imputed retirement credit of 6½% of salary, where salary equals regular military compensation plus retirement contribution (salary = regular military compensation/.935).

In summary, the logic of the Work Level standard says that by military-to-civilian comparisons of some jobs and military-to-military comparison of others, careerists can be paid comparably to civilians on the basis of the general level of work they actually do. While this may not have been possible in the traditional cadre-type forces of an earlier time because most skills were uniquely military, it is possible and practical in today's modern military forces.

The Work Level standard uses a large and widely accepted body of official Classification Act and Wage Board job evaluation standards and techniques. These cover some 18 work levels in over 1200 occupations. They are used as the basis for job classification actions throughout the Federal Government and are consonant with standards widely used in private industry. They constitute an independently derived, reasonably objective basis for evaluating the work content of many military jobs normally associated with a given pay grade. The evaluation results[1] permit direct comparisons with results obtained in other Federal salary systems.

This is the technique used to link the Foreign Service and Postal Field Service structures to the Classification Act structure on the civilian side of the Government. Rates for the Classification Act are in turn linked to private sector salary rates by the annual Bureau of Labor Statistics survey of private sector salaries conducted for this specific purpose.

The first step in the Work Level approach is the application of civilian job evaluation standards to military jobs at selected grades. A team of Budget Bureau and civil service staff analysts assisted by DOD civilian and military personnel examined a wide range of detailed military job descriptions, both officer and enlisted. These were evaluated as to work level by applying to them the classification standards used in the Classification Act and Wage Board structures.

For example, the detailed position description of Deputy Comptroller of the Navy, an O-8 billet, was evaluated in accord with criteria contained in the Civil Service Commission's guide for the evaluation of Government supergrade (GS-16 and above) positions. This guide uses three broad factors as the basis of the evaluation: (1) Scope, Impact and Characteristics of the Program with which the position is associated, (2) Organizational Setting and Role of the Position, and (3) Level of Responsibility and Authority Exercised by the Incumbent.

Each of these factors is further subdivided into more specific job elements. For example, the factor of Level of Responsibility and

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[1] Point scores, scale values, job grades, etc., depending on the particular job analysis technique employed.

Authority Exercised by the Incumbent is divided into two elements: (1) responsibility for plans, policies, and program goals and (2) person-to-person work relationships.

Within each of these elements, three to five "degrees" are established corresponding in concept to a range from high through medium to low. Each degree is assigned a specific point value. For example, under the element of "responsibility for plans, policies, and program goals" three degrees are used: "a" for high, "c" for medium, and "e" for low. Degree "a" is assigned a value of 20 points, degree "c" a value of 18 points, and degree "e" a value of 15 points. Similar subdivision into elements and assignment of standardized point values for the various degrees of each element are spelled out for the other evaluation factors. The published standards include detailed descriptions and examples for each of the elements and characteristics being evaluated to guide the job analyst in his review.

The position of Deputy Comptroller of the Navy was awarded the following point scores by the job analysts conducting the evaluation:

- Scope, Impact and Characteristics of Program: 30 points

  (scope and impact - 20 points)
  (technical complexity - 10 points)

- Organizational Setting and Role of the Position: 35 points

  (organizational setting - 25 points)
  (role of the position - 10 points)

- Responsibility and Authority Exercised by the Incumbent: 38 points

  (responsibility for plans, policies and program goals - 18 points)

  (person-to-person work relationships - 20 points)

- Total point score: 103 points

Existing GS-18 civilian positions score between 93.26 and 107.35 on this same scale. Therefore, the total point score of 103 means that if the Deputy Comptroller of the Navy were getting paid for his work under the Classification Act salary schedule he would be paid as a GS-18.

When a large number of the positions at a given grade are classified by this and other standard job evaluation procedures

and the results show a pronounced central tendency to one Classification Act grade, the possibility of a grade-to-grade linkage exists. A specific grade-to-grade linkage does not mean that there is a one-for-one work level correspondence between all of the positions encompassed by the two grades in the two systems. Because the work spans of grades differ among salary systems and because the assignment of grades to positions is less than perfect in both systems, it is to be expected that there will be some dispersion in the job evaluation results. Such dispersion exists in the linkages of other Federal salary systems and does not impair the validity of the linkage results. A valid linkage can be established so long as a clear preponderance of the classification results in one system correspond to a single grade in the other system. Confidence in the validity of the linkage is increased if any dispersion of job evaluation results is reasonably distributed on either side of the linked grade result.

The group found that valid linkage points could be established on the basis of work level equivalency between military pay grade O-8 and General Schedule grade 18, between military pay grade O-1 and General Schedule grade 7, and between military pay grade E-3 and a combination of General Schedule grade 3 for "white collar" jobs and Wage Board grade 5 for the "blue collar" jobs. Results of the job evaluations at these grades are summarized in Table 4-6.

The second step is to derive the appropriate intergrade pay distinctions between these linked grades by analyzing the work relationships among military grades. These are based on an analysis of the chain of command that underlies military organization and its influence on the work spans encompassed by the various military grades. Results of this work span analysis are summarized in Chart 4-1.

In the area of overlap that exists between the senior enlisted grades and the junior officer grades the study determined that pay grades E-8 and O-2 showed a close enough work level correspondence to be effectively linked for pay purposes. Appendix VI contains a detailed discussion of the Work Level approach.

Based on these findings two military paylines[1] were drawn from the Work Level standard, one to correspond to full private enterprise comparability and one to match the civil service payline as of 1 October 1967, which is overall some 7.2% short of full comparability. These paylines were expanded into the career salary pay tables[2] needed to place military salaries on a par with civil service. Comparison of

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[1] A rate of pay for each military career pay grade used to make pay distinctions among grades.

[2] On the basis of pay table rules discussed in Chapter 5.

CHART 4-1

MILITARY-CIVIL SERVICE WORK SPAN COMPARISONS

Military Officer	Civil Service General Schedule
O-8	GS-18
O-7	GS-17
O-6	GS-16
	GS-15
O-5	GS-14
O-4	GS-13
O-3	GS-12
	GS-11
O-2	GS-9
O-1	GS-7

TABLE 4-6

MILITARY-CIVIL SERVICE GRADE LINKAGES

Pay Grade O-8 linked to GS-18: (72% at GS-18 or higher)

GS Grade	GS-16	GS-17	GS-18	Higher than GS-18
No. of O-8 Positions:	8	34	85	24
Percentage of Positions:	5%	23%	56%	16%

Pay Grade O-1 linked to GS-7: (90% at GS-7)

	Percentage of Total O-1 Accessions	Meets Standards For Classification Act Grade:
Service Academies	5%	GS-7
ROTC	45	GS-7
OCS/OTS	26	GS-7
Temporary Commissioning	7	GS-7
Aviation Officer Training	7	GS-7
TOTAL	90%	GS-7

Pay Grade E-3 linked to GS-3 (white collar) and WB-5 (blue collar): (82% of the specialties at GS-3 or WB-5)

GS Grade	GS-3	GS-4	GS-5	GS-6
No. of E-3 (white collar) specialties	22	0	7	2
Per Cent of specialties[1]	71%	-	23%	6%

WB Grade	WB-5	WB-6
No. of E-3 (blue collar) specialties	36	4
Per Cent of specialties[1]	90%	10%

[1] The percentage of the total E-3 population covered by these specialties was 84.5%; 74.9% of the total E-3 population is represented by specialties at the linked grades.

these salaries to regular compensation proposed in the 1967 Military Pay Act (adjusted to include the recommended vested retirement contribution) shows in Table 4-7 a net difference of $824.3 million. This represents an overall lag of 6.2% between military career force and Federal civilian salaries as of 1 October 1967.

Comparison of the Two Standards

Both standards show about the same total lag because they produce much the same paylines, as shown in Table 4-8. These independently derived results lend confidence in the total result, but leave unanswered the question of which standard is most appropriate.

This question should hinge on how well the standard chosen permits one to measure the attainment of the two pay policy objectives inherent in the comparability principle: (1) equal pay for equal work between the military and the private sector, and (2) pay distinctions in keeping with work distinctions inside the military itself. The first objective seeks external equity between pay systems; the second seeks internal equity within the pay system. Both are important to establishing the maximum credibility of pay.

The extensive coverage of the Cohort standard and the massive averaging required to reduce its results to a single payline make it a good method for setting the general envelope of pay comparability. Its comprehensive coverage of the civilian labor force insures against any artificial inflation of the payline rates that might be caused by making comparisons to a nonrepresentative part of the civilian labor force. Any bias is suppressed by the method's reliance on the actual civilian employment distributions of former military people and on measures of average earnings derived from complete labor force coverage.

But the very characteristics that make it so good as a measure of overall comparability make the Cohort standard a poor vehicle for drawing internal pay distinctions among grades. Intergrade pay differentials derived by the Cohort approach will reflect the net average result of all the forces at work on earnings in the civilian economy. These will not necessarily correspond to internal work distinctions among military grades.

The Work Level standard, because it treats specifically the question of work spans among grades as part of the basic analysis from which the payline is drawn, is a much better tool for drawing the kinds of internal pay distinctions that will correspond to military organizational relationships.

But the Work Level standard appears to be less well suited than the Cohort for establishing the general range of pay comparability with

TABLE 4-7

MILITARY CAREER FORCE LAG BEHIND CIVIL SERVICE

1 OCTOBER 1967 SALARIES

Pay Grade	Average Salary Required for Parity with Civil Service	Adjusted Average 1 October 1967 Military Salary[1]	Difference $	Difference %	Total FY 1968 Amount of Lag ($ Million)
O-10	$33,791	$35,614	$-1,823	-5.4%	$ -0.1
O-9	30,144	31.070	-926	-3.1	-0.1
O-8	27,055	27,151	-96	-0.4	-0.1
O-7	25,356	23,562	1,794	7.1	1.2
O-6	22,387	19,724	2,663	11.9	45.7
O-5	18,709	16,670	2,039	10.9	84.1
O-4	14,858	13,736	1,122	7.6	77.9
O-3	11,737	11,403	334	2.8	37.0
O-2	9,327	8,852	475	5.1	28.0
O-1	7,548	6,615	933	12.4	67.2
Comm Off	$12,444	$11,528	$ 916	7.4%	$340.8
W-4	$15,126	$12,904	$ 2,222	14.7%	$ 9.3
W-3	12,431	10,887	1,544	12.4	5.4
W-2	10,029	9,310	719	7.2	5.3
W-1	8,406	8,217	189	2.2	1.9
Warr Off	$10,568	$ 9,694	$ 874	8.3%	$ 21.9
All Off	$12,325	$11,412	$ 913	7.4%	$362.7
E-9	$11,330	$10,633	$ 697	6.2%	$ 11.4
E-8	9,432	9,301	131	1.4	5.6
E-7	8,219	8,191	28	0.3	4.1
E-6	7,242	7,134	108	1.5	30.4
E-5	6,356	5,918	438	6.9	220.3
E-4	5,865	5,123	742	12.7	189.8
Career EM	$ 6,843	$ 6,472	$ 371	5.4%	$461.6
			TOTAL		$824.3

[1] Adjusted to reflect imputed retirement credit of 6½% of military salary.

TABLE 4-8

RESULTS OF THE TWO STANDARDS

(Annual Rates)

	Military Paylines Required to Attain:			
	Full Comparability[1]		Civil Service Parity[2]	
Pay Grade	Cohort	Work Level	Cohort	Work Level
0-8	$39,395	$34,940	$32,225	$27,055
0-7	32,558	29,370	28,195	25,434
0-6	26,256	24,175	23,762	21,878
0-5	20,674	19,575	19,206	18,107
0-4	16,005	15,645	14,853	14,519
0-3	11,802	12,380	11,106	11,650
0-2	8,696	9,710	8,287	9,254
0-1	7,704	7,555	7,557	7,409
E-9	12,444	11,700	11,760	11,057
E-8	9,955	9,710	9,487	9,254
E-7	8,296	8,265	8,138	8,108
E-6	7,214	7,185	7,171	7,142
E-5	6,551	6,360	6,545	6,360
E-4	5,641	5,700	5,641	5,700

NOTE: Rates apply at the payline longevity step in each grade. Average salaries used in Tables 4-5 and 4-7 differ from these payline rates because of the distribution of personnel around the payline step within any given pay grade.

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[1] Rates Required to make military salaries fully comparable to 1966 private enterprise rates.

[2] Rates required to make military salaries as near full comparability in each grade as are Civil Service salaries recommended by President for 1 October 1967.

the private sector. The major drawback of the Work Level approach is its dependence on the linkage of a few military and Classification Act grades to locate the payline. As shown in Table 4-6, this linkage is based on the presence of a clear central tendency of job evaluation results rather than on precise mathematical averages. The linkages determine the overall location of the entire payline; if one linkage is wrong, then not only that grade but also much of the entire payline will be out of place.

Standing alone, it is quite possible that neither method would have been persuasive and precise enough to warrant recommending its adoption as a standard for military pay. However, the combined evidence of the two independent approaches persuaded the Policy Board that the magnitude and general location of the payline produced by the Work Level standard was reasonable. The total amount of the lag behind civil service parity shown by this standard was some $100 million less than that shown by the Cohort standard. The linked grades showed slightly lower payline rates under the Work Level than under the Cohort approach. This reassured the Board that the overall comparability results of the Work Level approach were not unduly high, thereby reinforcing the Board's confidence in the linkage results, which it already believed to be sound.

Having concluded that the general location and shape of either payline would be proper to establish a reasonable measure of comparability to the private sector, the Board next weighed each standard against the very important consideration of its impact on the internal equity of the pay system. Here the Work Level standard, with its explicit and detailed treatment of internal work distinctions, was judged to be clearly superior to the Cohort standard with its reliance on gross economy-wide averages. Intergrade differences in the Cohort standard reflect the results of the total labor market, while intergrade differences in the Work Level standard reflect the explicit internal work relationships among military grades.

A further important consideration was that the application of the same process by the same employer to setting both military and civilian pay should go far toward attaining the overriding objective of having a quantitative standard: pay system credibility. A new and different standard for military pay would be suspect from the outset and would require extensive explanation and defense. Inevitably its results would be compared to those of the standard used in other Federal salary systems and reasons would have to be adduced for any differences. Questions about different pay treatment of military and civilian employees would continue. On balance, the Work Level standard promises to get better, faster, and more widespread acceptance among military career members, military managers, other Government officials, Congressmen, and citizens in general. Adopting it, therefore, will do more to establish the overall credibility of the military pay system and will establish it faster than would adopting the Cohort approach.

The Recommended Pay Standard

FINDING 14. The Work Level standard based on the application of the Federal Comparability Process to the military grade structure is the appropriate quantitative standard for measuring the comparability of military to civilian salaries.

RECOMMENDATION 12. That the Work Level standard derived from applying the Federal Comparability Process to the military grade structure and linking pay grades O-8 to GS-18, O-1 to GS-7, and E-3 to GS-3 and WB-5 be adopted as the quantitative standard for measuring the comparability of military salary rates to Federal Classification Act salary rates and, through them, to private enterprise salary rates.

The yearly survey of private sector salaries and wages conducted by the Bureau of Labor Statistics provides a vehicle for deriving precise measures of the changes required in Federal salaries at each grade to keep them abreast of private enterprise rates. This will provide the guidance, now missing, on how to use most effectively future military pay raises. At the same time it should go far to establish credibility on the part of recipients in their pay. They will for the first time know exactly how their pay is set and adjusted.

The President in his 5 April 1967 pay message has committed the Government to a policy of bringing civil service salaries to full comparability with private enterprise salaries during 1969. This same message indicates that as civilian pay goes up, so must military pay. Military career force salaries should be brought to parity with civil service salaries in 1968 and then to full comparability with private enterprise salaries in parallel with Federal civilian salaries. The credibility of pay so established, plus the visibility attained from recommendations contained in Chapter 3, will assure that the Government realizes the maximum retention and motivation return from its future compensation dollars.

CHAPTER 5

THE CAREER SALARY TABLE

The recommended quantitative standard for pay produces a payline incorporating a single salary rate for each grade. A salary table is constructed by applying in-grade salary increments to these payline rates. This chapter presents the Policy Board's findings and recommendations on the construction of a career salary table.

Longevity vs. Step in Grade

The first decision to be made is whether in-grade salary increments are to depend on (1) total time creditable in the pay system, regardless of the pay grade in which that time was accumulated (a longevity system), or (2) only time credited in the present pay grade (a step-in-grade system). After considering the two alternatives the Policy Board concluded that:

FINDING 15. Total service creditable for pay purposes (longevity) is the proper basis for in-grade salary increments under current and projected military personnel management practices.

In-grade salary increases in the military system are designed to reward: (1) the growth in the individual's productivity that comes with added experience; and (2) long and faithful service, especially as an incentive to continued service for those who, through no fault of their own, face limited promotion prospects.

In a personnel system operating on an "in-at-the-bottom, up-through-the-ranks" promotion philosophy with phased promotion consideration based largely on years of service, total longevity and longevity in grade will be closely related. In fact, if everyone in the system

- entered at the bottom of his pay category (E-1, W-1, O-1),
- got promoted at the same time, and
- never changed pay categories,

then either longevity or step-in-grade salary increments would generate approximately the same rewards for added experience, productivity, and long and faithful service.

The vast majority of people enter at the bottom of and serve their career within one of the three grade categories (enlisted, warrant officer, officer) in the military system. Although all are paid from

the same pay table, all are not promoted at the same point in their careers. Therefore, longevity and step-in-grade salary increments will produce substantially different pay results.

In choosing between the two patterns, reasons for differences in promotion times become crucial. A step-in-grade pattern would be preferred if most differences in promotion times reflected differences in individual abilities. A longevity pattern will better attain the objectives of in-grade salary increments if most differences in promotion times reflect differences in promotion opportunities.

Table 5-1 displays the differences in longevity by pay grade among the four military services as of 30 June 1966. These interservice differences are caused more by differences in promotion opportunity than by differences in individual merit. Differences in the promotion opportunities available in each of the services are caused by (1) differences in missions, force structure and occupational mix; (2) differences in force stability, gains and losses; and (3) differences in force management policies.[1]

When wide differences in promotion times are caused by factors other than individual ability, the fundamental argument for a step-in-grade pay table--superior reward for superior merit and performance--loses its relevance. Even under a longevity pay structure, those who are promoted early will be paid more over a full career than those who are promoted later. However, in a longevity structure the late promotee with equal total pay service "catches up" in current monthly pay to the early promotee. Because most of the differences in timing of promotions stem from influences other than the superior individual ability of those promoted earlier, the catch-up feature of a longevity table applicable to all services is a positive advantage. Therefore, considerations of the pay system's internal equity favor strongly the adoption of a longevity pattern for the in-grade military salary increments.

The system pays a price for this kind of equity. The differential reward to those within a service who are promoted early because of their individual merit is smaller in a longevity table than it would be in a step-in-grade table. However, there still is a reward: receiving the pay of the higher grade earlier than those not promoted. Thus, this reduced reward effect is not a compelling argument against a longevity table.

