

September 2003

MILITARY  
PERSONNEL

DOD Needs More Data  
to Address Financial  
and Health Care  
Issues Affecting  
Reservists



G A O

Accountability \* Integrity \* Reliability



Highlights of [GAO-03-1004](#), a report to congressional committees

## Why GAO Did This Study

Since the 1991 Persian Gulf War, National Guard and Reserve personnel have been deployed to a number of contingency operations. Since September 2001, about 300,000 reservists have been called to active duty, and the pace of reserve operations is expected to remain high for the foreseeable future. House Report 107-436 accompanying the Fiscal Year 2003 National Defense Authorization Act (P.L. 107-314) directed GAO to review compensation programs for reservists serving on active duty. GAO evaluated information on income change reported by reservists when activated; reserve families' readiness for call-ups and their awareness and use of family support programs, focusing on personal financial management; and a legislative proposal for the Department of Defense (DOD) to offer TRICARE, the military's health care program, to reservists and their families when members are not on active duty.

## What GAO Recommends

GAO recommends that DOD determine the need for and, if necessary, develop targeted compensation programs to address income loss incurred by certain activated reservists; improve awareness and access to personal financial management programs; and assess the need for and ramifications of additional improvements to health care for reservists and their families. DOD concurred with our recommendations.

[www.gao.gov/cgi-bin/getrpt?GAO-03-1004](http://www.gao.gov/cgi-bin/getrpt?GAO-03-1004). To view the full product, including the scope and methodology, click on the link above. For more information, contact Derek B. Stewart (202) 512-5559 or [stewartd@gao.gov](mailto:stewartd@gao.gov).

## MILITARY PERSONNEL

# DOD Needs More Data to Address Financial and Health Care Issues Affecting Reservists

## What GAO Found

DOD lacks sufficient information on the magnitude, the causes, and the effects of income change to determine the need for compensation programs targeting reservists who (1) fill critical wartime specialties, (2) experience high degrees of income loss when on extended periods of active duty, and (3) demonstrate that income loss is a significant factor in their retention decisions. Such data are critical for assessing the full nature and scope of income change problems and in developing cost-effective solutions. DOD self-reported survey data from past and current military operations indicate that activated reservists have experienced widely varying degrees of income change. While many reservists lost income, more than half of reservists had either no change or a gain in income. However, survey data are questionable primarily because it is unclear what survey respondents considered as income loss or gain in determining their financial status.

DOD has placed greater emphasis on preparing reservists' families for potential call-ups, yet survey data show that one-third of spouses do not feel prepared, over half of reservists are not aware of family support programs, and more than 90 percent of spouses do not use these programs. Personal financial management, one of DOD's core family support programs, illustrates the continuing challenges DOD faces in providing outreach to reservists. The 2000 survey data showed that 61 percent of reservists did not know whether personal financial management services were available. The survey also showed that reservists have financial problems similar to their active duty counterparts. DOD is taking steps to improve personal financial management, but it has not assessed the financial well-being of reserve families, assessed the impact of reservists' financial problems on mission readiness, or determined how to tailor its programs to reservists.

Available DOD data do not identify a need to offer TRICARE to reservists and their families when members are not on active duty. Estimates from DOD's 2000 survey showed that nearly 80 percent of reservists had health care coverage when they were not on active duty. This rate is similar to that of comparable groups within the overall U.S. population. DOD has expressed concern over the estimated costs of this proposal. Cost estimates range up to \$5.1 billion a year. However, DOD has not fully assessed the ramifications of this proposed legislation, including the impact on recruiting and retention, the effects on active duty personnel, the extent reservists and their families might participate in such a program, or the impact on the TRICARE system. In addition, a high percentage of reservists' civilian employers who currently pay some or all of health care premiums for reservists during activations could discontinue providing such assistance. A number of recent improvements have been made to reservists and their families' health care when members are activated. However, DOD lacks data on problems reservists and their families have experienced with health care since the mobilizations following September 11, 2001; the causes of these problems; and their effects on readiness, recruiting, and retention.

