

**ALTERNATIVE MILITARY PAY RAISES**

Statement of

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Mr. Chairman, I appreciate the opportunity to testify before your Subcommittee on alternative military pay raises. CBO estimates that comparability pay raises for the military would decline from about 8 percent in 1983 to about 7 percent by 1985. In its First Concurrent Resolution on the Budget for Fiscal Year 1983, however, the Congress assumed military pay raises of 4 percent a year over the next three years. Our findings suggest that this "4-4-4" policy, while it would hold down costs, would make it difficult to meet goals for retention of career military personnel and for recruiting. Indeed, the Army might not meet the minimum recruiting goals established by the Congress.

Thus the Subcommittee may want to consider alternative approaches. CBO has analyzed four alternative pay raises for fiscal year 1983; after 1983, each would be coupled with comparability raises for most persons. The 1983 options include:

- o A full comparability raise of 8 percent for all personnel;
- o A pay raise of 4 percent for all personnel;
- o A pay raise targeted on career personnel; this alternative would provide no raise to personnel in the first two enlisted pay grades but raises of as much as 6 percent at more senior pay grades;
- o A combination of pay raise and educational benefits; senior personnel would receive a 4 percent raise while new recruits would receive improved educational benefits in lieu of a pay raise.

A backup table at the end of my testimony details the provisions of each of these four options. Our analysis suggests that, under each of the

four options, the services can meet both their 1983 goals for retention of career personnel and the minimum goals for recruiting set by the Congress. Moreover, each of the four options for 1983, if coupled with comparability raises beyond 1983, should provide a reasonable chance of continued recruiting and retention success over the next five years.

I will discuss these conclusions in more detail after some background on recruiting and retention and what influences them.

## **BACKGROUND**

### **Recruiting and Retention: Goals and Trends**

The problems of recruiting and retention are much more severe for enlisted personnel than for officers; thus I will concentrate on the enlisted corps throughout my testimony.

To achieve their desired enlisted force size, the services must attract about 380,000 recruits in 1983. These recruits must meet service goals for recruit quality--goals that are generally not supplied to the Congress--and they must meet minimum quality standards set by law. The law for 1982, which is likely to be extended, requires that at least 65 percent of the Army's male recruits with no prior military service must hold high school diplomas. The law also requires that no more than 20 percent of any service's recruits with no prior military service can score in the lowest acceptable test-score category (Category IV) on an entrance examination given all recruits.

At present, the military services are experiencing recruiting success unparalleled since the advent of the all-volunteer force in 1973. For

example, in 1982 the percentage of male Army recruits holding high school diplomas may reach 85 percent, due in large part to the current high rate of unemployment and to military pay raises totaling about 30 percent over the last two years. This contrasts sharply with fiscal year 1980 when only 49 percent of the Army's male recruits held high school diplomas. To avoid repeating this drop in quality, the services and the Congress must pay close attention to meeting recruiting goals for both numbers and quality.

In 1983, the services want to retain 817,000 career personnel, or about 44 percent of the total enlisted force. (Career personnel are those with more than four years' service.) The desired percentages of career personnel are higher in the Air Force and lower in the Marine Corps. As with recruiting, the services' ability to retain career personnel is very good right now. But as recently as fiscal year 1980, there was a worrisome exodus of career personnel. Again, recent history argues for close scrutiny of career retention.

#### **Factors Other Than Pay Raises Influence Results**

Retention and recruiting both depend on adequate pay raises. But the results discussed below make assumptions about many other factors that also affect recruiting and retention. For example, the discussion assumes that the real value of bonuses and other pays remains at its current level. Economic factors play a key role. The analysis uses CBO's most recent economic assumptions, which show unemployment declining gradually from its current level of 9.5 percent to 9 percent in 1983 and 7.0 percent by

1987. The analysis also assumes approval of service plans for a slightly larger military, calling for increases by 1987 of about 149,000 enlisted personnel over 1982 levels, a rise of about 8 percent. The analysis also assumes that many other variables that influence recruiting and retention remain at their current levels--such as the number of female recruits and the number of recruits with prior military service. One such variable deserves special mention. The Army has indicated that in 1982 and 1983, it will limit the size of its career force by raising standards for reenlistment. CBO's analysis assumes that the Army continues over the next five years to limit its career force to about 44 percent of the total force, which is close to today's percentage. No such limits are assumed for the other services.

#### **THE "4-4-4" POLICY COULD LEAD TO SHORTFALLS IN RECRUITING AND RETENTION**

Under the First Concurrent Resolution, all military personnel would receive pay raises of 4 percent a year in 1983 through 1985. CBO analyzed this policy assuming comparability pay increases beyond 1985. The "4-4-4" policy is, of course, not binding on the Congress, particularly in the years beyond 1983. But such a policy holds down costs and thus may be a point of departure for debates over military pay.