A second consideration in choosing the basis for in-grade increases is the influence of time in service vs. time in grade on individual

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[1] See Appendix VII, "Differences in Promotion Opportunity Among Services."

TABLE 5-1

AVERAGE YEARS OF SERVICE FOR PAY

(As of 30 June 1966)

Pay Grade	Army	Navy	Marine Corps	Air Force
0-10	34.4	35+	35+	30.3
0-9	33.4	34.7	33.9	30.0
0-8	31.4	33.9	31.8	28.5
0-7	28.2	29.7	28.5	26.7
0-6	26.5	25.1	25.3	25.0
0-5	24.1	20.9	22.9	23.5
0-4	15.6	14.5	17.3	19.2
0-3	7.3	6.3	9.1	6.8
0-2	2.5	2.8	4.5	3.4
0-1	2.5	1.2	3.2	3.8
W-4	24.3	26.8	27.2	24.2
W-3	19.9	24.0	23.9	23.0
W-2	14.6	22.0	18.1	20.4
W-1	7.6	13.9	16.2	--
E-9	22.1	22.1	24.3	22.2
E-8	21.7	20.0	20.9	20.7
E-7	17.6	17.3	18.0	18.6
E-6	13.9	12.5	13.9	15.6
E-5	7.2	7.7	8.1	12.1
E-4	6.7	7.0	5.0	4.6

productivity in a particular grade. The "in-at-the-bottom, up-through-the-ranks" feature of military personnel management derives from a concept that to be a competent professional at the higher grades one must have accumulated a reasonable amount of experience at the lower grades. One does not "start all over" when one is promoted in a military system. Rather, promotion marks the continued professional development of the individual as he progresses to higher levels of responsibility.[1]

Total experience in the service is likely to contribute more to an individual's productivity in higher grades in the military system than might be the case in some other personnel systems. Thus, the longevity pattern is favored over the step-in-grade pattern on these grounds as well. Moreover, there is no need in the military system for the in-hiring flexibility at each grade that is provided by step-in-grade differences.

These considerations led to the Policy Board's next recommendations.

RECOMMENDATION 13. That the longevity structure be retained as the basis for in-grade salary increases in the military salary system.

The logic of using longevity for in-grade increases implies that only time actually served in the system should be counted for pay purposes. The basic rationale of a longevity pay structure is violated by granting constructive service to certain groups as a device to increase their pay. Needs for extra pay incentives should be handled by other means such as special pays aimed directly at the retention problems identified.[2]

RECOMMENDATION 14. That existing categories of constructive longevity credit awards be retained, but that no new categories be established.

Location of Payline Step

The recommended salary standard produces a payline expressed as one salary rate for each pay grade. This rate establishes the basic pattern of intergrade salary distinctions. In a longevity salary table the payline step rate should be located in the center of the longevity distribution for each pay grade. A step so located will have the same meaning at each grade and will assure proper pay distinctions among grades.

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[1] While this same characteristic is found in other personnel systems, it is seldom as rigidly institutionalized as it is in the military. For example, in most step-in-grade systems there will be in each grade some people who have been in-hired at the grade in which serving and who have no experience in the lower grades of the system.

[2] See Chapter 6.

The specific step that best serves this purpose while at the same time avoiding the undue influence of temporary longevity extremes (e.g., "humps" caused by unusual personnel turbulence in past years) is the average of total active Federal military service for the middle half of the people serving in that pay grade. Using the 30 June 1966 force distribution as that representative of a reasonably stable force, payline steps were derived as indicated in Table 5-2.

The Longevity Pattern

FINDING 16. Minor structural reforms in the existing longevity pay table are required to conform career pay progression more closely to normal career promotion progression.

The present basic pay table is the result of seven increases since it was last designed by the Hook Commission and enacted in modified form by the Congress in the Career Compensation Act of 1949. As displayed in Table 4-3, these adjustments have been made in different ways. The present table produces an erratic pay progression for the normal career progression, as illustrated in Table 5-3. In some cases (e.g., on promotion from O-3 to O-4) longevity increases exceed the increase realized on promotion to the next higher grade.

RECOMMENDATION 15. That in-grade longevity increases be regularized to correspond to normal military career progression, with promotion to the next higher grade always being rewarded more than the accumulation of additional longevity in grade.

In-grade differentials at 3% of the payline step in the officer grades and 2% of the payline step in the enlisted grades best serve this purpose. The 3% differential in officer grades corresponds closely to the in-grade differentials in other Federal salary systems. The smaller longevity increases recommended in the enlisted grades reflect principally the rapid promotion through the first few enlisted pay grades and the resulting smaller number of promotions available to career enlisted personnel. This causes them to spend a longer average time in a given pay grade than do officers.

As shown in Table 5-4, the 2% longevity increment is required in the enlisted grades to assure that promotion increases always exceed longevity increases. Table 5-5 shows that the smaller longevity increments do not penalize the "due course" enlisted man with respect to total career earnings. With the 2% steps he earns a little more before the payline step and a little less after the payline step than he would with 3% steps, but the two influences balance out over a typical career progression.

The addition of a longevity step in the pay table at the over one year of service point is needed to provide a more rapid pay progression

TABLE 5-2

LOCATION OF PAYLINE STEPS

(Average Active Federal Military Service
by Pay Grade as of 30 June 1966)

Pay Grade	Payline Step
0-10	Over 34
0-9	Over 31
0-8	Over 28[a]
0-7	Over 26
0-6	Over 24
0-5	Over 20
0-4	Over 14
0-3	Over 8[a]
0-2	Over 3[a]
0-1	Over 1
W-4	Over 24
W-3	Over 20
W-2	Over 14
W-1	Over 10
E-9	Over 20
E-8	Over 18
E-7	Over 16
E-6	Over 12
E-5	Over 8
E-4	Over 3

[a] Adjusted from actual averages of 30.4 years for 0-8, 7.8 years for 0-3, and 2.8 years for 0-2 to achieve a regularized placement of payline steps within longevity structure and to assure smooth pay progression for the typical career officer.

TABLE 5-3

BASIC PAY PROGRESSION OF DUE COURSE OFFICERS AND ENLISTED MEN

UNDER 1 JULY 1966 BASIC PAY TABLE

OFFICER

Years of Service for Pay	Pay Grade	Monthly Basic Pay	Per Cent Increase
Under 2	0-1	$ 304	-- %
Promotion	0-2	354	16.4
Over 2	0-2	420	18.6
Over 3	0-2	505	20.2
Over 4	0-2	521	3.2
Promotion	0-3	583	11.9
Over 6	0-3	611	4.8
Over 8	0-3	633	3.6
Over 10	0-3	667	5.4
Promotion	0-4	701	5.1
Over 12	0-4	740	5.6
Over 14	0-4	774	4.6
Over 16	0-4	807	4.3
Promotion	0-5	880	9.0
Over 18	0-5	931	5.8
Over 20	0-5	959	3.0
Promotion	0-6	1,060	10.5
Over 22	0-6	1,121	5.8
Over 26	0-6	1,217	8.6

ENLISTED

Years of Service for Pay	Pay Grade	Monthly Basic Pay	Per Cent Increase
Under 4 mo	E-1	$ 91	-- %
Under 2	E-1	97	6.6
Under 2	E-2	101	4.1
Under 2	E-3	122	20.8
Over 2	E-3	170	39.3
Promotion	E-4	212	24.7
Over 3	E-4	223	5.2
Over 4	E-4	241	8.1
Promotion	E-5	270	12.0
Over 6	E-5	288	6.7
Over 8	E-5	299	3.8
Over 10	E-5	311	4.0
Promotion	E-6	341	9.6
Over 12	E-6	358	5.0
Over 14	E-6	370	3.4
Promotion	E-7	411	11.1
Over 16	E-7	423	2.9
Promotion	E-8	476	12.5
Over 18	E-8	487	2.3
Over 20	E-8	499	2.5
Promotion	E-9	569	14.0
Over 22	E-9	599	5.3
Over 26	E-9	657	9.7

TABLE 5-4

INFLUENCE OF LONGEVITY STEP SIZE ON PROMOTION INCREASE

(Example: E-4 to E-5, Annual Rates)

Years of Service for Pay	3% Longevity Step[1]			2% Longevity Step[2]		
	E-4 Salary	E-5 Salary	Intergrade Difference	E-4 Salary	E-5 Salary	Intergrade Difference
Over 2	$5,529	$5,592	$ 63	$5,586	$5,847	$261
Over 3	5,700	5,783	83	5,700	5,974	274
Over 4	5,871	5,974	103	5,814	6,101	287
Over 6	6,042	6,164	122	5,928	6,228	300
Over 8	6,213	6,355	142	6,042	6,355	313
Over 10	6,384	6,546	162	6,156	6,482	326
Over 12	6,384	6,736	352	6,156	6,609	453

Conclusion: 2% Longevity Steps required to make promotion increases bigger than longevity increases.

[1] E-4, $131; E-5, $191

[2] E-4, $114; E-5, $127

TABLE 5-5

ENLISTED PROMOTION FLOW EARNINGS
UNDER DIFFERENT LONGEVITY STEP SIZES

Years of Service for Pay	Pay Grade	2% Longevity Increment		3% Longevity Increment	
		Annual Salary[1]	Per Cent Increase	Annual Salary[1]	Per Cent Increase
Over 2	E-4	$5,586	5.9%	$5,529	4.0%
Over 3		5,700	2.0	5,700	3.1
Over 4		5,814	2.0	5,871	3.0
Over 4	E-5	6,101	4.9	5,974	1.8
Over 6		6,228	2.1	6,164	3.2
Over 8		6,355	2.0	6,355	3.1
Over 10		6,482	2.0	6,546	3.0
Over 10	E-6	6,999	8.0	6,928	6.5
Over 12		7,142	2.0	7,142	3.1
Over 14		7,285	2.0	7,356	3.0
Over 14	E-7	7,946	9.1	7,865	6.9
Over 16		8,108	2.0	8,108	3.1
Over 18		8,270	2.0	8,351	3.0
TOTAL		$124,119		$124,009	

[1] 1 October 1967 Parity rates

for entering personnel. No other Federal pay system requires a two-year wait for an in-grade increase at entering levels. The effect of the present table is to deny any in-grade increases to most second lieutenants and to many junior enlisted men.

Longevity steps at the over 24 and over 28 years of service points are required to provide a pay progression that corresponds more nearly to time in service on promotion and to reasonable amounts of time in grade at the senior enlisted, warrant officer, and commissioned officer grades.

The present longevity pattern has sometimes been considered a device to deny unwarranted pay increases to people who do not meet normal promotion times. It has also been cited as a means to reduce the influence of longevity on pay.

The existing pattern is not doing the first job well. Table 5-6 shows how present longevity patterns deny in-grade increases to far more 0-5's and 0-6's with normal amounts of time in grade than they do to those with excess amounts of time in grade. In pay grade 0-6 the cutoff of longevity "misses" more people with 11 or more years in grade than it "catches." At the same time it denies deserved longevity increases to three times as many who have normal amounts of time in grade.

The same result occurs to some extent in the enlisted force. In pay grade E-5 the average years of service of men in the Air Force is 12.1 years, yet "over 12" is the last increase for E-5's in the present pay table. Therefore, most Air Force E-5's face the prospect of very few, if any, in-grade increases.

Selection out provisions are available, and are used, to insure that only deserving people are retained on active duty. Cutting off longevity increases in the pay table is an inefficient and inequitable method of trying to deny undeserved pay increases. Reducing the influence of longevity on pay is better handled by tailoring the size of the increases to be less than promotion increases than by cutting off increases altogether.

The approach recommended here is to design the pay table for those who are good enough to stay in the force, then use other personnel management measures to see that only fully qualified and acceptably performing people are permitted to stay in the force and collect that pay.

Additional longevity steps at over 31 and over 34 years of service are needed for those few senior individuals for whom continuation beyond 30 years of service is necessary in the best interests of the

TABLE 5-6

EFFECT OF PRESENT LONGEVITY PATTERN ON
O-5 and O-6 IN-GRADE INCREASES
(DOD, 30 June 1966)

Years in Grade	Number Short of or in Last Longevity Step	Number Beyond Last Longevity Step
	Pay Grade O-5	
0 - 10	23,058	14,208
11 or more	103	1,547
	Pay Grade O-6	
0 - 10	12,106	2,[illegible]
11 or more	1,076	985

service concerned. These steps would apply only to pay grades O-6 and above, W-4, and E-8 and E-9. These additional longevity increases constitute both a fair reward for and a reasonable incentive to the continued active service of these people.

Tables 5-7 and 5-8 show the specific coverage by grade of the present and proposed longevity patterns for officer, warrant officer, and enlisted grades.

The Parity Salary Table

Table 5-9 contains those career force salaries required to attain parity with 1 October 1967 civil service rates. This table is derived by applying the recommended longevity pattern and payline step location procedures to the payline rates derived as outlined in Chapter 4.

The parity salary rates shown in Table 5-9 would place military career force salaries on a par with Federal civilian salary rates as of 1 October 1967. Appendix VIII, "Regular Military Compensation Compared to Parity Salaries," analyzes the differences between these salaries and regular military compensation at 1 October 1967 rates. The difference varies by pay grade, longevity step, family size, and quarters occupancy status because all four of these influences determine regular military compensation; while only pay grade and longevity step influence the parity salaries. The average differences at each pay grade and longevity step between parity salaries and 1 October 1967 regular compensation are shown in Table 5-10.

It is important to note, as explained at the bottom of Table 5-9, that the specific rates contained therein will change if any of the conditions on which the table is constructed change. Table 5-9 is NOT a recommended salary table. The civil service salary rates with which this table attains parity are those proposed to be effective 1 October 1967 and are different from those that will be used to construct the actual table recommended for enactment. Specific salary rates can be recommended only after the effective date of conversion has been established and the corresponding civil service rates are known. However, the procedures outlined herein would be applied to the appropriate civilian rates to derive the actual military salaries to be recommended.

Two features of the table merit special explanation.

First, the procedure for placing payline steps in the longevity table resulted in locating the O-1 payline step at the "over one" year of service longevity step. Because step 4 is the payline step for all Classification Act grades the entry rate for O-1's becomes equal to the GS-7 step 3 rate in the Classification Act. This led to the

TABLE 5-7

COVERAGE OF PRESENT AND PROPOSED LONGEVITY PATTERNS

(30 June 1966 Force)

OFFICERS

Pay Grade	PRESENT Last Longevity Step	PRESENT Per Cent in the Step	PRESENT Per Cent With Over 2 Years in the Step	PROPOSED Last Longevity Step	PROPOSED Per Cent in the Step	PROPOSED Per Cent With Over 2 Years in the Step
0-10	26 years	100%	100%	34 years	59%	56%
0-9	26	98	93	34	43	25
0-8	22	100	94	34	28	13
0-7	18	100	100	34	5	1
0-6	26	37	21	34	10	1
0-5	22	74	10	26	10	4
0-4	18	43	33	24	6	2
0-3	14	19	12	20	5	4
0-2	6,14[a]	2	1	14	2	1
0-1	3,14[a]	4	3	14	4	3
All Officers		25.5%	13.0%		5.7%	2.6%

[a] For officers with more than four years of enlisted service.

TABLE 5-8

COVERAGE OF PRESENT AND PROPOSED LONGEVITY PATTERNS

(30 June 1966 Force)

WARRANT OFFICER AND CAREER ENLISTED

	PRESENT			PROPOSED		
Pay Grade	Last Longevity Step	Per Cent in the Step	Per Cent With Over 2 Years in the Step	Last Longevity Step	Per Cent in the Step	Per Cent With Over 2 Years in the Step
W-4	26 years	36%	19%	31 years	2%	1%
W-3	26	10	4	26	10	4
W-2	22	8	1	22	8	1
W-1	20	12	4	20	12	4
All Warrant Officers		15.3%	5.8%		8.1%	2.7%
E-9	26 years	13%	6%	31 years	1%	[a]
E-8	26	5	2	28	2	1%
E-7	26	2	1	26	2	1
E-6	16	36	25	20	11	5
E-5	14	22	12	18	7	3
E-4	6	18	11	10	8	5
E-4 thru E-9		16.2%	9.6%		7.1%	3.3%

[a] Less than 0.5%

TABLE 5-9

MILITARY PAY TABLE FOR PARITY WITH CIVIL SERVICE, BASED ON PROPOSI

(Military grades at same per cent of comparability with private industry
or 100% of comparability where Civil Service rate exce

(dollars annually)

Pay Grade	< 1	> 1	> 2	> 3	> 4	> 6	> 8	> 10	> 12	> 14	> 16
010	$33,791	$33,791	$33,791	$33,791	$33,791	$33,791	$33,791	$33,791	$33,791	$33,791	$33,79
09	30,144	30,144	30,144	30,144	30,144	30,144	30,144	30,144	30,144	30,144	30,14
08	27,055	27,055	27,055	27,055	27,055	27,055	27,055	27,055	27,055	27,055	27,05
07	17,804	17,804	17,804	17,804	17,804	17,804	18,567	19,330	20,093	20,856	21,61
06	12,689	13,346	14,002	14,658	15,315	15,971	16,627	17,284	17,940	18,596	19,25
05	11,588	12,132	12,675	13,218	13,761	14,305	14,848	15,391	15,934	16,477	17,02
04	10,599	11,034	11,470	11,906	12,341	12,777	13,212	13,648	14,083	14,519	14,95
03	9,553	9,903	10,252	10,602	10,951	11,301	11,650	12,000	12,349	12,699	13,04
02	8,421	8,699	8,976	9,254	9,532	9,809	10,087	10,364	10,642	10,920	10,92
01	7,184	7,409	7,634	7,859	8,084	8,309	8,534	8,759	8,984	9,209	9,20
W4	9,539	9,931	10,323	10,715	11,107	11,499	11,891	12,283	12,675	13,067	13,46
W3	8,978	9,264	9,549	9,835	10,120	10,405	10,690	10,975	11,261	11,547	11,83
W2	7,820	8,051	8,282	8,514	8,745	8,977	9,208	9,439	9,671	9,902	10,13
W1	6,835	7,029	7,223	7,416	7,610	7,803	7,997	8,191	8,384	8,578	8,77
E9								9,951	10,172	10,394	10,61
E8							8,329	8,514	8,699	8,884	9,06
E7	6,486	6,649	6,811	6,973	7,135	7,297	7,459	7,622	7,784	7,946	8,10
E6	5,999	6,142	6,285	6,428	6,571	6,713	6,856	6,999	7,142	7,285	7,42
E5	5,592	5,720	5,847	5,974	6,101	6,228	6,360	6,482	6,609	6,736	6,86
E4			5,586[a]	5,700[a]	5,814	5,928	6,042	6,156	6,156	6,156	6,15

NOTE: Salary rates in this table are those required to establish parity of military to Civil Service salari
1. A vested retirement contribution of 6½% of salary is included in the military salary. 2. Civi
President to Congress in 1967 to be effective 1 October 1967. 3. The military to Civil Service gr
Chapter 4. 4. Pay table rules contained in Recommendations 13 and 15, Chapter 5 are applied.

