



Highlights of [GAO-07-828](#), a report to congressional committees

Why GAO Did This Study

The Department of Defense (DOD) has increasingly relied on reserve personnel to carry out its military operations. Congress and DOD have taken steps to enhance reserve compensation, such as improving health care benefits. Concerns exist, however, that rising compensation costs may not be sustainable in the future, especially given the nation's large and growing long-range fiscal imbalance. Under the statutory authority of the Comptroller General to conduct work on his own initiative, GAO (1) reviewed how much it has cost the federal government to compensate reserve personnel since fiscal year 2000; (2) assessed the extent to which DOD's mix of cash, noncash, and deferred compensation has helped DOD meet its human capital goals; and (3) evaluated the extent to which DOD's approach to reserve compensation provides transparency over total cost to the federal government. To address these objectives, GAO analyzed budget data and relevant legislation and also interviewed appropriate officials. GAO focused this review on part-time reservists and full-time, active guard and reserve.

What GAO Recommends

GAO is making recommendations to assess the appropriateness of the reserve compensation system and to improve transparency over total reserve compensation costs. DOD partially concurred with GAO's recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-07-828.

To view the full product, including the scope and methodology, click on the link above. For more information, contact John Pendleton at (404) 679-1900 or pendletonj@gao.gov.

MILITARY PERSONNEL

DOD Needs to Establish a Strategy and Improve Transparency over Reserve and National Guard Compensation to Manage Significant Growth in Cost

What GAO Found

Using fiscal year (FY) 2006 constant dollars, the federal government's total cost to compensate part-time and full-time reserve personnel has increased 47 percent since FY 2000, rising from about \$13.9 billion in FY 2000 to about \$20.5 billion in FY 2006. Most reservists are part-time, and their per capita compensation costs nearly doubled from about \$10,100 in FY 2000 to about \$19,100 in FY 2006. Additionally, a small percentage of reservists work full-time, and their per capita costs increased about 28 percent from FY 2000 to FY 2006. Cash compensation, which servicemembers see in their "paycheck," has increased about 19 percent. However, much of the total growth in compensation is driven by the costs for deferred compensation. These costs tripled over this period, primarily attributed to enhanced health care benefits. Moreover, DOD officials anticipate significant continued growth in health care costs because of the expansion of health care coverage to reserve personnel in FY 2007.

DOD does not know the extent to which its mix of pay and benefits meets its human capital goals in part because it lacks an established compensation strategy to identify the appropriate mix of reserve compensation to maintain its force. DOD and Congress have added pay and benefits using a piecemeal approach that has not been based on an established strategy and that has not adequately considered the appropriateness, affordability, and sustainability of the related costs. These additions have contributed to a shift in the mix of compensation toward more deferred benefits—that is, future compensation such as retirement pay and health care for life. Deferred benefits increased from 12 percent of total reserve compensation in FY 2000 to 28 percent of total compensation in FY 2006. This increase in deferred compensation may not be the most efficient allocation given that fewer than one in four of those who join the reserve will ultimately earn nondisability retirement pay and health care for life. Moreover, DOD does not know the efficiency and effectiveness of these changes in meeting its recruiting and retention goals because it does not have performance measures. Without performance measures, DOD cannot determine the return on its compensation investment or make fact-based choices on how its compensation resources should be allocated.

DOD's approach to reserve compensation does not provide decision makers in Congress and DOD with adequate transparency over total cost for reservists—including the allocation of costs to cash, noncash, and deferred compensation, as well as the cost for mobilized reservists. Despite the fact that sound business practices require adequate transparency over investments of resources, currently costs are found in multiple budgets within three federal departments. Until total reserve compensation costs are compiled in a transparent manner—and decisions are based on established compensation strategies—decision makers will be unable to determine the affordability, cost effectiveness, and ultimately the sustainability of the reserve compensation system. Increased transparency is especially important given the growing fiscal challenges the country faces.