Insight

Primer: Military Pay Raises

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Introduction

For the third year in a row, American service members may receive one of the lowest pay raises in the history of the all-volunteer force. At the same time, benefits such as the Basic Allowance for Housing (BAH), commissary services, and TRICARE health insurance are facing reforms that will likely place added financial obligation on service members.

The recent stagnation in military pay has coincided with a decline in overall troop morale. As one survey of military service members indicates, the percentage of active duty personnel who feel as though their pay and allowances are good or great dropped by nearly half in just five years, from 87 percent in 2009 to 44 percent in 2014.

Questions of pay and benefits are key factors in the military's ability to recruit and retain the best individuals. As Congress will soon begin final consideration of the National Defense Authorization Act (NDAA), which determines military policy for the next year, it is important to understand the history of pay raises and recent trends in wages for the all-volunteer force.

The Employment Cost Index

Calculated by the Department of Labor's Bureau of Labor Statistics, the Economic Cost Index (ECI) measures annual percentage increases in wages for all private-sector employees. Dating back to 1983, Congress began utilizing the ECI in an attempt to ensure that military compensation remain competitive relative to civilian pay. In 1990, passage of the Federal Employees Pay Comparability Act established the ECI as "the basis for the Administration's recommendations on the annual military pay raise." Then, in 2004, Congress explicitly linked military pay raises to the ECI in the NDAA.

According to U.S. Code, the next year's military pay raise is equivalent to the increase in the ECI during the two previous years. For example, the 2016 pay raise reflects the 2.3 percent increase in private sector wage growth between the third quarter of 2013 and the third quarter of 2014. Nevertheless, both the executive and legislative branches have the ability to alter military pay raises above or below the ECI in any given year.

Recent Military Pay Caps

The Obama Administration has capped military pay raises at levels lower than those stipulated by the ECI for 2014, 2015, and 2016. Most recently, the president sent a letter last month notifying Congress that he would implement a 1.3 percent military pay raise in 2016, despite the 2.3 percent increase set by the ECI. In both 2014 and 2015, President Obama implemented 1 percent raises in military pay when the ECI prescribed a 1.8 percent increase. Dating back to the beginning of the all-volunteer force in 1973, these have been the three smallest pay raises in military history.

After Congress linked military raises to the ECI in the 1990s, pay increases were at or above ECI levels for 20 years—until 2014.

The Military-Civilian Wage Gap

The primary concern with military pay raises that fall below growth in private sector wages is that they will create a gap between military and civilian pay. For a variety of reasons, direct comparisons between military and civilian pay may not be an apples-to-apples comparison. For example, service members can receive benefits such as a housing allowance, a pension, commissary subsidies, and free health care. On the other hand, military personnel assume a higher risk portfolio than most civilians and adopt what can be a difficult lifestyle for themselves and their families. Despite these difficulties in comparing military and civilian pay, large wage gaps have coincided with recruitment and retention problems. Therefore, any examination of military pay policy should include analysis of the wage gap.

In the early years of the all-volunteer force, service members received pay raises that were consistently below private sector wage growth throughout the 1970s. According to the Association of the United States Army (AUSA), the resulting wage gap led to "severe retention problems." The Congressional Research Service reports that the increasingly low pay compared with that of the private sector "contributed to decreased recruit quality in the

late 1970s." Responding to these problems, Congress raised military pay by more than 25 percent in just two years. This dramatic move closed the 7.3 percent wage gap of 1980 entirely, resulting in complete parity between military and civilian pay in 1982.

Following what seemed to be a watershed moment in military compensation policy, pay raises fell below ECI levels for 12 of the next 17 years. These caps ultimately grew the military-civilian wage gap to 13.5 percent by the late 1990s. According to the AUSA, the caps in the 1980s and 1990s "contributed to the recruiting and retention crisis of 1998 and 1999." In the 2001 NDAA, Congress mandated military pay raises of 0.5 percent above the ECI for a five-year period to reduce the wage gap again. Today, the gap between military and civilian pay is 3.2 percent.

Looking forward, the Military Officers Association of America (MOAA) estimates that the proposed 1.3 percent military pay raise for 2016 "would widen the gap between military and civilian pay to around 5 percent." In terms of the effect on annual salary for most service members, it would mean the difference of about $1,500 for mid-level enlisted troops and around $3,000 for mid-level officers. Researchers at the RAND Corporation found that due to "the sensitivity of enlisted recruit quality and retention to military pay, although a one-year freeze might do little damage, a sustained slippage…could do real harm."

Current Legislative Climate

The House and Senate are currently in conference negotiations for the NDAA and will vote on the final bill in the coming weeks. The House-passed version did not stipulate a cap in military pay raises, thereby providing de facto support for the 2.3 percent increase as prescribed by the ECI. The Senate version, however, supports the Obama Administration's proposal for a 1.3 percent pay raise.

According to one estimate, the 1.3 percent pay raise would amount to about $360 for an Army Corporal who makes around $28,000. This raise would increase pay by about $1,100 for an Army Major who makes around $84,000. A 2.3 percent raise would increase pay by about $640 and $1,930 for the soldiers, respectively. From the Pentagon's perspective, taking on the higher 2.3 percent raise would cost approximately $4 billion more than the proposed 1.3 percent raise.

There may be "costs" associated with the lower pay raise as well. After reaching its peak in the late 1990s, the military-civilian wage gap is now down to 3.2 percent. If experts are correct that a 1.3 percent pay raise for 2016, lagging a full percent behind private sector wage growth, would widen the gap to 5 percent, military recruitment and retention could take a hit. Three consecutive years of historically low pay raises risks approaching the

“sustained slippage” researchers warned “could do real harm.”

Conclusion

In today’s fiscal environment, military and civilian leaders are looking for cost savings everywhere in the budget. President Obama wrote in his letter to Congress last month, “[W]e must maintain efforts to keep our nation on a sustainable fiscal course. This effort requires tough choices, especially in light of budget constraints.” It seems pay raises for men and women in uniform may be another casualty of sequestration, which has already taken a toll on military readiness, modernization, and morale. If the United States hopes to maintain the world’s best fighting force, ending defense sequestration would be a good first step.