CHANGES IN ANY OF THESE CONDITIONS WILL CHANGE THE SPECIFIC SALARY RATES SHOWN IN THIS TABLE. In particula
constructing this table depending on the proposed effective date of the table.

[a] Career committed E-4's only.

TABLE 5-9

TH CIVIL SERVICE, BASED ON PROPOSED 1 OCT 67 CIVIL SERVICE RATES

parability with private industry rates as equivalent Civil Service grades
ity where Civil Service rate exceeds comparability)
(dollars annually)

>10	>12	>14	>16	>18	>20	>22	>24	>26	>28	>31	>34
$33,791	$33,791	$33,791	$33,791	$33,791	$33,791	$33,791	$33,791	$33,791	$33,791	$33,791	$33,791
30,144	30,144	30,144	30,144	30,144	30,144	30,144	30,144	30,144	30,144	30,144	30,144
27,055	27,055	27,055	27,055	27,055	27,055	27,055	27,055	27,055	27,055	27,055	27,055
19,330	20,093	20,856	21,619	22,392	23,145	23,908	24,671	25,434	25,434	25,434	25,434
17,284	17,940	18,596	19,253	19,909	20,565	21,222	21,878	22,534	23,191	23,847	24,503
15,391	15,934	16,477	17,021	17,564	18,107	18,650	19,193	19,737	19,737	19,737	19,737
13,648	14,083	14,519	14,955	15,390	15,826	16,261	16,697	16,697	16,697	16,697	16,697
12,000	12,349	12,699	13,048	13,398	13,747	13,747	13,747	13,747	13,747	13,747	13,747
10,364	10,642	10,920	10,920	10,920	10,920	10,920	10,920	10,920	10,920	10,920	10,920
8,759	8,984	9,209	9,209	9,209	9,209	9,209	9,209	9,209	9,209	9,209	9,209
12,283	12,675	13,067	13,460	13,851	14,243	14,635	15,027	15,419	15,811	16,204	16,204
10,975	11,261	11,547	11,832	12,117	12,513	12,688	12,973	13,258	13,258	13,258	13,258
9,439	9,671	9,902	10,133	10,365	10,596	10,827	10,827	10,827	10,827	10,827	10,827
8,191	8,384	8,578	8,772	8,966	9,160	9,160	9,160	9,160	9,160	9,160	9,160
9,951	10,172	10,394	10,615	10,836	11,057	11,278	11,499	11,720	11,942	12,163	12,163
8,514	8,699	8,884	9,069	9,254	9,439	9,624	9,809	9,994	10,179	10,179	10,179
7,622	7,784	7,946	8,108	8,270	8,432	8,594	8,757	8,919	8,919	8,919	8,919
6,999	7,142	7,285	7,428	7,571	7,713	7,713	7,713	7,713	7,713	7,713	7,713
6,482	6,609	6,736	6,863	6,991	6,991	6,991	6,991	6,991	6,991	6,991	6,991
6,156	6,156	6,156	6,156	6,156	6,156	6,156	6,156	6,156	6,156	6,156	6,156

f military to Civil Service salaries under the following conditions: [ ] Payline Step
in the military salary. 2. Civil Service salary rates are those proposed by the
The military to Civil Service grade linkages are as specified in Recommendation 12,
nd 15, Chapter 5 are applied.

SHOWN IN THIS TABLE. In particular, Civil Service salaries may differ from those used in
able.

TABLE 5-10

COMPARISON BETWEEN PARITY SALARIES AND AVERAGE MILITARY COMPENSATION[1] BY PAY GRAD
(At rates proposed for 1 October 1967 effective date)

Pay Grade		<1	>1	>2	>3	>4	>6	>8	>10	>12	>14	>16	>18	
010	Parity Salary	$33,791	$33,791	$33,791	$33,791	$33,791	$33,791	$33,791	$33,791	$33,791	$33,791	$33,791	$33,791	$3
	Reg. Comp.	25,141	25,141	25,837	25,837	25,837	25,837	26,620	26,620	28,268	28,268	29,938	29,938	3
	Difference[2]	8,650	8,650	7,954	7,954	7,954	7,954	7,171	7,171	5,523	5,523	3,853	3,853	
09	Parity Salary	30,144	30,144	30,144	30,144	30,144	30,144	30,144	30,144	30,144	30,144	30,144	30,144	3
	Reg. Comp.	22,145	22,145	22,588	22,968	22,968	22,968	23,420	23,420	24,193	24,193	25,815	25,815	2
	Difference[2]	7,999	7,999	7,556	7,176	7,176	7,176	6,724	6,724	5,951	5,951	4,329	4,329	
08	Parity Salary	27,055	27,055	27,055	27,055	27,055	27,055	27,055	27,055	27,055	27,055	27,055	27,055	2
	Reg. Comp.	19,355	19,355	19,815	20,187	20,187	20,187	21,381	21,381	22,198	22,198	22,954	23,789	2
	Difference[2]	7,700	7,700	7,240	6,868	6,868	6,868	5,674	5,674	4,857	4,857	4,101	3,266	
07	Parity Salary	17,804	17,804	17,804	17,804	17,804	17,804	18,567	19,330	20,093	20,856	21,619	22,392	2
	Reg. Comp.	16,270	16,270	17,129	17,129	17,129	17,725	17,725	18,538	18,538	19,285	20,845	22,029	2
	Difference[2]	1,534	1,534	675	675	675	79	842	792	1,555	1,571	774	363	
06	Parity Salary	12,689	13,346	14,002	14,658	15,315	15,971	16,627	17,284	17,940	18,[illegible]96	19,253	19,909	2
	Reg. Comp.	12,285	12,285	13,225	13,896	13,896	13,896	13,896	13,896	13,896	14,267	16,032	16,698	1
	Difference[2]	404	1,061	777	762	1,419	2,075	2,731	3,388	4,044	4,329	3,221	3,211	
05	Parity Salary	11,588	12,132	12,675	13,218	13,761	14,305	14,848	15,391	15,934	16,477	17,021	17,564	[
	Reg. Comp.	10,155	10,155	11,450	12,051	12,051	12,051	12,051	12,348	12,871	13,552	14,359	15,021	1
	Difference[2]	1,433	1,977	1,225	1,167	1,710	2,254	2,797	3,043	3,063	2,925	2,662	2,543	
04	Parity Salary	10,599	11,034	11,470	11,906	12,341	12,777	13,212	13,648	14,083	[14,519]	14,955	15,390	1
	Reg. Comp.	8,844	8,844	10,175	10,685	10,685	10,829	11,199	11,790	12,315	12,768	13,219	13,514	1
	Difference[2]	1,755	2,190	1,295	1,221	1,656	1,948	2,013	1,858	1,768	1,751	1,736	1,876	
03	Parity Salary	9,553	9,903	10,252	10,602	10,951	11,301	[11,650]	12,000	12,349	12,699	13,048	13,398	1
	Reg. Comp.	8,154	8,154	8,821	9,253	9,981	10,344	10,634	11,085	11,526	11,754	11,754	11,754	1
	Difference[2]	1,399	1,749	1,431	1,349	970	957	1,016	915	823	945	1,294	1,644	
02	Parity Salary	8,421	8,699	8,976	[9,254]	9,532	9,809	10,087	10,364	10,642	10,920	10,920	10,920	
	Reg. Comp.	6,695	6,695	7,555	8,645	8,862	9,005	9,005	9,005	9,005	9,005	9,005	9,005	
	Difference[2]	1,726	2,004	1,421	609	670	804	1,082	1,359	1,637	1,915	1,915	1,915	
01	Parity Salary	7,184	[7,409]	7,634	7,589	8,084	8,309	8,534	8,759	8,984	9,209	9,209	9,209	
	Reg. Comp.	5,760	5,760	6,185	7,277	7,277	7,277	7,277	7,277	7,277	7,277	7,277	7,277	
	Difference[2]	1,424	1,649	1,449	582	807	1,032	1,257	1,482	1,707	1,932	1,932	1,932	
W4	Parity Salary	9,539	9,931	10,323	10,715	11,107	11,499	11,891	12,283	12,675	13,067	13,460	13,851	
	Reg. Comp.	8,350	8,350	8,771	8,771	8,914	9,204	9,491	9,779	10,292	10,656	10,951	11,177	
	Difference[2]	1,189	1,581	1,552	1,944	2,193	2,295	2,400	2,504	2,383	2,411	2,509	2,674	
W3	Parity Salary	8,978	9,264	9,549	9,835	10,120	10,405	10,690	10,975	11,261	11,547	11,832	12,117	[
	Reg. Comp.	7,665	7,665	8,112	8,112	8,181	8,254	8,683	9,045	9,261	9,479	9,690	9,913	
	Difference[2]	1,313	1,599	1,437	1,723	1,939	2,151	2,007	1,930	2,000	2,068	2,142	2,204	
W2	Parity Salary	7,820	8,051	8,282	8,514	8,745	8,977	9,208	9,439	9,671	[9,902]	10,133	10,365	
	Reg. Comp.	6,807	6,807	7,181	7,181	7,329	7,615	7,911	8,126	8,339	8,556	8,776	8,988	
	Difference[2]	1,013	1,244	1,101	1,333	1,416	1,362	1,297	1,313	1,332	1,346	1,357	1,377	
W1	Parity Salary	6,835	7,029	7,223	7,416	7,610	7,803	7,997	[8,191]	8,384	8,578	8,772	8,966	
	Reg. Comp.	5,807	5,807	6,388	6,388	6,757	6,960	7,188	7,399	7,622	7,837	8,053	8,267	
	Difference[2]	1,028	1,222	835	1,028	853	837	809	792	762	741	719	699	
E9	Parity Salary								9,951	10,172	10,394	10,615	10,836	[
	Reg. Comp.								8,786	8,936	9,093	9,242	9,395	
	Difference[2]								7,165	1,236	1,301	1,373	1,441	
E8	Parity Salary							8,329	8,514	8,699	8,884	9,069	[9,254]	
	Reg. Comp.							7,683	7,836	7,987	8,140	8,289	8,439	
	Difference[2]							646	678	712	744	780	815	
E7	Parity Salary	6,486	6,649	6,811	6,973	7,135	7,297	7,459	7,622	7,784	7,946	[8,108]	8,270	
	Reg. Comp.	5,512	5,512	6,238	6,397	6,557	6,708	6,854	7,004	7,163	7,388	7,538	7,688	
	Difference[2]	974	1,137	573	576	578	589	605	618	621	558	570	582	
E6	Parity Salary	5,999	6,142	6,285	6,428	6,571	6,713	6,856	6,999	[7,142]	7,285	7,428	7,571	
	Reg. Comp.	5,611	5,611	5,769	5,927	6,085	6,235	6,393	6,627	6,773	6,923	7,000	7,000	
	Difference[2]	388	531	516	501	486	478	463	372	369	362	428	713	
E5	Parity Salary	5,592	5,720	5,847	5,974	6,101	6,228	[6,355]	6,482	6,609	6,736	6,863	6,991	
	Reg. Comp.	4,285	4,285	4,916	5,070	5,218	5,461	5,614	5,765	5,917	5,990	5,990	5,990	
	Difference[2]	1,307	1,435	931	904	883	767	741	717	692	746	873	1,001	
E4	Parity Salary			5,586[a]	[5,700][a]	5,814	5,928	6,042	6,156	6,156	6,156	6,156	6,156	
	Reg. Comp.			3,729	3,877	4,955	5,104	5,104	5,104	5,104	5,104	5,104	5,104	
	Difference[2]			1,857	1,823	859	824	938	1,052	1,052	1,052	1,052	1,052	

[1] Basic pay, quarters, subsistence, and Federal income tax advantage averaged over all family sizes and quarters occupancy condit duty force contained in the President's FY 1968 Budget.

[2] Since any present imputed retirement contribution is not vested to the member, it has not been included in regular compensation a vested retirement contribution equal to 6.5% of the parity salary. Hence, although all of the "difference" figure represen it represents an average cash increase. See Appendix VIII for details.

[a] Career committed E-4's only.

TABLE 5-10

BETWEEN PARITY SALARIES AND AVERAGE MILITARY COMPENSATION[1] BY PAY GRADE AND LONGEVITY STEP
(At rates proposed for 1 October 1967 effective date)

>4	>6	>8	>10	>12	>14	>16	>18	>20	>22	>24	>26	>28	>31	>34
33,791	$33,791	$33,791	$33,791	$33,791	$33,791	$33,791	$33,791	$33,791	$33,791	$33,791	$33,791	$33,791	$33,791	$33,791
25,837	25,837	26,620	26,620	28,268	28,268	29,938	29,938	31,601	31,601	31,601	33,260	33,260	33,260	33,260
7,954	7,954	7,171	7,171	5,523	5,523	3,853	3,853	2,190	2,190	2,190	531	531	531	531
30,144	30,144	30,144	30,144	30,144	30,144	30,144	30,144	30,144	30,144	30,144	30,144	30,144	30,144	30,144
22,968	22,968	23,420	23,420	24,193	24,193	25,815	25,815	27,437	27,437	27,437	29,093	29,093	29,093	29,093
7,176	7,176	6,724	6,724	5,951	5,951	4,329	4,329	2,707	2,707	2,707	1,051	1,051	1,051	1,051
27,055	27,055	27,055	27,055	27,055	27,055	27,055	27,055	27,055	27,055	27,055	27,055	27,055	27,055	27,055
20,187	20,187	21,381	21,381	22,198	22,198	22,954	23,789	24,553	25,386	25,386	25,386	25,386	25,386	25,386
6,868	6,868	5,674	5,674	4,857	4,857	4,101	3,266	2,502	1,669	1,669	1,669	1,669	1,669	1,669
17,804	17,804	18,567	19,330	20,093	20,856	21,619	22,392	23,145	23,908	24,671	25,434	25,434	25,434	25,434
17,129	17,725	17,725	18,538	18,538	19,285	20,845	22,029	22,029	22,029	22,029	22,029	22,029	22,029	22,029
675	79	842	792	1,555	1,571	774	363	1,116	1,879	2,642	3,405	3,405	3,405	3,405
15,315	15,971	16,627	17,284	17,940	18,596	19,253	19,909	20,565	21,222	21,878	22,534	23,191	23,847	24,503
13,896	13,896	13,896	13,896	13,896	14,267	16,032	16,698	16,998	17,808	17,808	19,063	19,063	19,063	19,063
1,419	2,075	2,731	3,368	4,044	4,329	3,221	3,211	3,567	3,414	4,070	3,471	4,128	4,784	5,440
13,761	14,305	14,848	15,391	15,934	16,477	17,021	17,564	18,107	18,650	19,193	19,737	19,737	19,737	19,737
12,051	12,051	12,051	12,348	12,871	13,552	14,359	15,021	15,385	15,828	15,828	15,828	15,828	15,828	15,838
1,710	2,254	2,797	3,043	3,063	2,925	2,662	2,543	2,722	2,822	3,365	3,909	3,909	3,909	3,909
12,341	12,777	13,212	13,648	14,083	14,519	14,955	15,390	15,826	16,261	16,697	16,697	16,697	16,697	16,697
10,685	10,829	11,199	11,790	12,315	12,768	13,219	13,514	13,514	13,514	13,514	13,514	13,514	13,514	13,514
1,656	1,948	2,013	1,858	1,768	1,751	1,736	1,876	2,312	2,747	3,183	3,183	3,183	3,183	3,183
10,951	11,301	11,652	12,000	12,349	12,699	13,048	13,398	13,747	13,747	13,747	13,747	13,747	13,747	13,747
9,981	10,344	10,034	11,085	11,526	11,754	11,754	11,754	11,754	11,754	11,754	11,754	11,754	11,754	11,754
970	957	1,016	915	823	945	1,294	1,644	1,993	1,993	1,993	1,993	1,993	1,993	1,993
9,532	9,809	10,087	10,364	10,642	10,920	10,920	10,920	10,920	10,920	10,920	10,920	10,920	10,920	10,920
8,862	9,005	9,005	9,005	9,005	9,005	9,005	9,005	9,005	9,005	9,005	9,005	9,005	9,005	9,005
670	804	1,082	1,359	1,637	1,915	1,915	1,915	1,915	1,915	1,915	1,915	1,915	1,915	1,915
8,084	8,309	8,534	8,759	8,984	9,209	9,209	9,209	9,209	9,209	9,209	9,209	9,209	9,209	9,209
7,277	7,277	7,277	7,277	7,277	7,277	7,277	7,277	7,277	7,277	7,277	7,277	7,277	7,277	7,277
807	1,032	1,257	1,482	1,707	1,932	1,932	1,932	1,932	1,932	1,932	1,932	1,932	1,932	1,932
11,107	11,499	11,891	12,283	12,675	13,067	13,460	13,851	14,243	14,635	15,027	15,419	15,811	16,204	16,204
8,914	9,204	9,491	9,779	10,292	10,656	10,951	11,177	11,470	11,773	11,773	12,515	12,515	12,515	12,515
2,193	2,295	2,400	2,504	2,383	2,411	2,509	2,674	2,773	2,862	3,254	2,904	3,296	3,689	3,689
10,120	10,405	10,690	10,975	11,261	11,547	11,832	12,117	12,513	12,688	12,973	13,258	13,258	13,258	13,258
8,181	8,254	8,683	9,045	9,261	9,479	9,690	9,913	10,205	10,493	10,493	10,788	10,788	10,788	10,788
1,939	2,151	2,007	1,930	2,000	2,068	2,142	2,204	2,308	2,195	2,480	2,470	2,470	2,470	2,470
8,745	8,977	9,208	9,439	9,671	9,902	10,133	10,365	10,596	10,827	10,827	10,827	10,827	10,827	10,827
7,329	7,615	7,911	8,126	8,339	8,556	8,776	8,988	9,204	9,492	9,492	9,492	9,492	9,492	9,492
1,416	1,362	1,297	1,313	1,352	1,346	1,357	1,377	1,392	1,335	1,335	1,335	1,335	1,335	1,335
7,610	7,803	7,997	8,191	8,384	8,578	8,772	8,966	9,160	9,160	9,160	9,160	9,160	9,160	9,160
6,757	6,966	7,188	7,399	7,622	7,837	8,053	8,267	8,488	8,488	8,488	8,488	8,488	8,488	8,488
853	837	809	792	762	741	719	699	672	672	672	672	672	672	672
			9,951	10,172	10,394	10,615	10,836	11,057	11,278	11,499	11,720	11,942	12,163	12,163
			8,786	8,936	9,093	9,242	9,395	9,541	9,923	9,923	10,681	10,681	10,681	10,681
			7,165	1,236	1,301	1,373	1,441	1,516	1,355	1,576	1,039	1,261	1,482	1,482
		8,329	8,514	8,699	8,884	9,069	9,254	9,439	9,624	9,809	9,994	10,179	10,179	10,179
		7,683	7,836	7,987	8,140	8,289	8,439	8,592	8,972	8,972	9,722	9,722	9,722	9,722
		646	678	712	744	780	815	847	652	837	272	457	457	457
7,135	7,297	7,459	7,622	7,784	7,946	8,108	8,270	8,432	8,594	8,757	8,919	8,919	8,919	8,919
6,557	6,708	6,854	7,004	7,163	7,388	7,538	7,688	7,765	8,145	8,145	8,901	8,901	8,901	8,901
578	589	605	618	621	558	570	582	667	449	612	18	18	18	18
6,571	6,713	6,856	6,999	7,142	7,285	7,428	7,571	7,713	7,713	7,713	7,713	7,713	7,713	7,713
6,085	6,235	6,393	6,627	6,773	6,923	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000
486	478	463	372	369	362	428	713	713	713	713	713	713	713	713
6,101	6,228	6,355	6,482	6,609	6,736	6,863	6,991	6,991	6,991	6,991	6,991	6,991	6,991	6,991
5,218	5,461	5,614	5,765	5,917	5,990	5,990	5,990	5,990	5,990	5,990	5,990	5,990	5,990	5,990
883	767	741	717	692	746	873	1,001	1,001	1,001	1,001	1,001	1,001	1,001	1,001
5,814	5,928	6,042	6,156	6 156	6,156	6,156	6,156	6,156	6,156	6,156	6,156	6,156	6,156	6,156
4,955	5,104	5,104	5,104	5,104	5,104	5,104	5,104	5,104	5,104	5,104	5,104	5,104	5,104	5,104
859	824	938	1,052	1,052	1,052	1,052	1,052	1,052	1,052	1,052	1,052	1,052	1,052	1,052

x advantage averaged over all family sizes and quarters occupancy conditions in each cell for the active

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t vested to the member, it has not been included in regular compensation. The parity salary, however, includes parity salary. Hence, although all of the "difference" figure represents an average salary increase, not all of III for details.