Under the "4-4-4" approach, many fewer high-quality recruits would enter the military. Recruiting would fall off in all the services. Table 1, however, shows recruiting results only for the Army, which faces the most severe recruiting challenge. (Backup tables at the end of my testimony

TABLE 1. SELECTED ESTIMATES OF RECRUITING AND RETENTION

Pay Raise	Cost Increases Relative to "4-4-4" Policy (billions of dollars)		Recruiting (percentage of Army male NPS recruits holding high school diplomas) a/		Retention (thousands of personnel in all services with more than four years' service) b/	
	1983	Total 1983-1987	1983	1987	1983	1987
Assuming Limits on Raises Beyond 1983						
Base Case: 4-4-4	0	0	74	61	836	916
Assuming Comparability Raises Beyond 1983						
8 Percent Raise	1.5	19.1	77	67	841	967
4 Percent Raise	0	10.3	74	65	836	945
Targeted Raise	0.1	10.9	74	64	837	951
Educational Benefits for Recruits in Lieu of 1983-1985 Raises	0.4 <u>c/</u>	11.4 <u>c/</u>	75	63	836	945

a/ Minimum goal is 65 percent.

b/ Goal is 817,000 in 1983; goals beyond 1983 are generally not available.

c/ This option includes the "accrual" costs of liabilities for educational benefits that would be paid in the future. Current educational benefits would be cancelled under this option, resulting in a 1983 reduction of \$140 million in liabilities for future benefits. These liabilities do not now appear in the DoD budget, however, and so are not included in this table.

provide results for other services.) By 1987, only about 61 percent of the Army's male recruits would hold high school diplomas, which is below the 65 percent minimum set by the Congress. This projection assumes that the Army raises reenlistment standards and limits numbers of career personnel. Even with no such limit, however, the Army would fall below the 65 percent target because lowered pay raises would hold down growth in the Army career force.

Indeed, numbers of career personnel in all the services would grow only at modest rates under this "4-4-4" policy. These modest rates may not provide enough career personnel to man new and more complex weapons entering the inventory. In the Navy, for example, the 1987 career force would fall below the service objective by at least 4,000 persons, or 2 percent, with larger percentage shortfalls likely in some critical skills.

#### **ALTERNATIVE POLICIES COULD AVOID PROBLEMS**

Given the potential problems under the "4-4-4" policy, CBO analyzed the effects of four other pay raise options on costs, recruiting, and retention.

#### **Goals Likely to Be Met In 1983**

Under any of the four pay raise options, each of the services should meet its 1983 goal for retention of career personnel. In all the services together, the 1983 numbers of career personnel under the four options would range from 836,000 to 841,000, always exceeding the goal of 817,000 (see Table 1). Moreover, the services should be able to recruit enough

people while also satisfying the minimum standards for recruit quality. In the Army, 1983 percentages of male recruits holding high school diplomas would range from 74 percent to 77 percent, always exceeding the 65 percent minimum set by the Congress (see Table 1).

While all the options allow the services to meet 1983 goals, they differ in costs and in effects on recruiting and retention. A comparability raise of 8 percent would provide the best recruiting and retention results, as Table 1 shows. This option is also expensive. Indeed, it would cost \$1.5 billion more in 1983 than would the 4 percent raise assumed in the First Concurrent Resolution.

Relative to a full comparability increase, a 4 percent raise for all personnel would result in less success in recruiting and a smaller increase in the number of career personnel (see Table 1). For example, only about 74 percent of Army male recruits would hold high school diplomas compared with 77 percent under full comparability. The 4 percent raise would, however, leave 1983 budget authority and outlays at the level assumed in the First Concurrent Resolution.

The targeted pay raise considered in CBO's analysis would cost about as much in 1983 as would a 4 percent increase for all personnel. A pay raise targeted on career personnel does slightly better at retaining these personnel than does a 4 percent increase across the board. The larger number of career personnel also reduces demands for new recruits so that, despite no pay raise for entering recruits, recruiting results are the same



as those under the 4 percent hike. Results for recruiting and retention are, however, worse than under full comparability.

Advocates of a targeted raise note that it would help relieve "pay compression." Shortly before the United States moved to an all-volunteer force in 1973, junior personnel received large pay increases; career personnel did not. This targeted pay hike would move back--though only slightly--toward the ratio of career to junior pay in the early 1970s, which some feel was an important inducement to remain in the military. On the other hand, data on civilian wages by age suggest that the military's current ratio of senior to junior pay is in line with that in the private sector.

