

Reform Military Compensation

SAVINGS IN MILLIONS OF DOLLARS

2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016-2020	2016-2025
\$2,100	\$3,300	\$4,100	\$4,900	\$5,800	\$6,700	\$7,600	\$8,600	\$9,732	\$11,012	\$20,200	\$63,844

Heritage Recommendation:

Congress must reform military compensation to stop wasteful cost growths and better align the entire compensation system with the needs of today's soldiers. This proposal saves \$2.1 billion in 2016, and \$63.8 billion over 10 years.

Rationale:

Active-duty soldiers receive compensation for their service in several ways: basic pay, health care, retirement, and additional non-pay benefits, such as education. In the past several decades, the cost for military personnel has grown drastically. From 2001 to 2012, the costs are estimated to have risen by 42 percent.²¹ The cost growth has become very problematic for the Department of Defense. In order to keep these costs from consuming the entire Pentagon budget, the military has responded the only way it can—by cutting end strength. This is not a viable solution, as military end strength must be determined by military requirements and strategy.

Congress must reform the various compensation systems. This is not simply a cost-cutting exercise. The fact is that some of these systems were originally crafted when the DOD was created and are truly outdated. For example, the DOD retirement benefit is still a pension system from 1920 that provides no benefits to those who leave the military with fewer than 20 years of service.²² Most of the private sector no longer uses a pension system; furthermore, the average person today will change jobs every 4.4 years.²³ Reforms are necessary to align the military compensation system with today's generation in order to better recruit and retain soldiers.

There have been many proposals for compensation reform. Many of these have merits; however the exact reform package should be informed by the findings of the Military Compensation and Retirement Modernization Commission, which will release a report in February 2015.

In general, compensation reform should:

- Consider all aspects of soldier compensation, including basic pay, retirement, health care, and other non-pay benefits;
- Reforms should reduce costs to the military in order to afford the necessary end strength to meet military requirements; and
- Reforms should not merely cut costs but should enforce a strong recruitment and retention system to sustain the all-volunteer force.

The estimates above are an example of possible savings from CBO's reform proposals for TRICARE and basic pay. The exact savings will be based on the details of the plan.



Additional Reading:

- Baker Spring, “Saving the American Dream: Improving Health Care and Retirement for Military Service Members and Their Families,” Heritage Foundation *Backgrounder* No. 2621, November 17, 2011, <http://www.Heritage.org/research/reports/2011/11/saving-the-american-dream-improving-health-care-and-retirement-for-military-service-members>.
- Congressional Budget Office, “Options for Reducing the Deficit: 2014 to 2023,” November 13, 2013, <https://www.cbo.gov/budget-options/2013/44687>.

Calculations:

Savings include two budget options found on pages 58 and 236 of Congressional Budget Office, “Options for Reducing the Deficit: 2014 to 2023,” November 13, 2013, <https://www.cbo.gov/budget-options/2013/44687>. These options include Option 2: Cap Increases in Basic Pay for Military Service Members and Option 12: Modify TRICARE Enrollment Fees and Cost Sharing for Working-Age Military Retirees. The CBO provides savings estimates through 2023. We assume the same rate of growth in savings for 2024 and 2025 as occurred in 2023.