[ ] Payline Step

question of whether the O-1 entry rate was unduly high, especially in view of the linkage of the O-1 grade to the GS-7 grade.

Many GS-7's enter at rates higher than step 1 because of the special step-in-grade increase provisions of Section 504 of the Federal Salary Reform Act of 1962. Analysis of the 1966 hiring experience of professionals (nonclerical) at the GS-7 level revealed that 33% of all GS-7 professionals entered at rates higher than step 1; 19% entered at step 7 of the GS-7 grade, which provided them an entry salary $1,278 per year higher than step 1, GS-7. The average entry rate of all nonclerical employees at GS-7 was within $92 per year of the step 3, GS-7 grade. Thus, the entry rate of O-1's under the proposed location of the O-1 payline step coincides almost exactly to the average entry rate of nonclerical GS-7's in the Federal civilian system. The recommended procedure does not result in any overpayment to entering O-1's.

Second, Table 5-8 contains a single rate for pay grades O-8 (Major General/Rear Admiral of the Upper Half), O-9 (Lieutenant General/Vice Admiral), and O-10 (General/Admiral). This is consistent with practices in other Federal salary systems at corresponding levels. At these levels of responsibility internal salary distinctions based on longevity are not appropriate. The influence of differences in levels of responsibility outweighs the normal longevity considerations that apply at lower grades. Moreover, the restrictions on upper level salaries imposed by the (informal but very real) ceiling represented by Federal executive salary levels leave little room for the application of a longevity pattern.

Save Pay Provisions

FINDING 17. Minor save pay provisions may be required in the transition to salary to protect the after-tax take home pay of some military members.

Although the vast majority of career people will realize a net take home pay increase from the transition to a salary, the deduction of a vested retirement contribution from the recommended parity salary may cause some members to suffer a reduction in net cash take home pay, defined as salary less taxes and the vested retirement contribution. This would occur should the vested retirement contribution exceed the amount of the difference between regular military compensation and the recommended parity salary. A few people who are now very close to parity salary levels might be involved, but converting to the salary system in conjunction with a general Federal pay increase would minimize any such effects.

RECOMMENDATION 16. That a one-time save pay provision be incorporated in the conversion to the salary system to insure that no member suffers

a reduction in cash take home pay, defined as salary less Federal income taxes, Social Security (FICA) taxes, and the vested retirement contribution.

CHAPTER 6

NONSALARY COMPENSATION ELEMENTS

Because the Federal Government is the common employer of military and civilian personnel, the same logic that supports parity between military career and Federal civilian salaries demands that a common policy be applied to nonsalary compensation elements as well. A common policy does not mean common provisions. Applying a common pay policy to two personnel systems that embrace wide differences in compensable conditions of service or employment may well produce different specific provisions in the nonsalary elements of compensation. However, a common policy creates the presumption of common provisions in the absence of relevant evidence to the contrary. Thus, any major differences in nonsalary elements must be traceable to substantially different compensable conditions of service or employment between the two systems.

Total Compensation Parity

Parity of total compensation thus incorporates two distinct elements: (1) equal salary rates for equal levels of work, and (2) the application of common policies to nonsalary compensation elements. Recommendations contained in Chapters 3, 4, and 5 are designed to attain the first of these elements. Attainment of the second element is a considerably more complex undertaking because there are fundamental differences in the compensable conditions of service and employment in the Federal military and civilian personnel systems.

The recommendation of parity salaries for military career members means that all other elements of military compensation need to be examined from three points of view:

(1) are there any elements of compensation that should be added or increased so as to assure full parity with Federal Civil Service,

(2) should any present element be reduced or eliminated on the grounds that it has been required in the absence of a full parity salary, and

(3) what mechanical changes are required in the computation of other compensation elements because of the move to a salary system even though no policy change may be required?

This chapter summarizes the Policy Board's findings and recommendations on nonsalary compensation elements other than separation pays, survivor benefits, and military retirement annuities. They are treated under the Military Estate Program in Chapter 7.

Reasons for Pay Distinctions

FINDING 18. Pay distinctions other than those in the salary table are justified within the military career force only (1) to meet hard retention or manning requirements, (2) to secure the requisite number of volunteers for special duties, or (3) to compensate for unusually arduous or dangerous conditions of service.

No single salary schedule based exclusively on the two parameters of pay grade and longevity (or any other two, for that matter) will achieve full parity of salary to civilian alternatives for all of the many specialized subgroups in the military force structure. Salary varies by many characteristics on the civilian labor market: occupation, skill level, age, sex, race, geographic area, industry, and many others. While salaries of any one employer do not normally vary by all these parameters, the market alternatives of military personnel span a wide range of individual employer practices and labor market conditions.

Not all characteristics that show a statistical relationship to pay reflect the use of explicit salary parameters by employers. Age, for example, shows a definite relationship to earnings. But few employers pay explicitly different salaries by age to people doing the same work. Rather, the overall age/earnings relationship results from the linkage of age to experience and the further linkage of experience to promotion into higher grades. Those serving in higher work levels are generally older than those serving in lower work levels within the same broad employment categories. Thus, use of work level as the basic salary parameter by individual employers produces a net market relationship between age and earnings. The same analysis applies to many of the other measurable relationships found in total market data.

Thus, no single orderly compensation system--be it military, Federal civilian, or private enterprise--can establish precise comparability to market alternatives for all of its members. Full comparability for everyone is a will-o'-the-wisp that could be attained only if each man were paid his own individual market alternative salary.[1]

Therefore, to criticize any single salary table because it does not attain full parity for all is to miss the point of what a salary table is supposed to do. The relevant questions are: (1) what are the

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[1] It is interesting to note that wage rates in a fully competitive economy do not represent "full comparability" for any but the firm's marginal employee; all others command different degrees of economic "rent" by getting higher than comparability (or what economists call "opportunity") wages. However, the marginal employee or those receiving economic rent cannot be specifically identified.

appropriate characteristics upon which the employer should base salary differences, and (2) how large should salary differences be to reflect accurately the pay distinctions the employer wants to make based on the selected characteristics?

There is universal agreement that work level (military pay grade) is one proper basis for salary discrimination. Plant managers earn more than foremen because their work is expected to contribute more to attainment of the company's objectives than is the work of the foremen. Generals get paid more than second lieutenants because generals are expected to contribute more to accomplishment of the military's mission than are second lieutenants.

There is also general agreement that for the same reasons longevity, either with the employer or in the grade, is a proper basis for salary discrimination <u>within</u> a given work level or pay grade. Experience contributes to productivity. More is expected in most systems of a member with eight years of service than of an otherwise equivalent member with four years of service.

The parameters of work level and longevity were used to construct the career salary table. Beyond this, agreement on salary parameters is much less widespread. One other point of view, common to many civilian salary systems, was considered for application to the military system. This was occupational qualification within the system covered by a single salary table.

<u>Occupational Pay Distinctions</u>

The core function of military forces--the mission of engaging in combat--creates a sharp occupational distinction between military service and civilian employment. To foster the sense of dedication and "unlimited commitment," so crucial to the concept of military professionalism and so essential to the effective functioning of military forces, the military is viewed as more than a market occupation and a military career is viewed as much more than a job. It is literally a way of life. Military leaders go to great lengths to implant, sustain, and enhance the attitudes of cohesion, unity of purpose, and reciprocal loyalty that come from identification with the military profession and all it stands for. Both the claims the profession makes on its members and the services it performs for them go far beyond the normal employer/employee relationship. A civilian <u>works for</u> General Motors; but a career soldier <u>is in</u> the Army.

An important element in creating and maintaining professional identity is an emphasis on those characteristics common to all members that distinguish them from the rest of society. Internal differences are consciously played down. The identification of its individual members with the profession and its value system is the <u>sine qua non</u> of professionalism; anything that threatens to disrupt that feeling

of unity threatens the very concept of the profession's continued existence. Such diverse influences are particularly to be avoided in the military because of the special nature of its missions and way of life.

Accordingly, arguments for special pays based on occupational qualifications within the military run counter to this predeliction for unity. Such arguments concentrate on occupational characteristics, often shared with a group of civilians, that set one particular military subgroup apart from the rest of the military. Internal differences among military members are emphasized.

Because of its potential for divisiveness, military leaders are reluctant to support any pay discrimination except when a distinction can be clearly recognized as important within the profession's own value system, such as hostile fire pay. Preferences for uniformity of pay within a profession do not deny that an alternative employment market exists in the civilian economy or that members of certain subgroups within the profession can command different returns on that market. Rather, a preference for internal pay uniformity denies the relevance inside the profession of those market results.[1]

Nonetheless, a failure to reflect market alternatives in the military pay system can result in a failure to man the system to meet its occupational requirements. Military careerists do have different market alternatives and do react differently to them by entering and staying in the career force at different rates. These differences have become more pronounced and more critical as the military/civilian skill overlap has widened and as military requirements have changed. Thus, a modern military compensation system will have to "meet the market" to the extent required to get and keep the kinds of skills a modern military force needs. But, special pays to "meet the market" should be resorted to only when absolutely necessary to recruit or retain against hard, definitive requirements that cannot be met in some other reasonable way.[2]

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[1] In this connection, the study group noted with interest that those who are vigorous proponents of pay discrimination in favor of the particular subgroup for which they had responsibility were almost without exception equally vigorous opponents of any pay discrimination within that subgroup.

[2] Thus, what may seem at first glance to be wasteful practices, such as extensive civilian education for career members, may well be a conscious and perfectly rational device to avoid the divisiveness of pay discrimination. Instead of paying a technical specialist enough to become a career member, the total military system's objectives may be better served by finding a career-committed professional member and making him into enough of a technician to get the job at hand done.

The real reason the military is willing to pay board-certified neurosurgeons more than otherwise equivalent members is twofold: (1) it needs board-certified neurosurgeons to accomplish its mission and (2) it has to pay board-certified neurosurgeons more than other members to get them to stay in the military in sufficient numbers.

Neither reason by itself is sufficient; both are necessary. Mere possession of a special qualification (occupational, educational, or whatever) that may create a higher civilian alternative than some other military members may have is not by itself sufficient justification for a pay distinction. There must also be compelling evidence of a chronic and potentially critical retention problem in the community concerned before extra pay is warranted.

Such distinctions as may be required should be made outside the basic salary table because separate special pays offer more flexibility of application and permit sharper concentration on specific force manning problems. Carefully tailored special pay techniques can be used to minimize "piggybacking" in which a retention problem in one part of a subgroup is used to justify extra pay to the entire subgroup even though there may be no overall retention problem. The very logic that supports any pay discrimination at all demands that such pay discrimination be restricted to that segment of the force in which the conditions that justify that discrimination actually exist.

"Piggyback" pay reasoning--"He has a retention problem and even though I don't have a retention problem I am like him in some other respect and therefore should get the same special pay he gets."--can justify extra pay for everyone. All members share at least the characteristic of being military.

Clearly needed pay discrimination is unlikely to be unduly divisive, but "piggybacking" is very likely to be quite divisive. It results in persons who do not have to be paid extra to stay in as careerists in adequate numbers getting an extra pay windfall based on someone else's retention problems.

The existing compensation system uses special pays outside the salary table to make occupational, retention-oriented pay distinctions. Proficiency Pay and the Variable Reenlistment Bonus are examples. Special pays for medical officers and the continuation pay for physicians proposed in the Uniformed Services Pay Act of 1967 apply the same concepts to medical officer retention problems. Extension of these kinds of pays is a better way than separate salary tables to create any internal pay distinctions that may be deemed necessary. If current trends continue it may be that at some future time separate salary tables for various military occupational subgroups will be appropriate. That time is not now.

In summary, three conclusions emerge from the analysis of occupational pay distinctions within the military profession.

(1) A single salary table is designed to reflect those pay characteristics common to all members of the profession; as such, it should apply equally to all members.

(2) Pay discrimination based on occupational qualification within the military is inherently undesirable because it emphasizes differences among members of the same profession. However, some occupational pay discrimination is essential to assure adequate manning of the force. However, such discrimination is warranted only when required to meet firmly established manpower needs. Mere possession of a special qualification is not sufficient reason for a pay distinction.

(3) Such pay discrimination as may be required can be made most effectively by using special pay provisions outside the common salary table.

Evaluation of Existing Special Pays

Special pays are now awarded in three categories: (i) as supplements to other compensation to attract and retain members who have special qualifications that are in critically short supply in the career force, (ii) as an incentive to induce members to undertake voluntarily the performance of unusually disagreeable or hazardous duties, and (iii) to compensate members for unusually arduous conditions of service normally incurred on an involuntary basis.

FINDING 19. Because the recommended standard for military salaries discloses a lag of military career salaries behind Federal civilian salaries, it is not now possible to evaluate with precision the adequacy of existing special pay rates.

The analysis of salary levels in Chapter 4 discloses an across-the-board underpayment of most career force members; amounts differ at the different grades. Therefore, career shortages in particular segments of the force cannot be ascribed solely to inadequate special retention pays, but are the result at least in part of inadequate basic salary levels.

The underestimation of career compensation caused by the present pay system's complexity also tends to depress retention rates.

The recommended pay methods and the adoption of a credible standard for military pay will both serve to increase retention into the career force in all specialties, including those that now receive special pays. Not until retention experience under the salary system is

available will it be possible to determine what special retention pays, if any, may be required in addition to the proposed salaries. Therefore, further recommendations on special retention pays must await final action on and accumulation of retention experience under the salary recommendations.

With respect to those special pays designed to elicit voluntary performance of certain types of duty, there is no evidence that present rates are inadequate to encourage the requisite number of volunteers. However, the existing rates may need revision in light of the move to salary, and should be reviewed in this context. Completion of these studies must await action on the salary recommendations contained herein because some of them (e.g., flight pay) also have the characteristic of an added retention incentive when they are paid on a regular basis to all members of a certain segment of the force.

There is no basis for changing the existing rates of special pays for unusually arduous conditions of service in conjunction with the transition to the salary. Such pays should be restricted to clearly identified circumstances that impose a markedly greater degree of hardship on some military members than on others.

RECOMMENDATION 17. That pending an evaluation of the effects of the recommended salary system the following special pays remain fixed at existing rates: (1) Proficiency Pay; (2) Hazardous Duty Incentive Pays, except glider pay which should be abolished as outmoded; (3) Diving Duty Pay; (4) Special Pay to Physicians, Dentists, and Veterinarians; (5) Sea and Certain Places Pay; and (6) Hostile Fire Pay.

Review of the rationale for payment and the appropriate rates under a full parity salary concept should continue.

FINDING 20. "Responsibility Pay" is an inappropriate element of the military compensation system.

The services have been unable to agree on procedures for using responsibility pay because of the difficulties of identifying "positions of unusual responsibility and of a critical nature" within a given grade. All positions are critical in the sense that they are all essential to service missions. Involuntary assignment to different positions means that the member has no choice about whether to occupy the position. Moreover, professional career officers are expected to and generally do seek actively additional responsibilities, so there is no management need for such pay. Other rewards, such as promotion and enhancement of career opportunities, go to those who serve well in unusually responsible positions.

The reluctance to use this pay is another example of the lengths to which force managers go to avoid potentially divisive influences within

the profession. Different degrees of responsibility do exist within particular pay grades. But recognizing that they exist and being able to identify them with enough precision to say that some qualify for extra pay while others do not are entirely different matters. Differences in levels of responsibility between grades are hard enough to define; differences within a given grade are much less easily categorized.

The combination of all these considerations has led to the conclusion that at present special responsibility pays are not appropriate.

RECOMMENDATION 18. That the existing authorization for special pay for officers holding positions of unusual responsibility and of a critical nature be repealed.

Evaluation of Other Nonsalary Elements

FINDING 21. Several compensation elements in the present system are inconsistent with the concept of full parity of military and civil service salaries. These are: (1) certain Government subsidies to exchange and commissary operations, (2) payment of FHA mortgage insurance premiums for military homebuyers, and (3) the normal reenlistment bonus.

Exchange and commissary benefits are inappropriate as elements of compensation for two reasons. First, they create pay distinctions for the wrong reasons. The savings they generate accrue unequally to members expected to do the same work. The value of these benefits to members depends on family size, income class, availability of and access to the facilities, and individual family consumption preferences. Tables 6-1 and 6-2 show the estimated average value of exchance and commissary benefits to members. After-tax income class and family size are not proper parameters of compensation because they do not relate to the work the member does.

Second, treating such benefits as compensation creates an obligation on the part of the Government that is exceedingly difficult to meet. If the benefits from these operations are to be counted as part of the member's compensation, then he has a right to expect cash compensation in lieu thereof whenever the benefits are not available. This would require payment of a cash supplement equal to some estimated value of exchange and commissary savings to members assigned to duties that preclude reasonable access to such facilities.