The fourth pay option is the most complex. All career personnel would receive a 4 percent increase. But recruits entering in fiscal year 1983 would receive no pay raise. In return, these recruits would be eligible for a less generous version of the educational benefits provided by H.R. 1400, a bill recently passed by the House Armed Services and Veterans' Affairs Committees. Specifically, this option would grant basic educational benefits of \$200 a month for up to 36 months with supplemental payments of up to \$400 a month for persons in critical skills. CBO's analysis assumes that only Army recruits receive the supplemental payments, as is the case for existing educational benefits. This option would also provide special benefits to minimize adverse effects on retention caused by the incentive to get out and use one's educational benefits.

This fourth option should leave 1983 numbers of career personnel at levels similar to those under a 4 percent increase, since educational benefits have little effect on retention at first. Moreover, the improved educational benefits--especially the supplemental payments--partially offset the lack of a pay raise for junior Army personnel; thus Army recruiting results are similar to those under a 4 percent increase. This option would, however, cost \$0.4 billion more in 1983 than the 4 percent raise for all personnel assumed in the First Concurrent Resolution. This occurs because the costs of liabilities for educational benefits to be paid in the future would appear in the DoD budget, and these "accrual costs" would exceed the savings from the zero pay raise for recruits.

Advocates expect special advantages from improving educational benefits in lieu of a recruit pay raise. The approach would move toward the pay system in effect before the all-volunteer force, featuring low pay for junior personnel coupled with substantial educational benefits. By emphasizing educational benefits, such a package might attract more college-bound youth into the services.

On the other hand, data on career plans of those who say they are college-bound suggest that few now enter the military. Thus the mix of entering recruits might not change substantially, even with improved educational benefits. Moreover, countering the recruiting effects of no pay raise with educational benefits is expensive, since substantial benefits must be offered to offset the reluctance of youthful recruits to wait

several years before receiving them. Finally, the costs and effects of this combination option are less certain than are those for other pay options. The estimates depend on individual reactions to improved educational benefits, and these reactions are not easily forecast.

**Reasonable Chance of Meeting Goals  
with Comparability Raises Beyond 1983**

CBO also analyzed the effects of the four pay raise options on recruiting and retention beyond 1983. For the first three options, CBO assumed that the Congress grants comparability raises in these years. The fourth option assumes comparability increases except for pay of recruits in their first year. These recruits receive improved educational benefits, but their first-year pay is frozen at the 1982 level for the next three years.

With this pattern of raises, the services should be able to increase their numbers of career personnel under all four options. The Navy's increase would generally meet that service's goals for retention of career personnel. Goals have not been formally supplied to the Congress by the other services.

The services should also have considerable recruiting success. Under the options, all the services--except the Army--should be able to meet numerical recruiting goals and maintain recruit quality levels at or above those achieved in 1981. Quality would, however, fall off from the highly successful outcomes likely in 1982. CBO cannot assess prospects for meeting actual service recruiting goals since they are generally not supplied to the Congress.

The Congress has set fairly comprehensive minimum goals for recruit quality in the Army. The Army should be able to meet its numerical goals for recruits and meet or come close to these minimum quality goals. The percentages of male recruits holding high school diplomas range from 63 percent to 67 percent under these options, which are close to or higher than the minimum 65 percent target (see Table 1).

Moreover, the Army has some flexibility. These results assume that the Army tightens its reenlistment standards and holds the size of its career force constant as a percentage of its total force. If the Army accepted greater growth in the size of its career force, this would cut down on recruit requirements and allow the Army to meet the 65 percent minimum more easily. This result suggests the importance of knowing the Army's plan for its career force and assessing the plan's effects on recruiting.

While all four of these pay options provide better recruiting and retention results than the "4-4-4" policy assumed in the First Concurrent Resolution, they also cost more. The option providing full comparability raises over each of the next five years costs a total of \$19.1 billion more than the "4-4-4" approach. The added costs under the other three options range from \$10.3 billion to \$11.4 billion.

#### **SUMMARY**

In sum, the four pay options I have discussed today would each allow the services to meet their 1983 goals for and retention and the minimum

goals for recruit quality set by the Congress. Costs would be close to those assumed for 1983 in the First Concurrent Resolution, at least for the three options that limit pay raises below comparability. These three options differ primarily on which groups benefit, recruits or more senior personnel, and on risk. The option providing educational benefits in lieu of recruit pay raises stands out as the most far-reaching and most risky of the alternatives CBO analyzed.

Success in recruiting and retention beyond 1983 depends heavily on future pay raise decisions. Coupled with comparability increases beyond 1983, any of the four options discussed in my testimony should provide a reasonable chance of successful recruiting and retention. On the other hand, continued limits on pay raises beyond 1983--such as the "4-4-4" policy assumed in the First Concurrent Resolution--could lead to problems, especially in meeting minimum Army recruiting goals. Indeed, over the long run, the Congress can assure the viability of the all-volunteer force only if it grants pay raises and other pay increases that keep pace with those in the private sector.