---

# Contents

---

<b>Letter</b>		<b>1</b>
	Results in Brief	3
	Background	6
	DOD Lacks Data to Determine the Need for Income Protection Programs	11
	DOD Faces Challenges in Family Readiness and Support	26
	DOD Has Not Fully Assessed the Need for Expansion of TRICARE to Nonactivated Reservists	33
	Conclusions	42
	Recommendations for Executive Action	43
	Matters for Congressional Consideration	44
	Agency Comments and Our Evaluation	44
<b>Appendix I</b>	<b>Scope and Methodology</b>	<b>46</b>
<b>Appendix II</b>	<b>DOD Surveys of Reservists and Spouses</b>	<b>49</b>
<b>Appendix III</b>	<b>Policies and Protections That May Help Mitigate Reservists' Financial Hardship During Activation</b>	<b>51</b>
<b>Appendix IV</b>	<b>Selected States' Policies on Compensation for Activated Employees</b>	<b>55</b>
<b>Appendix V</b>	<b>Preactivation Activities of Spouses of Activated Reservists</b>	<b>70</b>
<b>Appendix VI</b>	<b>Comments from the Department of Defense</b>	<b>72</b>
<b>Appendix VII</b>	<b>Staff Acknowledgments</b>	<b>75</b>

---

---

## Tables

Table 1: Estimates of Drilling Unit Members' Total Reported Change in Family Income for Mobilizations or Deployments Prior to 2001	14
Table 2: Estimates of Spouses' Monthly Reported Change in Family Income during Activation	16
Table 3: Reservists' Views on Availability of Selected Family Support Programs or Services	28
Table 4: Income Assistance, Military Leave, and Health Benefits Offered to State Employees Called to Federal Active Duty	56
Table 5: Comparison of Spouses' Preparedness to Preactivation Activities and Other Factors	70

---

## Figures

Figure 1: Annual Number of Days Per Capita for Reserve Mobilizations and Support to the Services and Combatant Commands (Fiscal Years 1986-2002)	8
Figure 2: Annual Basic Military Compensation for Selected Pay Grades (Fiscal Years 1990-2003)	52

---

## Abbreviations

COBRA	Consolidated Omnibus Budget Reconciliation Act
DOD	Department of Defense
OSD	Office of the Secretary of Defense

This is a work of the U.S. government and is not subject to copyright protection in the United States. It may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.



G A O

Accountability \* Integrity \* Reliability

United States General Accounting Office  
Washington, DC 20548

---

September 10, 2003

The Honorable John W. Warner  
Chairman  
The Honorable Carl Levin  
Ranking Minority Member  
Committee on Armed Services  
United States Senate

The Honorable Duncan Hunter  
Chairman  
The Honorable Ike Skelton  
Ranking Minority Member  
Committee on Armed Services  
House of Representatives

Since the 1991 Persian Gulf War, National Guard and Reserve<sup>1</sup> personnel have been deployed to a number of contingency operations, including those in Southwest Asia and the Balkans. About 300,000 reservists have been called to active duty since September 2001 to support the war on terrorism, conflicts in Afghanistan and Iraq, and other operations. Some reservists have served for a year or more, and the pace of reserve operations is expected to remain high for the foreseeable future. Citing the increased reliance on the reserves, House Report 107-436 accompanying the Fiscal Year 2003 National Defense Authorization Act<sup>2</sup> directed us to review compensation<sup>3</sup> programs for reservists serving on active duty. Our objectives were to evaluate (1) information on income change reported by reservists when activated for a military operation to determine the need for compensation programs; (2) reserve families' readiness for call-ups and their awareness and use of family support programs, specifically focusing on personal financial management; and (3) a legislative proposal for the Department of Defense (DOD) to offer TRICARE, the military's health care program, to reservists and their families when members are not on active

---

<sup>1</sup> We use the generic terms "reserves" and "reservists" throughout this report to refer to both National Guard and Reserve personnel.

<sup>2</sup> Public Law 107-314, Dec. 2, 2002.

<sup>3</sup> For this report, we use the term "compensation" to refer to both pay and employee benefits, to include programs and services that support servicemembers and their families.