The fact that the benefits derived therefrom are improper elements of compensation does not mean that these facilities should be eliminated. They are an essential element of convenience and necessity for the military families and individual members required by Government orders to reside in a particular community. In many locations no substitute facilities are available. However, payment of parity salaries to

TABLE 6-1

ESTIMATED ANNUAL VALUE OF EXCHANGES

BY AFTER-TAX CASH INCOME AND FAMILY SIZE[1]

Annual After-Tax Cash Income	Approximate Pay Grade	Family Size					
		1	2	3	4	5	6+
$ 1,063 to 2,125	E-1, E-2, E-3 under 3 years	$ 33	$ 43	$ 63	$ 72	$ 61	$ 95
$ 2,125 to 3,190	E-3 over 3 years E-4 under 2 years	69	63	97	116	116	118
$ 3,190 to 4,250	E-4	98	98	140	155	156	130
$ 4,250 to 5,315	E-4 - E-5 W-1, O-1	118	136	159	170	182	159
$ 5,315 to 6,375	E-6 - E-7 W-1 - W-2 O-1 - O-2	134	153	185	202	193	224
$ 6,375 to 7,975	E-7 - E-8 W-1 - W-3 O-1 - O-2	131	184	213	217	222	231
$ 7,975 to 10,630	E-9, W-4 O-3 - O-4	139	211	253	261	275	288
$10,630 to 15,945	O-5 - O-6	179	236	303	343	329	320
Over $15,945	O-7 - O-10	256	336	385	387	481	509

[1] Derived as follows: Items sold through Exchange System were identified. The average amounts spent on these items by civilians of a given after-tax cash income range and family size were derived from Consumer Expenditures and Income, Supplement 3 - Part A to BLS Report 237-38, Survey of Consumer Expenditures 1960-61, Bureau of Labor Statistics, United States Department of Labor: Washington, 1964; military personnel of like after-tax cash income and family size were assumed to purchase the same physical quantity of these goods through the Exchange System; to these amounts, percentage price discounts available through the Exchange System were applied to derive the Exchange valuation. Results were then adjusted to reflect total savings on actual exchange sales.

TABLE 6-2

ESTIMATED ANNUAL VALUE OF COMMISSARY

BY AFTER-TAX CASH INCOME AND FAMILY SIZE[1]

Annual After-Tax Cash Income	Approximate Pay Grade	Family Size					
		1	2	3	4	5	6+
$ 1,063 to 2,125	E-1, E-2, E-3 under 3 years	$ 57	$ 94	$ 88	$ 93	$ 86	$131
$ 2,125 to 3,190	E-3 over 3 years E-4 under 2 years	57	109	119	143	150	181
$ 3,190 to 4,250	E-4	63	127	145	158	173	186
$ 4,250 to 5,315	E-4 - E-5 W-1, O-1	62	137	159	178	198	216
$ 5,315 to 6,375	E-6 - E-7 W-1 - W-3 O-1 - O-2	68	147	172	202	212	251
$ 6,375 to 7,975	E-7 - E-8 W-1 - W-3 O-1 - O-2	83	151	194	219	242	261
$ 7,975 to 10,630	E-9, W-4 O-3 - O-4		165	217	240	278	305
$10,630 to 15,945	O-5 - O-6		186	235	271	297	345
Over $15,945	O-7 - O-10		252	259	315	396	416

[1] The derivation of the Commissary valuation proceeded under application of the following rationale: Items sold through the Commissary System were identified; the average amounts spent on these items by civilians of the given after-tax cash income range and family size were derived from Consumer Expenditures and Income, Supplement 3 - Part A to BLS Report 237-38, Survey of Consumer Expenditures 1960-61, Bureau of Labor Statistics, United States Department of Labor: Washington, 1964; military personnel of like after-tax cash income and family size were assumed to purchase the same physical quantity of these goods through the Commissary System; to these amounts, percentage price discounts available through the Commissary System were applied to derive the Commissary valuation. Results were then adjusted to reflect total savings on actual commissary sales.

career members means that under normal circumstances they are financially able to support the operations of these facilities without any Government subsidy.

RECOMMENDATION 19. That exchanges and commissaries be removed from the elements of compensation and be operated at no net cost to the Government except where Government support is merited by special conditions.

The Government normally should supply without charge only unimproved real estate needed for exchange and commissary operations, provided such land is available on a military installation. Exceptions to this policy should be made where justified by special conditions such as: (1) balance of payment considerations as determined by the Secretary of Defense; (2) additional expenses incurred in conjunction with combat, field exercise, and other operational activities; and (3) recognized isolated and hardship posts. In such circumstances the extraordinary costs engendered by the specific conditions--overseas transportation charges, extra construction and maintenance costs, extra personnel costs, etc.--should be borne by the Government.

The current practice of using nonappropriated fund activity profits for support of welfare and recreation activities will require review to separate out those which are proper charges against the Government as costs of operation. The Department of Defense should begin immediately a study of costs and uses of revenue to develop specific recommendations for such reallocations as may be required by the recommended policy.

Meanwhile, the recovery of readily identifiable costs should begin with the move to the salary system. At present the following annual costs to the Government have been identified and are recommended for recovery during the first full year of the salary system's operation:

Commissaries

Personnel Costs, CONUS		$ 85,802,000
Rental Charge, CONUS		7,063,900
	Subtotal	$ 92,865,900

Exchanges

Military Personnel Costs, CONUS		$ 4,483,000
Rental Charge, CONUS		7,987,500
	Subtotal	$ 12,470,500
	TOTAL	$105,336,400

RECOMMENDATION 20. That the payment by the Government of a military member's FHA mortgage insurance premium be discontinued concurrent with the enactment of parity salaries.

This benefit is limited to approximately 80,000 servicemen who are homebuyers with FHA insured mortgages. The amount of the benefit depends on the amount of the outstanding mortgage, ranging from $2.80 per month for a mortgage of $6,750 to $12.43 per month on the maximum FHA mortgage of $30,000. The average payment is $5.63 per month. Almost without exception the payments under this benefit go to career military personnel, because one is required to have completed at least two years of active duty before one is eligible to apply for an FHA in-service loan. The payment by the Government of the mortgage insurance premium terminates when the member departs from active duty. The program was justified in large measure because of the inability of the Government to provide adequate quarters for all career military families.

Once parity salaries for the career force are enacted there is no reason why the military homebuyer should be at any disadvantage relative to other homebuyers. Maintenance of the mortgage insurance premium provision would constitute an unjustified subsidization of that small group of career members who buy houses and finance them under FHA insured mortgages. Moreover, servicemen with more than two years of active service who may still need homebuying assistance now qualify for a substitute benefit under the Veterans Readjustment Benefits Act of 1966.

RECOMMENDATION 21. That the normal reenlistment bonus be considered as incorporated into the recommended parity salaries and that the payment of the normal reenlistment bonus be discontinued.

The definition of the career force is designed to permit normal first term reenlistees to move onto the parity salary table immediately on their reenlistment. Payment of the reenlistment bonus in addition to an annual parity salary would constitute an excessive payment to military personnel according to the recommended standard for career military pay.

At present the reenlistment bonus is paid to all enlisted personnel at the rates shown in Table 6-3. In FY 1968 it is estimated that $101.8 million, or 58% of normal reenlistment bonus payments of $178.5 million, will be paid to personnel for second or subsequent enlistments. These personnel will be paid at full parity salaries that will provide them considerably more total income over a career than they now realize under existing regular compensation rates plus the reenlistment bonus.

Table 6-4 shows three examples of how a member would fare under the proposed parity salary table compared to existing reenlistment bonus provisions. In each case the reenlistee realizes under the recommended parity salary policy more total salary-equivalent income over the course of his enlistment than he does under the existing system. The basic reenlistment incentive under the proposed system is the payment of full parity salaries derived from an objective and credible standard and kept in alignment with pay in the private sector.

TABLE 6-3

NORMAL REENLISTMENT BONUS PROVISIONS

Reenlistment Involved[1]	Column (1) Take -	Column (2) Multiply by -
First	Monthly basic pay to which member was entitled at the time of discharge or release.[2]	Number of years specified in reenlistment contract, or six, if none specified.[3]
Second	Two-thirds of the monthly basic pay to which the member was entitled at the time of discharge or release.[4]	Do.[3]
Third	One-third of the monthly basic pay to which the member was entitled at the time of discharge or release.[5]	Do.[3]
Fourth (and subsequent)	One-sixth of the monthly basic pay to which the member was entitled at the time of discharge or release.[5]	Do.[3]

NOTE: The total amount of the normal reenlistment bonus that may be paid to a member may not exceed $2,000, and no bonus may be paid for service in excess of 20 years.

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[1] Any reenlistment when a bonus was not authorized is not counted.

[2] Two-thirds of the monthly basic pay in the case of a member in pay grade E-1 at the time of discharge or release.

[3] On the sixth anniversary of an indefinite reenlistment, and on each anniversary thereafter, the member is entitled to a bonus equal to one-third of the monthly basic pay to which he is entitled on that anniversary date.

[4] A bonus may not be paid to a member in pay grade E-1 or E-2 at the time of discharge or release.

[5] A bonus may not be paid to a member in pay grade E-1, E-2, or E-3 at the time of discharge or release.

TABLE 6-4

EXAMPLES OF PAYING PARITY SALARY IN LIEU OF REGULAR COMPENSATION PLUS REENLISTMENT BONUS

CASE 1: Inductee who reenlists for 4 years after completing 2 years service.

1 October 1967 regular compensation during 2nd enlistment:	$19,947.56
Reenlistment Bonus:	892.80
Total 1 October 1967 pay during 2nd enlistment:	20,840.36
Proposed Salary during 2nd enlistment	23,918.60
Net Gain	$ 3,078.24

CASE 2: 3-year enlistee who reenlists for 3 years after completing 3 years service.

1 October 1967 regular compensation during 2nd enlistment:	$15,506.00
Reenlistment Bonus:	819.00
Total 1 October 1967 pay during 2nd enlistment:	16,325.00
Proposed Salary during 2nd enlistment	18,176.00
Net Gain	$ 1,851.00

CASE 3: 4-year enlistee who reenlists for 4 years after completing 4 years service.

1 October 1967 regular compensation during 2nd enlistment:	$21,358.00
Reenlistment Bonus:	1,140.00
Total 1 October 1967 pay during 2nd enlistment:	22,498.00
Proposed Salary during 2nd enlistment	24,653.00
Net Gain	$ 2,155.00

FINDING 22. The mechanical computation of the following payments, most involving no changes in pay policy, must be revised because they are now computed from one of the compensation elements recommended for incorporation into the career salary:

(1) pay for Service Academy Cadets and Midshipmen.

(2) pay for paid drill periods of Reserves and National Guardsmen,

(3) pay for ROTC and NROTC members,

(4) the Variable Reenlistment Bonus,

(5) unused accrued leave pay,

(6) Dislocation Allowances, and

(7) Family Separation Allowance (Type I).

RECOMMENDATION 22. That pay for Service Academy Cadets and Midshipmen and for paid drill periods for Reserves and National Guardsmen be established on separate tables at rates current at the time of the transition to the salary; that members of the ROTC or the NROTC on field duty or cruises be paid at the rate of an E-1 (under one year of service) for the first four months of such duty, after which they be paid at the rates prescribed for Service Academy Cadets and Midshipmen; and that these rates be increased in the future whenever career salaries are increased by the average percentage increase in career force salaries.

The special nature of the service performed by these members makes the underlying rationale for payment of parity salaries inapplicable. The recommended procedure retains their pay at existing levels that are deemed adequate and provides for the orderly application of future pay increases.

RECOMMENDATION 23. That the Variable Reenlistment Bonus base be established at one-half of one month's salary per year of enlistment or extension; that existing multiples one through four be retained; that the bonus continue to be payable at the discretion of the Service Secretary concerned in either a single lump sum or annual installments at his discretion; and that it be payable without regard to years of service or enlistment period.

This provision ties the Variable Reenlistment Bonus to the salary and provides added flexibility in its application to retention problems throughout the force. The bonus will be an effective tool for generating increased retention throughout the force structure wherever required.

RECOMMENDATION 24. That entitlement to payment for unused accrued leave begin to accrue at the salary rate effective on the date of the

conversion to a salary system. Payment for unused accrued leave in excess of that accrued since the effective date of the change to salary will be computed in the current manner.

No change is required in unused accrued leave pay provisions for the noncareer force.

RECOMMENDATION 25. That Dislocation Allowances and Family Separation Allowance (Type I) be established on separate tables at rates applicable on the date of conversion to salary.

These allowances are now computed against the basic allowances for quarters, which will be incorporated into the salary.

FINDING 23. Minor additional changes in pay policy with respect to reserve members in paid drill status are needed to guarantee the fully equitable treatment of these members with respect to active duty members.

RECOMMENDATION 26. That enlisted reservists on active duty for training for periods of 30 days or more, in the noncareer pay grades, be eligible to receive Dependents Assistance Act allowances, and that officer, as well as enlisted, reserve members be entitled to rations in kind when engaged in a drill period that extends for at least eight hours in one calendar day.

Summary

The effect of these recommendations is to preserve existing nonsalary benefits at current levels and provide for the orderly administration of nonsalary compensation elements in conjunction with the transition to the salary system.

CHAPTER 7

MILITARY ESTATE PROGRAM

The Military Estate Program consists of all those compensation elements that protect a military man and his family against the economic effects of involuntary loss of his active duty or retired income. This chapter contains the study's findings and recommendations on these elements.

Involuntary loss of the member's military income can occur in three ways: (1) involuntary separation from active duty short of retirement, (2) retirement, and (3) death, which can come either on active duty or in retirement. Table 7-1 summarizes the elements of the Military Estate Program that apply in each of these circumstances and shows their estimated costs in FY 1968 for the total military force.

Separation Pays

FINDING 24. Current separation pay provisions are appropriate with minor modifications required (1) to relate the separation pay to the recommended salary concept and (2) to remove an inequity between separation pay now paid Navy and Marine Corps officers vs. Army and Air Force officers who are separated for the same reasons. Separation pay provisions corresponding to those for officers are required for enlisted personnel to provide the military force managers with a fair and effective method for tailoring the career force to specific manning requirements.

Service statements of their balanced force structure profiles show a need for substantial numbers of mid-length careers, defined as service for more than 4 years but less than 20 years. These mid-length careers must be made attractive to potential career personnel completing their initial term of obligated service. To do so requires assuring them that careerists who may be separated short of retirement eligibility will be appropriately compensated for their services, to include a reasonable separation pay to help them make the transition to the civilian labor force. This separation pay best reflects the services rendered by the member if it is based on years of service completed, up to some reasonable maximum. The separation pay would be paid in addition to return of any vested retirement contributions.

The specific reasons for involuntary separation short of retirement eligibility are displayed in Table 7-2 under four broad categories: (1) disability, (2) nonpromotion, (3) reduction in force, and (4) "show cause" or disciplinary-type separations.

Separation pays are now computed as various multiples of basic pay. To relate these pays to the recommended salary, it will be necessary to convert this computation to multiples of monthly salary.

TABLE 7-1

COMPONENTS OF THE MILITARY ESTATE PROGRAM

(Estimated FY 1968 Cost in $Millions)

Separation Payments	
Disability Severence	$ 17.4
Severance, Regular Officers (Non-Promotion, Unsatisfactory Performance)	6.2
Reserve Readjustment	3.9
Payments for unused accrued leave	329.0
Unemployment Compensation (Dept. of Labor Budget)	29.6
Total	$386.1

Retirement Benefits	
Accrual Cost of Retirement Annuities	$2,365.5
Social Security	469.3[a]
Supplemental Benefits: Accrual Cost of Retired Medical Care	136.7
Total	$2,971.5

Survivor Benefits	
Active Duty:	
Dependents Indemnity Compensation	$130.5
Social Security	[b]
Lump Sum Annuities	
Servicemen's Group Life Insurance	80.2[c]
Death Gratuity	34.1
Retired:	
Retired Serviceman's Family Protection Plan Annuity	[d]
Social Security: Lump Sum Annuities	[b]
Total	$244.8

Summary: Government Cost for FY 1968

Separation	$ 386.1
Retirement	2,971.5
Survivor Benefits	244.8
Total	$3,602.4

[a] Total cost of all Social Security coverage; includes survivor benefit coverage to active personnel.

[b] Cost included in $469.3 shown in Retirement Benefits.

[c] Extra hazard premium only; members pay full normal risk premium.

[d] Retired Serviceman's Family Protection Plan annuity fully paid by principal's contribution.

TABLE 7-2

REASONS FOR INVOLUNTARY SEPARATION

Separatee	Reason for Separation
Disability	Medically unfit, less than 30% disability.
Non-Promotion:	
Regular & Reserve Officers	Twice fails selection to 0-3 or 0-4 in the Navy and Marine Corps or 0-3 through 0-5 in the Army and Air Force.
Warrant Officer	Twice fails selection for promotion.
Reduction in Force:	
Reserve Officer	Qualified to perform his normally assigned duties but mandatorily separated.
Enlisted	Qualified for and requests reenlistment but not continued by service.
"Show Cause"	
Regular Officer (Army/Air Force)	Substandard performance or morally or professionally disqualified.
(Navy/Marine Corps)	Unfit or unsatisfactory in performance of duty.
Warrant Officer	Unfit or unsatisfactory in performance of duty.
Reserve Officer	Substandard performance. Moral or professional dereliction.
Enlisted	Unsuitability/Unfit.

Under present laws regular Army and Air Force officers separated for substandard performance or moral or professional dereliction are paid one month's basic pay per year of service, up to a maximum of one year's basic pay. Navy and Marine Corps officers separated for precisely the same reasons are paid two months' basic pay per year of service up to a maximum of two years' basic pay or $15,000 whichever is the lesser. This different treatment is a legacy from the days before unification when different Congressional committees considered legislation for the separate military services. There is no sound reason why this differential treatment should continue. Equity demands its termination. There is also no reason why a "show cause" separatee should be paid at the same rate as one whose duty has been entirely satisfactory. This discriminates against the satisfactory performer.

Existing laws make no provision for separation pay to enlisted personnel except those separated for disability.[1] The concept of separation pay should be extended to the enlisted grades on the same basis as now applies for officers to assure the just and reasonable treatment of these people and to give force managers a credible method for tailoring the enlisted force to best meet operational requirements.

RECOMMENDATION 27:

a. That disability severance pay be payable at the rate of one month's salary per year of active service up to a maximum of one year's salary.

b. That separation pays computed in accordance with the following formulae be payable to officer and enlisted personnel who are involuntarily separated from active duty after completing four or more years of continuous active Federal military service:

(1) For nonpromotion and reduction in force separations: one month's salary per year of active service up to a maximum of one year's salary;

(2) For "show cause" separations: one-half of one month's salary per year of active service up to a maximum of one-half of one year's salary.

This recommendation establishes uniform practices among services and among different categories of people within the services who are separated for the same reason. Tables 7-3 and 7-4 summarize the effect

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[1] The law provides reserve readjustment pay for all reservists involuntarily released after five or more years of continuous active duty, but in practice only very few enlisted members qualify.

TABLE 7-3

COMPARISON OF PRESENT AND PROPOSED SEPARATION PAY FORMULAE

(DISABILITY, NON-PROMOTIONAL, & REDUCTION IN FORCE SEPARATIONS)

	Present Formulae			Proposed Formulae[1]		
Reason for Separation	Months Basic Pay Per Year of Svc	Maximum Pay (Yrs Basic Pay)	Years Svc Req'd	Months Salary Per Year of Svc	Maximum Pay (Yrs Salary	Years Svc Req'd
Disability	2	2	None	1	1	None
Non-Promotional:						
Officers only, Regular and Reserves (Not applicable to enlisted personnel)	2	2 or $15,000	5 Yrs for Res.	1	1	4
Reduction in Force:						
Reserve Officer	2	2 or $15,000	5 Yrs	1	1	4
Enlisted [2]	2	2 or $15,000	5 Yrs	1	1	4

[1] Payments in addition to return of vested retirement contribution. Proposed change converts from 2 months basic pay/year with 2 years maximum to one month's salary per year with one year maximum plus return of vested retirement contribution.