TABLE 1. SUMMARY DESCRIPTION OF ALTERNATIVE PAY RAISE PLANS

Pay Raise Plan	Description	Projected Raises by Fiscal Year					
		Grade	1983	1984	1985	1986	1987
I. "4-4-4" Percent Raises	Adopts First Resolution and caps pay raises at 4 percent 1983 to 1985. Plan assumes comparability raises thereafter	E1-E9	4.0	4.0	4.0	6.7	6.6
II. 8 Percent Raise (full comparability)	Provides raises (1983-1987) that match those estimated by CBO for the private sector	E1-E9	8.0	7.5	7.0	6.7	6.6
III. 4 Percent Raise	Caps raise at 4 percent in 1983, but continues with full comparability raises beyond 1983.	E1-E9	4.0	7.5	7.0	6.7	6.6
IV. Target Raise	Targets money available for 1983 raise under First Resolution (equivalent to about 4 percent raise) toward the career force.	E1-E2	0.0	7.5	7.0	6.6	6.6
		E3-E4	4.0	7.5	7.0	6.7	6.6
		E5-E9	6.0	7.5	7.0	6.7	6.6
V. Educational Benefit and Recruit Pay Freeze	Freezes pay for recruits in their first year of service at 1982 levels for 1983-1985 and substitutes certain educational benefit provisions under H.R. 1400. In 1983, all others receive 4 percent raise.	E1-E2	0.0	0.0	0.0	6.7	6.6
		E3-E9	4.0	7.5	7.0	6.7	6.6

TABLE 2. PERCENTAGE OF MALE RECRUITS WITHOUT PRIOR SERVICE ENLISTING WITH A HIGH SCHOOL DIPLOMA (CBO projections by fiscal year)

Pay Raise Plan	1983	1984	1985	1986	1987
I. "4-4-4" Percents, 1983-1985 (First Resolution)					
Army	74	71	65	64	61
Navy	71	74	66	68	69
Marine Corps	84	79	74	74	73
Air Force	94	90	76	82	80
II. 8 Percent Full Comparability in 1983					
Army	77	76	71	70	67
Navy	75	82	77	81	83
Marine Corps	88	86	84	85	86
Air Force	99	99	91	99	99
III. 4 Percent in 1983					
Army	74	73	69	68	65
Navy	71	77	73	76	77
Marine Corps	84	82	80	80	80
Air Force	94	96	84	93	91
IV. Target Raise at Career Force in 1983					
Army	74	73	68	67	64
Navy	71	77	73	76	77
Marine Corps	85	83	81	81	81
Air Force	94	96	84	93	91
V. Educational Benefit for Recruits Instead of Raise in First Three Years					
Army	75	73	67	66	63
Navy	73	79	73	77	78
Marine Corps	87	84	82	83	83
Air Force	99	98	85	94	93

TABLE 3. NUMBER OF ENLISTED CAREER PERSONNEL WITH MORE THAN FOUR YEARS OF SERVICE (CBO projections by fiscal year, in thousands)

Pay Raise Plan	1983	1984	1985	1986	1987
I. "4-4-4" Percents, 1983-1985 (First Resolution)					
Army <u>a/</u>	313	324	321	315	314
Navy	224	237	244	250	259
Marine Corps	60	64	65	66	67
Air Force	255	262	272	279	285
II. 8 Percent Full Comparability in 1983					
Army <u>a/</u>	317	336	342	345	351
Navy	226	242	255	267	280
Marine Corps	61	67	71	75	78
Air Force	257	268	283	294	304
III. 4 Percent in 1983					
Army <u>a/</u>	314	327	330	330	334
Navy	224	238	249	258	271
Marine Corps	60	64	68	71	73
Air Force	255	264	277	286	296
IV. Target Raise at Career Force in 1983					
Army <u>a/</u>	314	330	334	335	340
Navy	225	240	252	262	275
Marine Corps	60	65	69	72	75
Air Force	255	264	278	288	297
V. Educational Benefit for Recruits Instead of Raise in First Three Years					
Army <u>a/</u>	313	327	330	330	334
Navy	224	238	249	258	271
Marine Corps	60	64	68	71	73
Air Force	255	264	277	286	296

a/ These numbers represent potential size of career force under reenlistment standards in effect prior to 1982. The Army, however, intends to constrain the size of its career force. CBO's analyses assumed the following numbers of Army career personnel (in thousands, by fiscal year): 1983, 297; 1984, 298; 1985, 299; 1986, 303; and 1987, 305.