---

duty. This report is a follow-on to our March 2003 testimony, *Military Personnel: Preliminary Observations Related to Income, Benefits, and Employer Support for Reservists During Mobilizations*, [GAO-03-549T](#) (Washington, D.C.: Mar. 19, 2003).<sup>4</sup>

Military compensation is one of the tools DOD uses to attract, retain, and motivate people. One of DOD's guiding principles for military compensation is that servicemembers, both reserve and active component members, be treated fairly.<sup>5</sup> Military compensation for reservists is affected by the type of military duty they perform. In peacetime—when a reservist is training or performing military duty not related to a contingency operation—certain thresholds are imposed at particular points in service before a reservist is eligible to receive the same compensation as a member serving in the active component. For contingency operations, these same thresholds generally do not apply. Thus, reservists activated for contingency operations such as Iraqi Freedom, Noble Eagle, and Enduring Freedom are generally eligible to receive the same compensation as active component personnel.<sup>6</sup>

Our review focused on the more than 870,000 reservists who generally drill and train part-time with their military units (referred to as drilling unit members in this report). To review compensation programs for reservists on active duty, we analyzed legislation, policies, and other pertinent documents; obtained and analyzed proposals to enhance reserve compensation; and discussed these with officials from the Office of the Assistant Secretary of Defense for Reserve Affairs, the Office of Military Compensation, the Deputy Under Secretary of Defense for the Office of Military Community and Family Policy, reserve component headquarters, and the TRICARE Management Activity. To gain the perspective of

---

<sup>4</sup> In response to the mandate, we also issued a report on special pay for duty in the polar regions. See U.S. General Accounting Office, *Military Personnel: DOD Needs to Assess Certain Factors in Determining Whether Hazardous Duty Pay Is Warranted for Duty in the Polar Regions*, [GAO-03-554](#) (Washington, D.C.: Apr. 29, 2003).

<sup>5</sup> Department of Defense, Office of the Secretary of Defense, *Military Compensation Background Papers: Compensation Elements and Related Manpower Cost Items, Their Purposes and Legislative Backgrounds* (September 1996).

<sup>6</sup> In a prior report comparing the benefits offered to active duty servicemembers with those offered in the private sector, we found no significant gaps in military benefits. See U.S. General Accounting Office, *Military Personnel: Active Duty Benefits Reflect Changing Demographics, but Opportunities Exist to Improve*, [GAO-02-935](#) (Washington, D.C.: Sept. 18, 2002).

---

reservists and their spouses, we obtained and analyzed the results of a 2000 DOD survey of reservists, which covered reservists' experiences during military operations between 1991 and 2000, and a 2002 DOD survey of spouses of activated reservists. (See app. I for more information on our scope and methodology and app. II for a description of the 2000 and 2002 surveys.) We completed our work for this report from March to July 2003 in accordance with generally accepted government auditing standards.

---

## Results in Brief

DOD lacks sufficient information on the magnitude, the causes, and the effects of income change to determine the need for compensation programs targeting reservists who meet three criteria: (1) fill critical wartime specialties, (2) experience high degrees of income loss when on extended periods of active duty, and (3) demonstrate that income loss is a significant factor in their retention decisions. Such data are critical for assessing the full nature and scope of income change problems and in developing cost-effective solutions. DOD self-reported survey data from past and current military operations indicate that reservists have experienced widely varying degrees of income change when they are activated. A 2000 DOD survey of reservists showed that of those who served in military operations from 1991 to 2000, an estimated 59 percent of drilling unit members had no change or a gain in family income when they were mobilized or deployed for a military operation, and about 41 percent lost income. A higher percentage of reservists in certain groups, such as self-employed individuals and health care professionals, lost income compared with reservists overall. A 2002 DOD survey of spouses of activated reservists showed that an estimated 70 percent of families experienced a gain or no change in monthly income and 30 percent experienced a decrease in monthly income. However, survey data are questionable primarily because it is unclear what survey respondents considered as income loss or gain in determining their financial status. Although existing pay policies and protections may help mitigate reservists' financial hardship during activation, additional measures have been proposed to provide income protection to reservists. For example, the Army has proposed a new special pay targeting certain self-employed physicians to make up for some of the income loss they may experience while serving on active duty over an extended period of time. Targeted compensation programs, such as the Army's special pay proposal, could provide a cost-effective means of providing income protection to reservists who meet the three criteria above. Other proposals to provide income protection to reservists—including legislative proposals to provide differential pay to activated federal employees and an Air Force proposal

---

to establish an income insurance program—are not targeted compensation programs.