[2] Very few members (enlisted reserve only) qualify in practice.

TABLE 7-4

COMPARISON OF PRESENT AND PROPOSED SEPARATION PAY FORMULAE

"SHOW CAUSE" SEPARATION

Reason for Separation	Present Formulae: Months Basic Pay Per Year of Svc	Present Formulae: Maximum Pay (Yrs Basic Pay)	Present Formulae: Years Svc Req'd	Proposed Formulae: Months Salary Per Year of Svc	Proposed Formulae: Maximum Pay (Yrs Salary	Proposed Formulae: Years Svc Req'd
OFFICER:						
Regular (Army/ Air Force) (Substandard performance: morally or professionally disqualified)	1	1	-	1/2	1/2	4
Regular (Navy/ Marine Corps) (Unfit or unsatisfactory performance)	2	2 or $15,000	-	1/2	1/2	4
Reserve (Substandard performance)	1/2	3/4 or $15,000	5	1/2	1/2	4
(Moral/Professional Dereliction)	None	None	-	1/2	1/2	4
WARRANT OFFICER:						
(Unfit or unsatisfactory performance)	1	1	-	1/2	1/2	4
ENLISTED:						
(Unsuitability/ Unfit)	1/2	3/4 or $15,000	5	1/2	1/2	4

[1] Payments in addition to return of vested retirement contribution.

[2] Very few members (enlisted reserve only) qualify in practice.

of Recommendation 27 by comparing for each separation reason the present to the proposed separation pay formula. These payments would be in addition to the return of a member's vested retirement contribution.

Retirement Annuities and Survivor Benefits

FINDING 25. Extensive further study is needed to develop retirement annuities and survivor benefits related to parity salaries and derived from the application of a common policy to the widely different conditions of military service and Federal civilian employment.

There are three especially significant differences between the conditions of military service and Federal civilian employment that complicate the application of a common policy to retirement annuities and survivor benefits in the two systems.

(1) With respect to retirement annuities, a fundamental difference is the fact of early retirement based entirely on years of service in the military as opposed to a minimum age threshold required in the Federal civilian systems. Stringent physical requirements and "up-or-out" promotion practices are used to keep a young and vigorous force and to insure the steady movement toward the top of the best military men. Very few military personnel are permitted to serve beyond 30 years; many are involuntarily released much earlier. Since officers enter the service at an average age of approximately 23 years and enlisted men at an average age of approximately 19 years, a full military career is normally completed more than a decade earlier than is a full civilian career. Moreover, career length is only partially controlled by the member. His range of options is narrower than that of civilians.

(2) With respect to survivor benefits, a significant difference in conditions is the absence of a standard workweek implied by the 24-hour duty status of military personnel compared to the clearly identifiable on-the-job or off-the-job nature of the civilian employee's status. Virtually all military deaths are presumed to be in line of duty; a military member's survivors qualify for identical benefits whether he is killed by hostile fire in combat or drowns at the beach on a holiday. The civil servant's survivor benefits differ markedly depending on whether his death is on or off the job.

For these and similar reasons it simply is not possible to take as a precise standard for military benefits "what an equivalent civil servant gets." In too many cases there is no meaningful equivalency of circumstances between the two systems.

(3) With respect to both retirement annuities and survivor benefits, the complications involved in comparing the two systems are compounded by the fact of Social Security participation by the military as opposed

to no Social Security participation by the career Federal Civil Service. Both the military member as a covered employee and the Government as his employer contribute to Social Security. It provides survivor, disability, and retirement benefits that supplement those in the military compensation system. This is why it is necessary to incorporate Social Security into the Military Estate Program.

But this complicates an analysis of compensation because the Social Security system was designed as a social insurance program. It was not designed as a nonsalary element of compensation for services rendered. Its benefits are consciously weighted in favor of those with low covered wages. Therefore, expenditures on and benefits from Social Security cannot be judged by the same cost-effectiveness and compensation effect standards that are applied to other nonsalary compensation elements.

Because of the Social Security coverage a policy of common benefit levels in the military and civilian compensation systems would produce different costs in the two systems. Conversely, a policy of common Government costs in the two systems would produce different benefit levels. Thus, as long as only one of the two compensation systems participates in Social Security, it is not feasible to achieve precisely equal costs and benefits in the two systems, even aside from the question of whether equality of costs and benefits is the appropriate objective. The application of a common policy to the two systems can be expected to achieve no more than (1) a reasonable integration of Social Security provisions with complementary elements of the military compensation system and (2) a reasonable relationship between costs and benefit provisions in the military and Federal civilian compensation systems. Study of this complex problem continues.

FINDING 26. Revision of the Military Estate Program survivor benefit and retirement annuity provisions is not required to move to the salary system and to begin to realize the benefits of such a move.

Existing retirement annuities and survivor benefits can be preserved when the transition to salary is made by (1) establishing a separate table of Military Benefit Base Amounts (MBBA) equal to the basic pay rates that would have been in effect at the time of transition to the salary system and (2) continuing to use existing formulae to compute retirement annuities and survivor benefits from this table.

This would be fair to members because it would protect the dollar levels of present benefits. The MBBA table should be adjusted to reflect future salary increases, thereby protecting prospective benefit levels until the questions of appropriate new benefit formulae based on salary are resolved.

This policy would also be fair to the Government and to taxpayers. It assures that retirement annuity and survivor benefit costs do not

increase as a result of the transition to a salary. The policy would simply hold the line on retired annuities and survivor benefits until final determination of those changes implied by the application of common compensation policies to the two systems.[1]

RECOMMENDATION 28:

a. That when the conversion to salary is made, retirement annuities, survivor benefits, and Social Security covered wages be computed by applying present formulae to a table of Military Benefit Base Amounts (MBBA) to be established initially at rates equal to the basic pay rates that would have been in effect had the military continued on the basic pay system.

b. That the MBBA table be adjusted in the future by the average percentage by which Federal salaries are increased to stay abreast of salary increases in the private sector as measured by the annual BLS salary survey.

The MBBA table and present formulae would be used to calculate: (1) retirement annuities (including length of service, disability, and reserve), (2) dependency and indemnity compensation, (3) death gratuity, (4) Social Security covered wages, and (5) Federal Insurance Contribution Act taxes.

RECOMMENDATION 29. That continued study be given to designing a Military Estate Program based on the parity salary.

Six guidelines should be applied in this study:

(1) Before any basic change is made in present retirement and survivor benefits, each service should develop a program of force management--both for enlisted and officer personnel--under which potential excessive retention up to the 20-year point will be curtailed and desirable retention of individuals beyond the 20-year point will be sought. This means that an optimum "force structure profile" and techniques of achieving this profile under the new salary system must be developed.

(2) As an aid in implementing the above concept, determine the annuity that should be provided to the 20-year retiree to recompense him for the conditions of service for which comparability in salary does not provide. To avoid penalizing those who must start a second

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[1] Appendix IX, "Military Retirement Annuities and Survivor Benefits" compares the results of existing provisions against several standards of adequacy.

career at this point in their lives and who suffer a financial disadvantage with respect to their civilian counterparts in the process, this annuity should not be less than the amount needed to offset this disadvantage.

(3) Develop a graduated scale of annuities for those remaining beyond 20 years which will assure full equality with the civil servant at the 29-30 year point and beyond.

(4) Consider incorporating Social Security insurance benefits in the retirement programs by deducting, for example, one-half of the portion of the Social Security annuity attributable to military service when actually paid to the individual in the form of a reduction in the military annuity payment.

(5) Design a new survivor benefit package which is fully equal to that of the civil servant's, and consolidate in this package dependency and indemnity compensation, the Retired Serviceman's Family Protection Plan, and Social Security survivor benefits. Also match the group insurance program of the civil service, absorbing the death gratuity within this revised program.

(6) In developing revised benefits under the above guidelines, design transition provisions that will maximize incentives for the future force, but which will not penalize any member in the career force at time of implementation.

Studies under these guidelines are underway.

Amount of Retirement Contribution

FINDING 27. The recommended vested retirement contribution of 6.5% of parity salary is a fair and reasonable interim measure until the precise contribution to be made by military personnel to the Military Estate Program has been determined from further study of Military Estate Program provisions.

The question at issue is how much of a contribution out of parity salaries military personnel should make to the Military Estate Program in addition to their Social Security contribution. Until completion of the recommended studies the precise amount of this contribution that results from the application of a common Federal compensation policy to the military and civil service systems cannot be determined. There are two alternative approaches in the interim: (1) leave aside entirely the question of a retirement contribution until completion of the studies, or (2) include a vested retirement contribution in parity salaries.

The first alternative is supported by a judgment that it is undesirable to include any retirement contribution until the precisely

determined total Military Estate Program contribution is known. This alternative would continue the existing "noncontributory" feature of military retirement by paying as military salary--to replace the existing regular military compensation (basic pay, quarters, subsistence, and tax advantage)--that salary which the civil servant realizes net of his 6.5% retirement contribution, or 93.5% of the full parity salary. This would amount in practice to an imputed retirement contribution of 6.5% parity salary that would not be vested to the member. This would perpetuate the inequities described in Chapter 3. Therefore, there appears to be no advantage to military members from this alternative.

The second alternative provides for payment of 100% of the full parity salary and vesting of 6.5% of that salary as a retirement contribution. Analysis of the two retirement systems discloses that, by any reasonable standard, the value of military retirement to the military member equals or exceeds in the majority of reasonably comparable cases the value of civil service retirement to the civilian.[1] Thus, including 6.5% of the full parity salary as a vested military retirement contribution is a fair and reasonable interim measure.

RECOMMENDATION 30. That a vested retirement contribution of 6.5% of salary continue to be included in the full parity salaries paid to military career members as long as the table of Military Benefit Base Amounts and existing formulae are used to compute military retirement annuities.

Military retirement is the most costly component of the Military Estate Program and is the component from which most military members receive the greatest benefit. Final recommendations concerning those components of the Program to be continued on an interim basis will be made upon completion of the study of military retirement.

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[1] See Appendix IX.

CHAPTER 8

ESTIMATED COST AND BUDGET IMPLICATIONS

This chapter summarizes the estimated budget and net after-tax Government cost implications of the study's recommendations.

Conversion Costs

Table 8-1 details the estimated salary and Department of Defense budget changes involved in converting from the 1 October 1967 basic pay and allowance system to 1 October 1967 parity salaries for the career force distribution contained in the President's FY 1968 budget.[1]

It shows that regular compensation would be increased by two components in conjunction with a conversion to parity salaries.

The first increase is the addition of a vested retirement credit to those elements that comprise regular military compensation under the existing system. At 1 October 1967 regular compensation rates, this vested retirement credit would be valued at $816.3 million. It represents a net increase in current income by being vested to the member on receipt and payable in cash to him if he leaves short of retirement or to his survivors should he die before receiving the full amount in retired pay. This addition has the effect of converting regular military compensation to a full salary concept defined in the same manner and including the same elements as Federal civilian salaries. This "true salary equivalent" would amount to $12,559.2 million at rates proposed to be effective 1 October 1967.

The second component of the increase takes the form of a net addition of $824.3 million of salary to the 1 October 1967 military "true salary equivalent" rates to attain full parity with Federal civilian salary rates as of 1 October 1967 under the proposed pay standard.

Table 8-1 also shows the increase in salary visibility attained by incorporating some $2.5 billion of income in kind, tax advantage, and imputed retirement contribution into the proposed fully visible salary rates. The proposed salaries will contain none of the less visible income in kind or saving elements found in the existing system. A member who is paid a full salary and then pays his quarters rent will be fully aware of the value of his quarters furnished, whereas now he finds it difficult

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[1] Because of potential save pay problems this is <u>not</u> the best way to make the conversion to a salary system; Table 8-1 simply displays the changes that would be required to make such a conversion. The conversion will be facilitated by making it in conjunction with a general statutory increase in Federal salaries.

TABLE 8-1

ESTIMATED SALARY AND BUDGET IMPLICATIONS OF CONVERTING TO PARITY SALARY AT 1 OCTOBER 1967 RATES

(Based on FY 1968 Career Force)

($ Million)

BASIC PAY AND ALLOWANCES SYSTEM		PROPOSED SALARY SYSTEM	
Salary Implications			
Fully Visible Elements:		Fully Visible Elements:	
Basic Pay after Taxes	$ 7,640.3	Salary after Taxes and Collections	$10,050.4
Cash Quarters	1,282.1	Quarters Rental	503.5
Cash Subsistence	470.6	Subsistence Charges	402.1
Taxes Withheld	678.4	Taxes Withheld	1,557.6
		Retirement Contribution	869.9
Subtotal	$10,071.4	Subtotal	$13,383.5
Elements Not Fully Visible:		Elements Not Fully Visible:	
Quarters in Kind	$ 656.3	None	
Subsistence in Kind	391.6		
Tax Advantage	623.6		
Retirement "Contribution"	816.3		
Subtotal	$ 2,487.8	Subtotal	$ ---
Grand Total	$12,559.2	Grand Total	$13,383.5
Net Salary Increase = $824.3			
DOD Budget Implications			
"True Salary Equivalent" Per Above	$12,559.2	Salary Per Above	$13,383.5
Less Items Not Budgeted:		Less Items Not Budgeted:	
Qtrs Amortization[1]	(264.6)	Qtrs Collection[2]	(111.8)
Retirement "Contribution"	(816.3)	Retirement Contribution	(869.9)
Tax Advantage	(623.6)	Subsistence[3]	(10.5)
		Plus Other Budget Costs:	
		Vesting, First Year[4]	25.7
Net Budget	$10,854.7	Net Budget	$12,417.0
Total Increase in DOD Budget = $ 1,562.3			

[1] Included in "Quarters in kind" entry of regular compensation. Total quarters in kind of $656.3 million equals O&M budget of $391.7 plus unfunded quarters amortization of $264.6.

[2] Excess of total collections of $503.5 million over O&M budget for career housing of $391.7 million.

[3] Excess of total collections of $402.1 million over raw food costs of $391.6 million.

[4] Return of vested retirement contributions to separatees and survivors. Costs after 5 years rise to $159.9 million annually, level off after 36 years at $207.1 million; level annual accrual cost is $179.8 million.

to value them in making comparisons to civilian salaries.

The lower portion of Table 8-1 shows the estimated DOD budget implications of the salary changes displayed in the upper portion. These budget calculations are made on the assumption that collections for quarters, subsistence, and the vested retirement contribution will be made either by payroll deductions or by "appropriations reimbursable" type cash payments. In either case, it will not be necessary to budget twice for such expenditures. Thus, collections for items furnished are shown as net budget deducts from the salary appropriation in Table 8-1 because separate appropriations are now made for quarters and subsistence.

Similarly, the table is constructed on the assumption that the military retirement system will continue to be unfunded. Thus, the only budget costs associated with the vested retirement contribution will be the funding of those vested retirement contributions repaid to members or survivors during the year in question.

The total increase in the DOD budget required to move to the salary system shown is made up of four components:

	(Millions)
(1) funding of existing tax advantage.....	$ 623.6
(2) funding of in kind quarters net of collections (mostly to bachelors in field and on ships).....	142.3
(3) funding of 93.5% of $824.3 salary increase.....	770.7
(4) funding of return of vested retirement contributions to separatees during first year.....	25.7
Total Full Year Budget Increase.....	$1,562.3

Table 8-1 shows only the gross salary and budget implications that hinge on conversion of regular military compensation to parity salaries at 1 October 1967 rates. Table 8-2 incorporates the budget implications of nonsalary recommendations and displays the net budget implications of the entire study. It also displays the extra Federal income tax collections to be made and subtracts them from the budget increase to derive the net Government cost implications of the study's recommendations.

Nonsalary recommendations result in net budgetary recoveries of $258.3 million annually, reducing the net budget cost of conversion to $1,304.0 million on a full year basis. Addition of $35.6 million of save pay required only if the conversion is made at 1 October 1967 rates in the absence of a general Federal salary increase brings the total full year budget increase of the conversion to $1,339.6 million.

TABLE 8-2

SUMMARY OF ESTIMATED FULL YEAR DOD BUDGET AND NET GOVERNMENT COST IMPLICATIONS OF RECOMMENDATIONS
(Assuming FY 1968 Force Level)

RECOMMENDATION	BUDGET COST ($ Million)
Pay Parity Salaries (See Table 8-1)	$1,562.3
Put PX and Commissaries on Self-Supporting Basis	-105.0
Terminate payment of FHA Mortgage Insurance Premiums	- 5.4
Incorporate Normal Reenlistment Bonus in Salary	-178.5
Revise rules for payment of Terminal Leave Pay	44.0
Revise Separation Pay Rules	- 3.4
Revise Charges for Dependent Medical Care[1]	- 10.0
Save Pay Provisions:[2]	
Take Home Pay[3]	33.2
Separation Pay[4]	2.4
DOD Budget Increase	$1,339.6
Less Increased Federal Income Tax Collections	-879.2
Net New Government Cost	$ 460.4

[1] Administrative action to increase charges for inpatient care in service hospitals from $1.75 per day to $5.00 per day for the first ten days, after which the rate reverts to $1.75 daily.
[2] Required if transition to salary were made at 1 October 1967 rates. If transition is made in conjunction with a salary increase, these amounts will be smaller, reducing to an estimated $1.0 million for a 5.0% salary increase.
[3] Salary less Federal income taxes and retirement contribution.
[4] Total of separation pay plus return of vested retirement credit to be no less than currently authorized separation pay.

Out of this total budget increase the Government would collect an estimated $879.2 million in Federal income taxes, leaving a full year net resource cost to the Government of $460.4 million to convert and implement other study recommendations at 1 October 1967 rates.

The President's 5 April 1967 Federal pay message contained two important policy statements that bear on military compensation. The first was a recommended two-stage catch up to full private enterprise comparability for the Federal civilian salary systems. The second was a statement that as Federal civilian pay scales increased, so should the pay scales of the uniformed services.

The first of the two-stage civilian catch up increases was proposed to be effective 1 October 1968. The matching military increase provides an opportunity to make the transition to the military career salary system with maximum psychological impact and minimum save pay problems.

FINDING 28. The prospect of substantial military pay increases in fiscal years 1969 and 1970 makes early conversion to the salary system highly desirable to realize the most effective use of these compensation increases. Failure to convert before the increases would put the military system even further out of line with the parity salary structure than it now is, thereby increasing future conversion costs and magnifying future save pay problems.

These considerations lead to the final study recommendation.

RECOMMENDATION 31. That the military career force compensation system be converted to the salary system recommended in this report in conjunction with the next general increase in military pay scales, presently scheduled under the policy set out in the President's 5 April 1967 pay message for 1 October 1968.

Table 8-3 summarizes the budget and net Government cost implications by fiscal year of this recommendation and the follow-on increase for FY 1970 projected in the President's 5 April 1967 pay message. This Step 2 increase is projected to be effective 1 July 1969.

