

Cash Compensation for Active-Duty Military Personnel

Every four years the Quadrennial Review of Military Compensation examines the level and structure of military compensation to ensure that it enables the armed services to meet manpower requirements in a timely and cost-effective manner. In addition to providing flexibility for varying pay among personnel, these payments enable the services to recognize unusual duties and hazards and to provide incentives for enlistment in special skill areas. Of particular interest in the most recent review was the degree to which special and incentive payments, such as hostile fire pay, sea duty pay, and enlistment and reenlistment bonuses, contribute to total military pay.

To analyze the role of different components of military pay, RAND researchers examined data files on occupation, length of service, pay components, and tax advantages for each member of the military. Total cash compensation was defined to include basic pay, housing and subsistence allowances (including a value of these for members living in military housing), federal tax advantages arising from tax-free allowances, other miscellaneous allowances (e.g., cost-of-living allowances [COLAs]), special and incentive payments, and bonuses. Regular military compensation, a measure of pay commonly used by the Department of Defense, includes basic pay, housing and subsistence allowances, and the tax advantage. Other compensation components, such as retired pay and health care benefits, were not included in the definition of cash compensation.

TOTAL CASH COMPENSATION IS ROUGHLY EQUAL ACROSS THE SERVICES

Across the services and across years of service, regular military compensation accounts for at least 90 percent of the average compensation for both enlisted personnel and officers in the Army, Air Force, Marine Corps, and Navy (Table 1). Because the share of total cash compensation that comes from the regular military compensation package is so large and because promotion patterns are similar

across the services, average pay across the services does not differ much. In 1999, the average of total cash compensation for enlisted personnel ranged from \$29,355 for those in the Marine Corps to \$33,744 in the Navy, while that for officers ranged from \$62,161 in the Marine Corps to \$66,883 in the Air Force.

Table 1

Average Amounts of Cash Compensation, 1999 (Dollars)

	Army	Air Force	Marine Corps	Navy
Officers				
RMC	61,689	61,599	58,707	59,761
S&I pays	927	2,810	1,889	3,134
Miscellaneous				
Allowances/COLAs	837	779	810	872
Bonuses	673	1,695	756	2,172
Annual Pay	64,125	66,883	62,161	65,940
Enlisted Personnel				
RMC	30,509	31,398	28,241	30,655
S&I pays	482	301	317	1,345
Miscellaneous				
Allowances/COLAs	832	1,015	785	967
Bonuses	372	381	11	777
Annual Pay	32,195	33,095	29,355	33,744

The lower average cash compensation for Marine Corps officers and enlisted personnel reflects the preference of that service for more-junior personnel. By contrast, the Air Force, which prefers more-senior personnel, has the highest average level of annual pay for officers and the second highest for enlisted personnel.

Special and incentive payments are of relatively low prevalence and (in most occupational areas) of comparatively small amount. The portion of average annual pay attributable to these is therefore also small. Of the 20 types of special and incentive payments for enlisted personnel that were analyzed, most were paid to less than 2 percent of personnel in each of the four services. The average value for most such payments was less than \$1,500. Likewise, of the 23 types of special and incentive pay-

ments for officers, most were paid to less than 2 percent in each of the four services and most had an average value of less than \$1,500.

Eligibility for special and incentive pays varies by military occupation because these pays are targeted to individuals in special circumstances and locations, and these factors tend to concentrate in certain occupational areas. Because average special and incentive pays are only a small portion of cash compensation, the researchers found that cash compensation also varies little by occupational area, broadly defined. The distribution of years of service and resulting career lengths also tend to be quite similar across these broad occupational areas. The small differences in pay and years-of-service distributions by broad occupational area suggest that special and incentive pays have a fairly small effect in creating differentiation of pay or career length. Indeed, they may be used to maintain similarity in career length without increasing pay variability.

There are some exceptions to these patterns. For instance, less than 1 percent of Army officers receive the medical officer retention bonus, but the average such bonus is \$36,260. Just under 8 percent of Air Force officers receive the aviation officer continuation bonus, but the average bonus is \$17,637. Not surprisingly, these special and incentive payments are an important portion of total cash compensation for individuals in these specific skill areas.

Still, because the regular military compensation package represents such a large part of average total cash compensation, there is less variation in military compensation than there is in comparable civilian compensation. For example, for enlisted personnel with 10 years of service, the difference between the 90th and 10th percentiles in military compensation in 1999 was about \$10,000. By contrast, the difference between the 90th and 30th percentiles

in civilian earnings for males with some college and 10 years of work experience in 1999 was about \$23,000. (The researchers used the 30th percentile for the lower bound of variation in civilian earnings because the military targets enlistees who score well on the Armed Forces Qualification Test and therefore are likely to place relatively high on the civilian pay distribution. Comparing the 10th percentile of civilian earnings would have resulted in a still greater range of civilian earnings in comparison to military compensation.)

At the same time, civilian earnings are averaged across many firms that differ in hiring requirements, occupational mixes, industry conditions, and locations. Although the military has a diverse workforce, it is more homogeneous than the civilian economy at large. The services might, for example, be considered as a large firm with four divisions, all operating under a common basic pay table, whereas the private market contains thousands of firms, each with its own pay table.

CHANGING FORCE NEEDS MAY CALL FOR A CHANGE IN PAY STRUCTURE

Pay grows over a military career but remains remarkably similar among personnel at the same year of service. Having a similar compensation structure across a service helps support equity of opportunity, regardless of specialty. It also facilitates manning practices whereby units (e.g., companies, ship crews, air wings, or Marine expeditionary units) are designed to contain a particular set of specialties and have similar experience and rank structures, regardless of specialty. If, however, the services would like to achieve more variable career lengths and more diversity in the experience mix of different occupations, then this analysis suggests that greater differentiation in military pay and changes in the structure of military compensation will be required.

RAND research briefs summarize research that has been more fully documented elsewhere. This research brief describes work done for the National Defense Research Institute; it is documented in A Look at Cash Compensation for Active-Duty Military Personnel, by Beth J. Asch, James R. Hosek, and Craig W. Martin, MR-1492-OSD, 2002, 49 pp., \$20.00, ISBN: 0-8330-3174-0, available from RAND Distribution Services (Telephone: 310-451-7002; toll free 877-584-8642; FAX: 310-451-6915; or email: order@rand.org). Abstracts of RAND documents may be viewed at www.rand.org. Publications are distributed to the trade by NBN. RAND® is a registered trademark. RAND is a nonprofit institution that helps improve policy and decisionmaking through research and analysis; its publications do not necessarily reflect the opinions or policies of its research sponsors.

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