Although DOD has placed greater emphasis on family readiness—preparing servicemembers and their families for potential activation—and on making family support services available during activation, many reserve families do not feel prepared and many do not use and are not aware of family support services. In 2002, one-third of spouses felt they were unprepared or very unprepared when the member was notified of active duty, and more than 90 percent of spouses did not use the military's family support programs. The 2000 survey estimates showed that more than half of reservists either did not know that family support services were available or thought they were unavailable. DOD officials acknowledge that they face outreach challenges in preparing families and providing family support and have expanded outreach efforts. Personal financial management, one of DOD's core family support programs, illustrates some of the challenges DOD faces in providing outreach to reservists. Under DOD policy, military personnel bear primary responsibility for the welfare of their families, but the commitment demanded by military service requires that they be provided a comprehensive family support system, to include financial planning assistance. DOD is taking some steps to improve servicemembers' personal financial management, including drafting a new policy and developing partnerships with nonprofit groups that support financial assistance programs. DOD, however, has not assessed the financial well-being of reserve families or determined how to tailor its programs to this population. Our review of DOD survey data shows that reservists reported having many of the same financial problems as their active duty counterparts. The 2000 DOD survey showed that an estimated 61 percent of drilling unit members did not know whether financial counseling and management education services were available, and another 16 percent did not think these services were available. In addition, DOD has found a link between financial problems and readiness in the active component. For example, the Navy identified \$250 million in productivity and salary losses due to poor personal financial management. However, DOD has not assessed the impact of reservists' financial problems on mission readiness. DOD and the military services have noted a need to improve reservists' and their spouses' awareness of and access to personal financial management programs, but they have not tailored their programs to reservists by developing plans that specify how these needs will be met.

Available DOD data do not identify a need to offer TRICARE to reservists and their families when members are not on active duty. Estimates from



---

DOD's 2000 survey showed that nearly 80 percent of reservists reported having health care coverage when they were not on active duty. This rate is similar to that of comparable groups within the overall U.S. population. DOD has expressed concern over the estimated costs of this proposal. Cost estimates range up to \$5.1 billion a year. However, DOD has not fully assessed the ramifications of this proposed legislation, including the impact on recruiting and retention, the effects on active duty personnel, the extent reservists and their families might participate in such a program, or the impact on the TRICARE system. In addition, a high percentage of reservists' civilian employers who currently pay some or all of health care premiums for reservists during activations could discontinue providing such assistance. A number of recent improvements have been made to reservists and their families' health care when members are activated. Recent improvements include earlier access to certain TRICARE programs when a member is activated and higher reimbursement rates for care received from physicians outside DOD's health care networks. However, DOD lacks data on problems reservists and their families have experienced in maintaining continuity of health care since the activations following September 11, 2001; the causes of these problems; and their effects on readiness, recruiting, and retention.

We are making recommendations in this report to (1) enhance DOD's ability to determine the need for and, if necessary, develop compensation programs targeted at reservists in critical specialties who experience high degrees of income loss when activated; (2) improve reservists' and their spouses' awareness of and access to personal financial management programs; and (3) assess the need for and ramifications of additional improvements to health care for reservists and their families. In commenting on a draft of this report, DOD concurred with our recommendations. On the basis of DOD's concurrence with our recommendation concerning reserve health care benefits, we are also including matters for congressional consideration concerning the legislative proposal to extend TRICARE benefits to nonactivated reservists and their families.

---

## Background

---

### Components of the Reserve Forces

The reserve forces are divided into three major categories, one of which is the Ready Reserve.<sup>7</sup> The Ready Reserve, with approximately 1.2 million reservists at the end of fiscal year 2002, is further subdivided into the Selected Reserve, the Individual Ready Reserve, and the Inactive National Guard. The Selected Reserve, with approximately 880,000 members in fiscal year 2002, includes all personnel who are active members of reserve units and who participate in regularly scheduled drills and training. In this report, we refer to these personnel as “drilling unit members.” The Selected Reserve also includes individual mobilization augmentees—individuals who regularly train with active component units. The Individual Ready Reserve principally consists of individuals who have had training and have previously served in the active forces or in the Selected Reserve, and the Inactive National Guard contains individuals who are temporarily unable to participate in regular training with the Guard unit. Together, the Individual Ready Reserve and Inactive National Guard had about 320,000 members in fiscal year 2002. There are seven reserve components—the Army Reserve, the Army National Guard, the Air Force Reserve, the Air National Guard, the Naval Reserve, the Marine Corps Reserve, and the Coast Guard Reserve.