Current Cost Implications

Table 8-4 summarizes the impact of the study's recommendations on the distribution of total compensation by major category. The comparison is shown between the military career force and the Federal civilian work force because the proposed salary system will apply in the military career force only. Detailed comparisons are displayed in Tables 8-5 and 8-6.

Under the existing compensation system only 67% of total military career compensation is represented by basic salaries for time worked, even when basic salaries are defined to include those occupational

TABLE 8-3

ESTIMATED COSTS OF PROSPECTIVE SALARY INCREASES TO ATTAIN FULL PRIVATE ENTERPRISE COMPARABILITY BY 1 JULY 1969[1]

	($ Million)	
FY 1969	Budget	Net Cost
Convert to salary on 1 October 1968[2]	$ 982.2	$ 327.3
Step 1 increase (4.4%) on 1 October 1968[3]	593.6	489.0
Total FY 1969	$1,575.8	$ 816.3
FY 1970		
Carry over of conversion costs	$ 327.4	$ 109.1
Step 2 increase (7.4%) on 1 July 1969[3]	1,341.1	1,096.4
Total FY 1970	$1,668.5	$1,205.5
Total through end FY 1970	$3,244.3	$2,021.8

[1] Assumes force distribution projected in President's FY 1968 budget.

[2] Conversion costs reduced by an estimated $30.0 million of budget and $24.0 million of net cost in reduced save pay requirement if conversion is made in conjunction with Step 1 increase.

[3] Assumes military salary increases awarded to parallel salary movements in civil service of 4.4% in FY 1969 and 7.4% in FY 1970.

TABLE 8-4

COMPARATIVE DISTRIBUTION OF MILITARY AND FEDERAL CIVILIAN TOTAL COMPENSATION COSTS BY MAJOR CATEGORY[1]

PART I -- Distribution of Total Compensation

	Career Military Force		Civilian Force
	Present	Proposed	
Basic Salaries for time worked[2]	67.0%	71.9%	74.5%
Premium Pays	2.8	2.7	4.5
Supplemental Benefits	30.2	25.4	21.0
TOTAL COMPENSATION	100.0%	100.0%	100.0%

PART II -- Composition of Total Supplemental Benefits

	Career Military Force		Civilian Force
	Present	Proposed	
Supplemental Benefits	30.2%	25.4%	21.0%
Paid Annual Leave	7.7	8.4	10.5
Retirement & Survivor Programs	15.0	10.3	6.4
Social Security	2.0	2.0	0.2
Unemployment Programs	0.3	0.2	0.2
Health Benefit Programs[3]	4.5	4.5	3.7
Exchanges and Commissaries	0.7		

[1] Percentages shown in this table are taken from those in Tables 8-5 and 8-6. A detailed breakdown and description of the items in this table are discussed in the footnotes of those tables. Percentages show the distribution of estimated annual costs, at rates proposed for 1 October 1967 effective date, applied to the active duty career military and Federal civilian forces projected in the President's FY 1968 Budget. The Federal civilian work force includes General Schedule, Wage Board, Exectuvie Schedule, and Excepted Appointment (Schedule A, B, and C) employees.

[2] Includes certain military occupational special pays that correspond to Federal civilian salary distinctions (e.g., special pay for physicians). Excludes paid leave, which is included as a supplemental benefit in both military and civilian systems.

[3] Includes paid sick leave.

TABLE 8-5

COMPARISON OF CAREER MILITARY TO FEDERAL CIVILIAN TOTAL COMPENSATION

UNDER EXISTING BASIC PAY AND ALLOWANCE SYSTEM[1]

($000)

Compensation Elements	Annual Costs Military Career Force	Annual Costs Federal Civilian	Percentage of Basic Salaries	
			Military Career Force	Federal Civilian
Basic Salaries, Total	$12,067,819	$20,782,761	100.0%	100.0%
Regular Compensation[2]	11,742,900	21,343,276		
Medical, Dental, Vet. Pay	42,498			
Proficiency Pay (Specialty)	129,299			
Regular Reenlistment Bonus	178,500			
Variable Reenlistment Bonus	95,470			
Terminal Leave	263,279	86,447		
Less: Sick Leave (estimated)	(384,127)	(646,962)		
Premium Pays, Total	$ 454,094	$ 1,107,700	3.8%	5.3%
Incentive Pay: Hazardous Duty	351,254			
Diving Duty Pay	3,744			
Sea and Certain Places Pay	80,376			
Proficiency Pay (Sup. Perf.)	18,720			
Supplemental Benefits, Total	$ 4,874,986	$ 5,133,855	40.3%	24.7%
Paid Leave (except sick leave)[3]	1,245,590	2,562,267	10.3	12.3
Retirement & Survivor Programs[4]	2,427,031	1,574,023	20.1	7.6
Social Security	329,705	54,789	2.7	0.3
Unemployment Programs[5]	41,846	44,099	0.3	0.2
Health Benefit Programs[6]	720,824	898,677	6.0	4.3
Consumption Advantages[7]	109,990		0.9	
Total Basic Salaries, Premium Pays and Supplemental Benefits	$17,396,899	$27,024,316		
Less: Leave (included in basic salaries)	(1,245,590)	(2,562,267)	(10.3)	(12.3)
TOTAL COMPENSATION	$16,151,309	$24,462,049	133.8%	117.7%

[1] Estimated annual costs, at rates proposed for 1 October 1967 effective date, applied to the act and Federal civilian forces projected in the President's FY 1968 Budget. The Federal civilian General Schedule, Wage Board, Executive Schedule, and Excepted Appointment (Schedule A, B, and

[2] Basic pay, quarters, subsistence and Federal income tax advantage for military; basic salaries

[3] Included in basic salaries above.

[4] For military, includes current service normal costs on accrual basis for retirement (including dependency and indemnity compensation, and death gratuity. For civilian, includes current serv accrual basis of retirement systems and Federal Employee Compensation Act costs.

[5] Includes unemployment compensation, separation, and severance pays.

[6] For military, includes sick leave, members' normal medical care, and dependents medical care. sick leave and Government contribution to life and health insurance programs.

[7] Includes costs of exchanges, commissaries, and mortgage insurance.

TABLE 8-5

COMPARISON OF CAREER MILITARY TO FEDERAL CIVILIAN TOTAL COMPENSATION

UNDFR EXISTING BASIC PAY AND ALLOWANCE SYSTEM[1]

($000)

	Annual Costs Military Career Force	Annual Costs Federal Civilian	Percentage of Basic Salaries		Percentage of Total Compensation	
			Military Career Force	Federal Civilian	Military Career Force	Federal Civilian
	$12,067,819	$20,782,761	100.0%	100.0%	74.7%	85.0%
	11,742,900	21,343,276				
ay	42,498					
lty)	129,299					
nus	178,500					
onus	95,470					
	263,279	86,447				
ated)	(384,127)	(646,962)				
	$ 454,094	$ 1,107,700	3.8%	5.3%	2.8%	4.5%
s Duty	351,254					
	3,744					
Pay	80,376					
erf.)	18,720					
tal	$ 4,874,986	$ 5,133,855	40.3%	24.7%	30.2%	21.0%
leave)[3]	1,245,590	2,562,267	10.3	12.3	7.7	10.5
rograms[4]	2,427,031	1,574,023	20.1	7.6	15.0	6.4
	329,705	54,789	2.7	0.3	2.0	0.2
]	41,846	44,099	0.3	0.2	0.3	0.2
[6]	720,824	898,677	6.0	4.3	4.5	3.7
7]	109,990		0.9		0.7	
mium Pays						
ts	$17,396,899	$27,024,316				
	(1,245,590)	(2,562,267)	(10.3)	(12.3)	(7.7)	(10.5)
	$16,151,309	$24,462,049	133.8%	117.7%	100.0%	100.0%

sts, at rates proposed for 1 October 1967 effective date, applied to the active duty military career
n forces projected in the President's FY 1968 Budget. The Federal civilian work force includes
age Board, Executive Schedule, and Excepted Appointment (Schedule A, B, and C) employees.
, subsistence and Federal income tax advantage for military; basic salaries for civilians.
alaries above.
des current service normal costs on accrual basis for retirement (including retired medical care)
mnity compensation, and death gratuity. For civilian, includes current service normal cost on
tirement systems and Federal Employee Compensation Act costs.
nt compensation, separation, and severance pays.
des sick leave, members' normal medical care, and dependents medical care. For civilian, includes
rnment contribution to life and health insurance programs.
xchanges, commissaries, and mortgage insurance.

TABLE 8-6

COMPARISON OF CAREER MILITARY TO FEDERAL CIVILIAN TOTAL COMPENSATION

UNDER PROPOSED CAREER SALARY SYSTEM[1]

($000)

Compensation Elements	Annual Costs Military Career Force	Annual Costs Federal Civilian	Percentage of Basic Salaries: Military Career Force	Percentage of Basic Salaries: Federal Civili
Basic Salaries, Total	$13,528,349	$20,782,761	100.0%	100.0%
Salaries	13,383,500	21,343,276		
Medical, Dental, Vet. Pay	42,498			
Proficiency Pay (Specialty)	129,299			
Variable Reenlistment Bonus	95,470			
Terminal Leave	307,792	86,447		
Less: Sick Leave (estimated)	(430,210)	(646,962)		
Premium Pays, Total	$ 454,094	$ 1,107,700	3.4%	5.3%
Incentive Pay : Hazardous Duty	351,254			
Diving Duty Pay	3,744			
Sea and Certain Places Pay	80,376			
Proficiency Pay (Sup. Perf.)	18,720			
Supplemental Benefits, Total	$ 4,269,626	$ 5,133,855	31.6%	24.7%
Paid Leave (except sick leave)[2]	1,407,437	2,562,267	10.4	12.3
Retirement & Survivor Programs[3]	1,737,131	1,574,023	12.9	7.6
Social Security	329,705	54,789	2.4	0.3
Unemployment Programs[4]	38,446	44,099	0.3	0.2
Health Benefit Programs[5]	756,907	898,677	5.6	4.3
Total Basic Salaries, Premium Pays and Supplemental Benefits	$18,252,069	$27,024,316		
Less: Leave (included in basic salaries)	(1,407,437)	(2,562,267)	(10.4)	(12.3)
TOTAL COMPENSATION	$16,844,632	$24,462,049	124.5%	117.7%

[1] Estimated annual costs, at rates proposed for 1 October 1967 effective date, applied to the ac and Federal civilian forces projected in the President's FY 1968 Budget. The Federal civilian General Schedule, Wage Board, Executive Schedule, and Excepted Appointment (Schedule A, B, and

[2] Included in basic salaries above.

[3] For military, includes Government portion of current service normal costs on accrual basis for retired medical care), recommended vesting provisions, dependency and indemnity compensation, civilian, includes current service normal cost on accrual basis of retirement systems and Fede Act costs.

[4] Includes unemployment compensation, separation, and severance pays.

[5] For military, includes sick leave, members' normal medical care, and dependents medical care. sick leave and Government contribution to life and health insurance programs.

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TABLE 8-6

COMPARISON OF CAREER MILITARY TO FEDERAL CIVILIAN TOTAL COMPENSATION

UNDER PROPOSED CAREER SALARY SYSTEM[1]

($000)

	Annual Costs Military Career Force	Annual Costs Federal Civilian	Percentage of Basic Salaries		Percentage of Total Compensation	
			Military Career Force	Federal Civilian	Military Career Force	Federal Civilian
	$13,528,349	$20,782,761	100.0%	100.0%	80.3%	85.0%
	13,383,500	21,343,276				
y	42,498					
ty)	129,299					
nus	95,470					
	307,792	86,447				
ted)	(430,210)	(646,962)				
	$ 454,094	$ 1,107,700	3.4%	5.3%	2.7%	4.5%
s Duty	351,254					
	3,744					
ay	80,376					
rf.)	18,720					
al	$ 4,269,626	$ 5,133,855	31.6%	24.7%	25.4%	21.0%
leave)[2]	1,407,437	2,562,267	10.4	12.3	8.4	10.5
ograms[3]	1,737,131	1,574,023	12.9	7.6	10.3	6.4
	329,705	54,789	2.4	0.3	2.0	0.2
	38,446	44,099	0.3	0.2	0.2	0.2
5]	756,907	898,677	5.6	4.3	4.5	3.7
ium Pays						
s	$18,252,069	$27,024,316				
	(1,407,437)	(2,562,267)	(10.4)	(12.3)	(8.4)	(10.5)
	$16,844,632	$24,462,049	124.5%	117.7%	100.0%	100.0%

s, at rates proposed for 1 October 1967 effective date, applied to the active duty military career forces projected in the President's FY 1968 Budget. The Federal civilian work force includes e Board, Executive Schedule, and Excepted Appointment (Schedule A, B, and C) employees. aries above.

s Government portion of current service normal costs on accrual basis for retirement (including , recommended vesting provisions, dependency and indemnity compensation, and death gratuity. For rrent service normal cost on accrual basis of retirement systems and Federal Employee Compensation

compensation, separation, and severance pays.

s sick leave, members' normal medical care, and dependents medical care. For civilian, incl ides ment contribution to life and health insurance programs.

special pays that correspond to special salary rates in the Federal civilian system. Supplemental benefits make up 30.2% of total military career compensation and premium pays (Hostile Fire Pay, Sea and Certain Places Pay, etc.), make up the remaining 2.8%.

The study's recommendations would increase the share of total compensation represented by basic salaries in the military career force from 67% to 71.9% and reduce the share represented by supplemental benefits from 30% to 25.4%. Two features account for this structural realignment. First, the vested retirement contribution added to regular military compensation moves a substantial fraction of military retirement costs from the supplemental benefit to the basic salary category. Second, adding the parity catch up to basic salaries further increases the portion of total career compensation represented by salaries.

This structural realignment conforms the career military compensation system more closely to the Federal civilian system. Even so, supplemental benefits represent 4.4 percentage points more of total compensation in the proposed military career system than in the Federal civilian system.

Part two of Table 8-3 displays a detailed breakdown of supplemental benefits in the two systems. It shows the reduction by 1/3 (from 15.0% to 10.3%) of the share of total career compensation made up by retirement and survivor programs. Even so, retirement and survivor programs in the military career force still exceed the share of such programs in the civilian work force by 3.9 percentage points after the conversion. Social Security costs account for 2.0% of compensation in the proposed career force system as opposed to 0.2% in the civilian system because only temporary civilian employees participate in the Social Security system. Thus, Military Estate Program provisions account for the major share of the total difference in supplemental benefits between the career military and civilian systems.

Although the military career force to civilian work force comparisons are the most significant for compensation policy purposes, the implications of including the noncareer force are displayed in detail in Tables 8-7 and 8-8. Here the "swing" from supplemental benefits to current salary is less pronounced, but still appreciable.

Future Cost Implications

The recommendations contained in the report offer the reasonable prospect of substantial increases in retention that should contribute significantly to the attainment of a force balanced to meet manpower requirements.

The invisibility of much of present pay, the inequities of the present pay system, and its lag behind civilian salaries make it an

TABLE 8-7

COMPARISON OF TOTAL MILITARY TO FEDERAL CIVILIAN TOTAL COMPENSATION UNDER EXISTING BASIC PAY AND ALLOWANCE SYSTEM[1]

($000)

Compensation Elements	Annual Costs Military	Annual Costs Federal Civilian	Percentage of Basic Salaries		Pe Tota
			Military	Federal Civilian	Mili
Basic Salaries, Total	$17,098,211	$20,782,761	100.0%	100.0%	77
Regular Compensation[2]	16,864,800	21,343,276			
Medical, Dental, Vet. Pay	42,498				
Proficiency Pay (Specialty)	129,299				
Regular Reenlistment Bonus	178,500				
Variable Reenlistment Bonus	95,470				
Terminal Leave	333,188	86,447			
Less: Sick Leave (estimated)	(545,544)	(646,962)			
Premium Pays, Total	$ 571,236	$ 1,107,700	3.3%	5.3%	2
Incentive Pay : Hazardous Duty	396,690				
Diving Duty Pay	3,744				
Sea and Certain Places Pay	152,082				
Proficiency Pay (Sup. Perf.)	18,720				
Supplemental Benefits, Total	$ 6,028,318	$ 5,133,855	35.3%	24.7%	27
Paid Leave (except sick leave)[3]	1,727,556	2,562,267	10.1	12.3	7
Retirement & Survivor Programs[4]	2,667,780	1,574,023	15.6	7.6	12
Social Security	473,439	54,789	2.8	0.3	2
Unemployment Programs[5]	57,363	44,099	0.3	0.2	(
Health Benefit Programs[6]	986,512	898,677	5.8	4.3	4
Consumption Advantages[7]	115,668		0.7		(
Total Basic Salaries, Premium Pays and Supplemental Benefits	$23,697,765	$27,024,316			
Less: Leave (included in basic salaries)	(1,727,556)	(2,562,267)	(10.1)	(12.3)	(7
TOTAL COMPENSATION	$21,970,209	$24,462,049	128.5%	117.7%	10(

[1] Estimated annual costs, at rates proposed for 1 October 1967 effective date, applied to the activ Federal civilian forces projected in the President's FY 1968 Budget. The Federal civilian work f Schedule, Wage Board, Executive Schedule, and Excepted Appointment (Schedule A, B, and C) employe

[2] Basic pay, quarters, subsistence and Federal income tax advantage for military; basic salaries fc

[3] Included in basic salaries above.

[4] For military, includes current service normal costs on accrual basis for retirement (includ'ng re dependency and indemnity compensation, and death gratuity. For civilian, includes current servic accrual basis of retirement systems and Federal Employee Compensation Act costs.

[5] Includes unemployment compensation, separation, and severance pays.

[6] For military, includes sick leave, member's normal medical care, and dependents medical care. Fc sick leave and Government contribution to life and health insurance.

[7] Includes costs of exchanges, commissaries, and mortgage insurance.

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TABLE 8-7

COMPARISON OF TOTAL MILITARY TO FEDERAL CIVILIAN TOTAL COMPENSATION UNDER EXISTING BASIC PAY AND ALLOWANCE SYSTEM[1]

($000)

	Annual Costs Military	Annual Costs Federal Civilian	Percentage of Basic Salaries		Percentage of Total Compensation	
			Military	Federal Civilian	Military	Federal Civilian
	$17,098,211	$20,782,761	100.0%	100.0%	77.8%	85.0%
	16,864,800	21,343,276				
Pay	42,498					
lty)	129,299					
onus	178,500					
Bonus	95,470					
	333,188	86,447				
nated)	(545,544)	(646,962)				
	$ 571,236	$ 1,107,700	3.3%	5.3%	2.6%	4.5%
us Duty	396,690					
	3,744					
Pay	152,082					
Perf.)	18,720					
tal	$ 6,028,318	$ 5,133,855	35.3%	24.7%	27.5%	21.0%
leave)[3]	1,727,556	2,562,267	10.1	12.3	7.9	10.5
rograms[4]	2,667,780	1,574,023	15.6	7.6	12.1	6.4
	473,439	54,789	2.8	0.3	2.2	0.2
]	57,363	44,099	0.3	0.2	0.3	0.2
[6]	986,512	898,677	5.8	4.3	4.5	3.7
7]	115,668		0.7		0.5	
mium Pa						
ts	765	$27,024,316				
	5)	(2,562,267)	(10.1)	(12.3)	(7.9)	(10.5)
	0,209	$24,462,049	128.5%	117.7%	100.0%	100.0%

s, at rates proposed for 1 October 1967 effective date, applied to the active duty military and es projected in the President's FY 1968 Budget. The Federal civilian work force includes General Executive Schedule, and Excepted Appointment (Schedule A, B, and C) employees.

subsistence and Federal income tax advantage for military; basic salaries for civilians.

aries above.

s current service normal costs on accrual basis for retirement (including retired medical care), ity compensation, and death gratuity. For civilian, includes current service normal cost on rement systems and Federal Employee Compensation Act costs.

compensation, separation, and severance pays.

s sick leave, member's normal medical care, and dependents medical care. For civilian, includes ment contribution to life and health insurance.

changes, commissaries, and mortgage insurance.

