



Highlights of [GAO-05-798](#), a report to congressional committees

## Why GAO Did This Study

Over the years, the Department of Defense's (DOD) military compensation system has become an increasingly complex and piecemeal accretion of pays, allowances, benefits, and special tax preferences. DOD leaders have expressed concern that rising compensation costs may not be sustainable in the future and could crowd out other important investments needed to recapitalize equipment and infrastructure. Given the looming fiscal challenges facing the nation in the 21<sup>st</sup> century, GAO believes it is time for a baseline review of all federal programs to ensure that they are efficiently meeting their objectives. Under the Comptroller General's authority, GAO (1) assessed whether DOD's approach to compensation provides adequate transparency over costs; (2) identified recent trends in active duty compensation, and how costs have been allocated to cash and benefits; and (3) reviewed how active duty servicemembers perceive their compensation and whether DOD has effectively explained the value of the military compensation package to its members.

## What GAO Recommends

GAO is making a number of recommendations to improve the transparency, reasonableness, appropriateness, affordability, and sustainability of the military compensation system. DOD generally concurred with GAO's recommendations. [www.gao.gov/cgi-bin/getrpt?GAO-05-798](http://www.gao.gov/cgi-bin/getrpt?GAO-05-798).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Derek Stewart at (202) 512-5559 or [stewartd@gao.gov](mailto:stewartd@gao.gov).

## MILITARY PERSONNEL

# DOD Needs to Improve the Transparency and Reassess the Reasonableness, Appropriateness, Affordability, and Sustainability of Its Military Compensation System

## What GAO Found

DOD's historical piecemeal approach to military compensation has resulted in a lack of transparency that creates an inability to (1) identify the total cost of military compensation to the U.S. government and (2) assess the allocation of total compensation investments to cash and benefits. No single source exists to show the total cost of military compensation, and tallying the full cost requires synthesizing about a dozen information sources from four federal departments and the Office of Management and Budget. Without adequate transparency, decision makers do not have a true picture of what it costs to compensate servicemembers. They also lack sufficient information to identify long-term trends, determine how best to allocate available resources to ensure the optimum return on compensation investments, and better assess the efficiency and effectiveness of DOD's current compensation system in meeting recruiting and retention goals. To address this and other major business transformation challenges in a more strategic and integrated fashion, GAO recently recommended the creation of a chief management official at DOD.

Transparency over military compensation is critical because costs to provide compensation are substantial and rising, with over half of the costs allocated to noncash and deferred benefits. In fiscal year 2004, it cost the federal government about \$112,000, on average, to provide annual compensation to active duty enlisted and officer personnel. Adjusted for inflation, the total cost of providing active duty compensation increased about 29 percent from fiscal year 2000 to fiscal year 2004, from about \$123 to \$158 billion. During this time, health care was one of the major cost drivers, increasing 69 percent to about \$23 billion in fiscal year 2004. In addition, military compensation is weighted more toward benefits compared with other government and private sector civilian compensation systems. Furthermore, less than one in five service members will serve 20 years of active duty service to become eligible for retirement benefits. Increasing compensation costs make the need to address the appropriateness and reasonableness of the compensation mix and the long-term affordability and sustainability of the system more urgent.

DOD survey results and analysis of GAO focus groups and survey data have shown that servicemembers are dissatisfied and harbor misperceptions about their pay and benefits in part because DOD does not effectively educate them about the competitiveness of their total compensation packages. About 80 percent of the 400 servicemembers that GAO surveyed believed they would earn more as civilians; in contrast, a 2002 study showed that servicemembers generally earn more cash compensation alone than 70 percent of like-educated civilians. Servicemembers also expressed confusion over aspects of their compensation, like retirement, and many complained that benefits were eroding despite recent efforts by Congress and DOD to enhance pay and benefits. By not systematically educating servicemembers about the value of their total compensation, DOD is essentially allowing a culture of dissatisfaction and misunderstanding to perpetuate.