---

<sup>7</sup> The other two categories of the reserve forces are the Standby Reserve and the Retired Reserve.

---

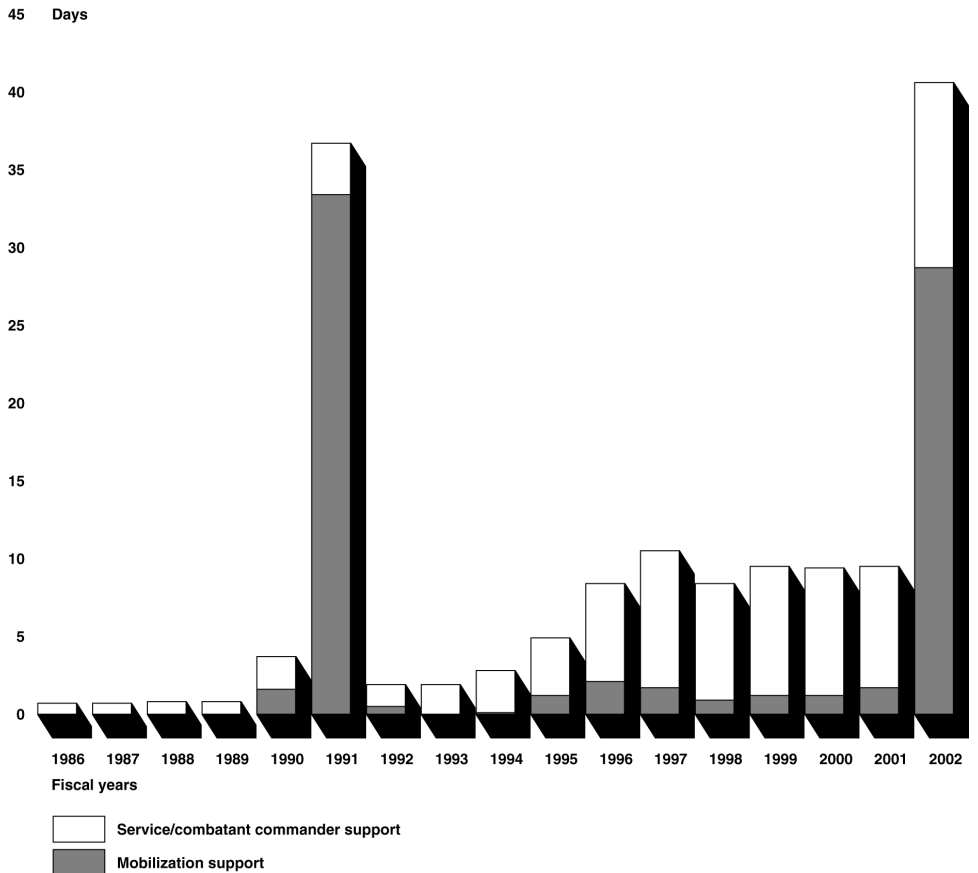
## Reserve Participation in Military Operations

Since the end of the Cold War, there has been a shift in the way reserve forces have been used. Previously, reservists were viewed primarily as an expansion force that would supplement active forces during a major war. Today, reservists not only supplement but also replace active forces in military operations worldwide.<sup>8</sup> In fact, DOD has stated that no significant operation can be conducted without reserve involvement. Figure 1 shows per capita involvement of reservists annually since 1986 and illustrates the spikes in reserve participation in military operations in fiscal years 1991 (Desert Shield and Desert Storm) and 2002 (Noble Eagle and Enduring Freedom), as well as a fairly steady level of involvement between 1996 and 2001. We derived per capita calculations by dividing the total days of support for military missions by the end strength of the Selected Reserve. However, force structure within the Selected Reserve qualifies only a portion of those available to serve for a particular mission. Despite this, the data highlight trends in the average number of support days served by reservists.