TABLE 8-8

COMPARISON OF TOTAL MILITARY TO FEDERAL CIVILIAN TOTAL COMPENSATION UNDER PROPOSED CAREER SALARY SYSTEM[1]

($000)

Compensation Elements	Annual Costs Military	Annual Costs Federal Civilian	Percentage of Basic Salaries	
			Military	Federal Civilian
Basic Salaries, Total	$18,558,237	$20,782.761	100.0%	100.0%
Salaries & Regular Compensation[2]	18,505,400	21,343,276		
Medical, Dental, Vet. Pay	42,498			
Proficiency Pay (Specialty)	129,299			
Variable Reenlistment Bonus	95,470			
Terminal Leave	377,188	86,447		
Less: Sick Leave (estimated)	(591,618)	(646,962)		
Premium Pays, Total	$ 571,236	$ 1,107,700	3.1%	5.3%
Incentive Pay : Hazardous Duty	396,690			
Diving Duty Pay	3,744			
Sea and Certain Places Pay	152,082			
Proficiency Pay (Sup. Perf.)	18,720			
Supplemental Benefits, Total	$ 5,417,298	$ 5,133,855	29.2%	24.7%
Paid Leave (except sick leave)[3]	1,889,430	2,562,267	10.2	12.3
Retirement & Survivor Programs[4]	1,977,880	1,574,023	10.7	7.6
Social Security	473,439	54,789	2.5	0.3
Unemployment Programs[5]	53,963	44,099	0.3	0.2
Health Benefit Programs[6]	1,022,586	898,677	5.5	4.3
Total Basic Salaries, Premium Pays and Supplemental Benefits	$24,546,771	$27,024,316		
Less: Leave (included in basic salaries)	(1,889,430)	(2,562,267)	(10.2)	(12.3)
TOTAL COMPENSATION	$22,657,341	$24,462,049	122.1%	117.7%

[1] Estimated annual costs, at rates proposed for 1 October 1967 effective date, applied to the acti Federal civilian forces projected in the President's FY 1968 Budget. The Federal civilian work Schedule, Wage Board, Executive Schedule, and Excepted Appointment (Schedule A, B, and C) employ

[2] For military noncareer force includes personal money pay, quarters, subsistence, and tax advanta career force includes parity salaries; for civilians includes basic salaries.

[3] Included in basic salaries above.

[4] For military, includes Government portion of current service normal costs on accrual basis for r retired medical care), recommended vesting provisions, dependency and indemnity compensation, an civilian, includes current service normal cost on accrual basis of retirement systems and Federa Act costs.

[5] Includes unemployment compensation, separation, and severance pays.

[6] For military, includes sick leave, members' normal medical care, and dependents medical care. F sick leave and Government contribution to life and health insurance programs.

TABLE 8-8

COMPARISON OF TOTAL MILITARY TO FEDERAL CIVILIAN TOTAL COMPENSATI ON UNDER PROPOSED CAREER SALARY SYSTEM[1]

($000)

	Annual Costs Military	Annual Costs Federal Civilian	Percentage of Basic Salaries		Percentage of Total Compensation	
			Military	Federal Civilian	Military	Federal Civilian
	$18,558,237	$20,782.761	100.0%	100.0%	81.9%	85.0%
ompensation[2]	18,505,400	21,343,276				
. Pay	42,498					
cialty)	129,299					
t Bonus	95,470					
	377,188	86,447				
timated)	(591,618)	(646,962)				
	$ 571,236	$ 1,107,700	3.1%	5.3%	2.5%	4.5%
rdous Duty	396,690					
	3,744					
es Pay	152,082					
. Perf.)	18,720					
Total	$ 5,417,298	$ 5,133,855	29.2%	24.7%	23.9%	21.0%
ick leave)[3]	1,889,430	2,562,267	10.2	12.3	8.3	10.5
r Programs[4]	1,977,880	1,574,023	10.7	7.6	8.7	6.4
	473,439	54,789	2.5	0.3	2.1	0.2
[5]	53,963	44,099	0.3	0.2	0.3	0.2
ams[6]	1,022,586	898,677	5.5	4.3	4.5	3.7
Premium Pays						
efits	$24,546,771	$27,024,316				
in						
	(1,889,430)	(2,562,267)	(10.2)	(12.3)	(8.3)	(10.5)
	$22,657,341	$24,462,049	122.1%	117.7%	100.0%	100.0%

osts, at rates proposed for 1 October 1967 effective date, applied to the active duty military and forces projected in the President's FY 1968 Budget. The Federal civilian ork force includes General rd, Executive Schedule, and Excepted Appointment (Schedule A, B, and C) employees.

areer force includes personal money pay, quarters, subsistence, and tax advantage; for military des parity salaries; for civilians includes basic salaries.

salaries above.

es Government portion of current service normal costs on accrual basis for retirement (including are), recommended vesting provisions, dependency and indemnity compensation, and death gratuity. For current service normal cost on accrual basis of retirement systems and Federal Employee Compensation

nent compensation, separation, and severance pays.

udes sick leave, members' normal medical care, and dependents medical care. For civilian, includes vernment contribution to life and health insurance programs.

inefficient system. The recommendations contained in this report will increase the visibility, the credibility, and the amount of military pay. Increased visibility and equity will be attained by replacing a confusing array of pays, allowances, and benefits that depend in part on family size with a single taxable cash salary based on pay grade and longevity step. Increased credibility will come from adopting an objective, quantitative standard for deciding what salary levels should be and how they should be adjusted to keep pace with salary levels in the private sector. The increased amount of pay will close the lag between current military career salaries and those necessary to attain parity with Federal civilian salaries.

Correcting the existing compensation system's deficiencies will produce marked improvements in what the Government gets for its compensation dollars. This makes a more effective force for less cost a realistic possibility.

The actions recommended by this study can reasonably be expected to help attract, retain, and motivate to career service more of the kinds and numbers of career people the services need. The combined effect of the recommendations will enable the services to increase the effectiveness of a given size force in three ways: each service will be able to (1) increase that part of its total force committed to operational (nontraining) missions, (2) attain more nearly the desired force structure profile by years of service, and (3) improve the average quality level of the force.

Extra retention expected from the recommended changes will begin to occur in the first year of the transition.[1] This extra retention will begin to reduce training and accession costs immediately, thereby reducing the actual first year net cost of the converting to the salary system.

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[1] There may even be some retention impact as the program is announced before it is actually enacted.

A detailed analysis conducted in the Department of Defense in conjunction with the Proficiency Pay program developed estimated first term accession and training costs[1] for each of some 1,200 military occupational specialties.

The weighted average first term training and accession cost for all Department of Defense enlisted personnel under the definition used was estimated to be $4,870. This was made up of separate service averages of: Army - $4,621, Navy - $5,230, Marine Corps - $4,653, and Air Force - $5,300. Similar estimates for officer personnel produced training cost estimates of $[illegible],860 per man.

The amount of increased retention to be expected from the recommended pay changes is exceedingly difficult to predict with precision because many factors other than pay bear on retention. Nonetheless, studies of the Proficiency Pay (Specialty) program indicate that the responsiveness of first term reenlistment rates to Proficiency Pay changes is on the order of 2.2 to 1.0, stated in percentage terms. That is, it has been estimated that a 1.0% increase in perceived pay at the reenlistment decision point has increased reenlistment rates on the average by 2.2% over their previous levels.[2]

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[1] The following costs were included in the definition of accession and training costs:
- Direct operating costs (supplies, maintenance and operation of facilities, etc.),
- aircraft depot maintenance costs,
- travel costs incident to training,
- initial clothing issues,
- processing and induction costs,
- pay and allowances of students, instructors, and direct support personnel.

Training costs excluded were:
- Initial construction costs,
- depreciation of facilities and major equipment,
- depot maintenance costs for equipment other than aircraft,
- support rendered to training activities by agencies other than those engaged in training.

The exclusions result in some understatement of average training costs, but the estimates are the most precise ones that could be constructed from available data.

[2] This means 1.022 times the existing reenlistment rate. It does not mean an increase of 2.2 <u>percentage points</u> in the reenlistment rate.

The size of the perceived pay increase is a function of both the increased visibility of pay and the increased amount of pay contained in the recommendations. As regards visibility, surveys of former military personnel disclose that potential careerists underestimate present military income at the four years of service point by some 24% (Cf. Chapter 3). Movement to a total salary is designed to cure this defect by making all of a member's potential career salary fully visible. Therefore, movement to the salary could be expected to increase the member's perceived income at the four-year point by something like 24% from the visibility effect alone.

As regards the increased amount of pay, the move to parity salaries will represent an increase in the actual average current salary received at the four years of service point from $4,894 under 1 October 1967 proposed regular compensation rates to $5,660 at 1 October 1967 parity salary rates, an increase of 16%.

Therefore, the recommended move to parity salaries can represent an increase in perceived income to the member of as much as 40%.

Applying the 2.2 to 1.0 ratio of responsiveness to this size pay increase would produce an estimated increase in reenlistment rates of 88% above current levels. Such an estimate would probably be a substantial overstatement. Ascribing to the 24% increase in the visibility of salary the same retention impact as an actual dollar increase may well be an overstatement of the influence of converting to the salary system. A more conservative estimate of the impact of the proposed changes on retention decisions might assume that only half of the increased visibility of pay will be translated into retention impact. This would produce an apparent salary increase of 28% (16% actual salary increase plus 12% from increased visibility).

Another possible source of overstatement is the 2.2 to 1.0 reenlistment rate response ratio. This estimate, while based on actual pay experience, is derived from data obtained over a much smaller range of changes in pay (from 7% to 25%) than that proposed in the study's recommendations. As reenlistment rates increase, the potential pool of extra reenlistees--those who are undecided, but who can be influenced by pay increases--gets smaller, leaving less and less room for improvement. A response ratio estimate that projected a 2.0% change in reenlistment rates for each 1.0% change in perceived pay would be a more conservative estimate of the responsiveness measure in the range of pay increases around 30% proposed by the study.

Applying these more cautious estimates to the FY 1968 man years expected in the 3-4 year group as an estimate of the available reenlistment pool produces an estimated annual training and accession cost saving of $204.2 million as shown in Table 8-9. Savings of this amount

TABLE 8-9

POTENTIAL TRAINING COST SAVINGS, ENLISTED FORCE

	Parameters Used in Estimates			
Perceived Pay Increase:	40%	28%	20%	16%
Responsiveness:	2.2/1.0	2.0/1.0	2.0/1.0	2.0/1.0
Projected Percentage Increase in First Term Regular Reenlistment Rate	88%	56%	40%	32%
Projected Percentage Point Improvement in First Term Regular Reenlistment Rate[1]	19.3%	12.3%	8.8%	7.0%
Potential Extra Reenlistees[2]	65,813	41,940	30,000	23,870
Potential Training Cost Savings ($ Millions)[3]	$320.5	$204.2	$146.1	$116.2
Best Estimate of Training Cost Savings:		$160.2		

[1] FY 1966 Adjusted First Term Regular Reenlistment Rate = 21.9%

[2] Estimated size of potential reenlistee population in FY 1968 is 341,000.

[3] At average training cost per man of $4,870.

in enlisted training costs might reasonably be expected during the first full year of the new proposals.

Even if one discounts entirely the added visibility effect of the recommended salaries, the actual salary increase of 16% could reasonably be expected to yield enlisted training cost savings of an estimated $116.3 million in the first full year of the salary system's operation. All such estimates are subject to substantial margins of error. Still, using the best available data it is not unreasonable to expect annual savings of first term enlisted training costs in the range of $116 million to $204 million as shown in Table 8-9. The center of this range, $160 million, is a quite conservative estimate of the enlisted training and accession cost savings to be expected during the first year.

No reliable data on the responsiveness of officer retention to pay increases are available. If the response is the same on the average as in the enlisted grades, the potential savings in officer training costs would range from $15.4 million to $42.5 million as shown in Table 8-10.

Officer and enlisted retention increases together, then, offer the reasonable prospect of savings in training and accession costs of something like $189.2 million in budget savings or $160.5 million of net cost savings in the first full year of operation of the parity salary system. The immediate impact of this savings would be to reduce the net full year new cost to the Government of the 1 October 1967 conversion program from an estimated $460.4 million to some $300.0 million.

Future Implications for Force Effectiveness

As retention increases, first term training loads decline and fewer people out of a given size total force must be included in the training base. The average annual no-prior-service input to the total force over the five year period FY 1961 through FY 1965 inclusive was 456,200 enlisted men and 39,540 officers. A force of the same size as that of 30 June 1965 but distributed by years of service so as to match the services' desired force structure profiles could be maintained with an annual input of approximately 332,700 enlisted men and 25,560 officers. Thus, if the balanced force profile were attained, the training base could be reduced by some 133,500 enlisted trainees, or 29% of the enlisted training load, and 13,890 officer trainees or 35% of the officer training load. A substantial additional number of career people who are now engaged in training and support functions could be reassigned to operational duties. This increase in the size of the operating forces could clearly increase total force effectiveness.[1]

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[1] Alternatively, total personnel costs could be reduced while retaining the same level of effectiveness (size operating force) by reducing total force size by the approximate amount of the training base reduction. In either case draft calls and involuntary calls of reservists to active duty could be expected to decline sharply.

TABLE 8-10

POTENTIAL TRAINING COST SAVINGS, OFFICERS

	Parameters Used in Estimates			
Perceived Pay Increase:	34%	34%	22%	10%
Responsiveness:	2.2/1.0	2.0/1.0	2.0/1.0	2.0/1.0
Projected Percentage Increase in First Tour Retention	74.8%	68.0%	44.0%	20.0%
Projected Percentage Point Improvement in First Tour Retention[1]	28.9%	26.3%	17.0%	7.7%
Potential Extra Retainees[2]	7,307	6,680	4,320	1,961
Potential Training Cost Savings ($ Million)[3]	$57.4	$52.5	$34.0	$15.4
Best Estimate of Training Cost Savings:		$29.0		

[1] FY 1966 First Tour Officer Retention Rate = 38.7%

[2] Estimated size of population eligible for retention in FY 1968 is 25,286.

[3] At average training cost per officer of $7,860.

As the force distribution by years of service approaches more nearly the balanced force profile the existing necessity to have relatively junior people move up into jobs that call for more experience and training than they actually have will be reduced. So will the need to hold people in the service beyond optimum career lengths just to have someone available to get the job done. The resulting change in the experience profile of the force will generate an increase in force effectiveness even if the total number of people devoted to operational missions is held constant.

While the direction of this influence is clear, its extent is not. The amount by which effectiveness will increase because of the change in the force experience profile can be estimated only when better information is available on the relationship between experience and effectiveness in the various subgroups of the total force.

Selective retention into the career force is already practiced in some areas, and can be extended as career attractiveness is enhanced. Selective preretirement release of personnel from the career force in substantial numbers will be facilitated by the vested retirement contribution and separation pay recommendations of the study. Both retention and separation screening can be used to generate an increase in the general quality level of active duty members in conjunction with attaining the desired experience balance. This general quality increase will produce a third component of gain in total force effectiveness. Again, while the direction of the influence is clear, the exact amount of any potential gain is indeterminate.

In summary, the recommendations of this study promise a more effective force because the operational part of the force can be larger,[1] better tailored to experience needs, and made up of higher quality personnel.

Cost-Effectiveness of Recommendations

Will the increased effectiveness so generated be worth the cost of attaining it? The extra effectiveness cannot be quantified with precision. Still, the cost implications of generating that increment to effectiveness can be developed and used in making judgments on this central question. If the extra costs involved are modest, the recommendations are likely to be cost-effective. If no extra costs are involved or if actual cost savings can reasonably be expected, then the recommendations are clearly cost-effective, regardless of the exact amount of any extra effectiveness.

Four major cost implications are involved in moving from the existing force profile toward the services' desired balanced force profiles:

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[1] Or, the total force size can be smaller for the same size operational force.

(1) First term training and associated turnover costs (recruitment, clothing issues, processing, etc.), will decline as additional continuations permit reductions in first term manpower inputs.

(2) Active force compensation costs will rise as the force becomes relatively more senior in length of service and draws the higher career salary rates.

(3) Separation payments will increase as force managers generate the extra attrition necessary to attain the balanced force profile in the years of service span short of 20 years.

(4) Retirement costs will decline if fewer people enter the retired rolls as more are separated after optimum career lengths short of retirement.

Only the first two of these results will occur with no change in present force management practices. Any increases in separation costs or significant savings in prospective retirement costs must come from a conscious application of separation pay provisions to tailor the force to optimum requirements and from a restructuring of retirement provisions, to include both numbers of people retiring and retirement annuities.

The services' statements of desired force distributions used throughout this study were developed in the context of the existing basic pay and allowances system at rates in effect under 1 July 1966 pay scales. The significant structural changes in active duty pay incorporated in the study's recommendations will require a thorough-going reevaluation of this balanced force. The relative costs of the various pay grades is changed substantially by the recommended conversion to a parity salary system. Thus, what was an optimally effective force considering relative costs of its various members at one pay structure is not likely to be the optimum force at the new pay structure. A thorough review of manpower requirements will be required to define the optimum force under the proposed salary structure. Until such review is completed, the long-range cost implications of attaining the optimum force structure profile cannot be determined.

A fundamental part of this force structure study must be a reevaluation of the numbers of people required to continue to 20 years of service. Attainment of the force structure profiles submitted by the services for the 30 June 1965 force distribution might well result in <u>more</u> people entering the retired rolls if the influence of extra first term retention outweighs the influence of the involuntary separations required in the career force. Thus, it is not possible to project accurately the influence of attaining an optimum force profile on numbers of future retirements until the optimum force profile has been derived in the context of the recommended salary system.

A second potential retirement cost change can be expected from any restructuring of retirement benefits that may result from the ongoing retirement studies.

Although meaningful long run cost implications depend on future actions with respect to force structure and retirement annuities, it is nonetheless clear that the recommendations of this study both permit and require future actions designed to increase the cost-effectiveness of the compensation system. However, translating this potential into payoff will require the timely completion of the necessary studies and vigorous management action to effect the required changes in manpower management.