---

<sup>8</sup> The average reservist trains 38 or 39 days per year. In addition to this training, some reservists provide support for counterdrug operations, domestic emergencies, exercises, and established and emerging operations, including those involving either presidential call-ups or mobilizations.

**Figure 1: Annual Number of Days Per Capita for Reserve Mobilizations and Support to the Services and Combatant Commands (Fiscal Years 1986-2002)**



Source: GAO.

Notes: GAO analysis of Office of the Assistant Secretary of Defense for Reserve Affairs data.

This figure includes the contributions of the Coast Guard Reserve.

Mobilizations are operations using the Presidential Reserve Call-up or mobilization authorities. Support of the services or combatant commands is mission assistance provided under voluntary orders and includes both contingency operations and other missions. The figure excludes days for training as well as support for counterdrug operations, exercises, and domestic emergencies.

Per capita calculations are derived by dividing the total days of support for these missions by the end strength of the Selected Reserve. However, force structure within the Selected Reserve qualifies only a portion of those available to serve for a particular mission. Despite this, the data highlight trends in the average number of support days served by reservists.

---

There have been wide differences in the operational tempos<sup>9</sup> of individual reservists in certain units and occupations. Prior to the current mobilization, personnel in the fields of aviation, special forces, security, intelligence, psychological operations, and civil affairs had been in high demand, experiencing operational tempos that were two to seven times higher than those of the average reservist. Since September 2001, operational tempos have increased significantly for reservists in DOD reserve components due to the partial mobilization in effect to support Operations Iraqi Freedom, Noble Eagle, and Enduring Freedom.

---

## End Strength, Enlistment, and Attrition

For each year from fiscal year 1997 to 2002, the reserves on the whole achieved at least 99 percent of their authorized end strength. In 4 of these 6 years, they met at least 100 percent of their enlistment goals. During this time period, enlistment rates fluctuated from component to component. For the fiscal year 1997-2002 period, only the Army National Guard experienced a slight overall increase in attrition.<sup>10</sup> The attrition data suggest there has not been a consistent relationship between a component's average attrition rate for a given year and the attrition rate for that component's high demand capabilities (which include units and occupations). In other words, attrition rates for high demand capabilities were higher than average in some cases but lower than average in other cases. Shortfalls have been identified in certain specialties, such as health care professionals.

---

## DOD's Use of Survey Data

DOD uses surveys of reservists and their spouses to obtain information on reservists' income change when they are activated for a military operation and to obtain their perspective on a number of issues relating to activation, including family support and health care. The most recent survey of reservists was completed in 2000,<sup>11</sup> prior to the terrorist attacks

---

<sup>9</sup> For this report, operational tempo refers to the total days reservists spend participating in normal drills, training, and exercises, as well as domestic and overseas operational missions.

<sup>10</sup> Attrition is the total number of personnel losses from the Selected Reserve divided by the average Selected Reserve end strength for the year. Under this definition, attrition is not a true measure of retention since it does not reflect the number of personnel who left compared with the eligible population of those who could have left.

<sup>11</sup> The population of interest consisted of all Selected Reserve members below flag or general officer rank, with at least 6 months of service when the questionnaires were first mailed in August 2000. The sample consisted of 74,487 members. Eligible respondents returned 35,223 completed surveys.

---

that occurred on September 11, 2001, and the ensuing mobilization. The 2000 survey included questions on various aspects of mobilization and deployment for operations dating back to the 1991 Persian Gulf War. In 2002, the Office of the Assistant Secretary of Defense for Reserve Affairs surveyed spouses of activated reservists.<sup>12</sup> In 2003, DOD fielded a new “status of forces” survey of activated reservists. However, the survey had not been completed at the time we were conducting our work.

---

## Roles and Responsibilities

The Under Secretary of Defense for Personnel and Readiness has oversight for policies, plans, and programs for military personnel management, military compensation, and personnel support programs. The Assistant Secretary of Defense for Reserve Affairs is responsible for the overall supervision of issues involving reserve forces. The Assistant Secretary of Defense for Health Affairs has the responsibility to execute DOD’s health care mission. The TRICARE Management Activity manages and executes the Defense Health Program Appropriation and supports the uniformed services in implementation of TRICARE. Regarding family support programs, the secretaries of the military departments are responsible for, among other things, ensuring that comprehensive family support systems are developed at DOD installations and that family support systems are monitored and evaluated to ensure that they are accessible, effective, and responsive to the needs of DOD personnel and their families.

---

## Recent GAO Reports on Reserve Forces

We have previously reported on several issues surrounding the increased use of reserve forces. In August 2003, we reported on the efficiency of DOD’s process for mobilizing reservists following September 11, 2001.<sup>13</sup> In April 2003, we examined whether the Army was collecting and maintaining information on the health of early-deploying reservists.<sup>14</sup> In March 2003, we testified before the Subcommittee on Total Force, House Committee on

---

<sup>12</sup> The population of interest was spouses of reservists activated for Operations Noble Eagle, Enduring Freedom, Bosnia, Southwest Asia, or Southern Watch. The sample consisted of 7,658 spouses when the survey was first mailed in August 2002. Eligible respondents returned 3,874 completed surveys.

<sup>13</sup> U.S. General Accounting Office, *Military Personnel: DOD Actions Needed to Improve the Efficiency of Mobilizations for Reserve Forces*, [GAO-03-921](#) (Washington, D.C.: Aug. 21, 2003).

<sup>14</sup> U.S. General Accounting Office, *Defense Health Care: Army Needs to Assess the Health Status of All Early-Deploying Reservists*, [GAO-03-437](#) (Washington, D.C.: Apr. 15, 2003).

---

Armed Services, on our preliminary observations related to the issues covered in this report, as well as employer support.<sup>15</sup> Also in March 2003, we testified before the Subcommittee on Total Force concerning DOD's oversight of TRICARE's network of civilian providers, and we issued a report on this topic in July 2003.<sup>16</sup> In September 2002, we issued a report in response to a congressional mandate to study the health care benefits of reserve component members and dependents and the effect mobilization may have on these benefits.<sup>17</sup> In June 2002, we noted that maintaining employers' continued support for their reservist employees will be critical if DOD is to retain experienced reservists in these times of longer and more frequent deployments.<sup>18</sup>

---

## DOD Lacks Data to Determine the Need for Income Protection Programs

DOD lacks sufficient information from the survey data to determine the magnitude of income loss or gain experienced by reservists, the causes for this change, and the effects of income loss on reserve retention. Such data are critical for assessing the full nature and scope of income change problems and in developing cost-effective solutions. DOD self-reported survey data from past and current military operations indicate that reservists have experienced widely varying degrees of income change when they are activated. While many reservists have reported lost income during activation, more than half of reservists have reported either no change or a gain in income. Current pay policies and protections, as well as emergency aid services, may help mitigate reservists' financial hardship during activation. Additional income protection initiatives for reservists have been proposed. Three of these proposals are (1) an Army initiative to provide special deployment pay to self-employed physicians who fill

---

<sup>15</sup> [GAO-03-549T](#). We also provided a statement for the record to the Subcommittee on Personnel, Senate Committee on Armed Services, titled *Military Personnel: Preliminary Observations Related to Income, Benefits, and Employer Support for Reservists During Mobilization*, [GAO-03-573T](#) (Washington, D.C.: Mar. 19, 2003).

<sup>16</sup> U.S. General Accounting Office, *Defense Health Care: Oversight of the Adequacy of TRICARE's Civilian Provider Network Has Weaknesses*, [GAO-03-592T](#) (Washington, D.C.: Mar. 27, 2003) and *Defense Health Care: Oversight of the TRICARE Civilian Provider Network Should Be Improved*, [GAO-03-928](#) (Washington, D.C.: July 31, 2003).

<sup>17</sup> U.S. General Accounting Office, *Defense Health Care: Most Reservists Have Civilian Health Coverage but More Assistance Is Needed When TRICARE Is Used*, [GAO-02-829](#) (Washington, D.C.: Sept. 6, 2002).

<sup>18</sup> U.S. General Accounting Office, *Reserve Forces: DOD Actions Needed to Better Manage Relations between Reservists and Their Employers*, [GAO-02-608](#) (Washington, D.C.: June 13, 2002).

---

critical medical wartime positions in the reserves, (2) legislative proposals to authorize differential pay for federal employee reservists, and (3) an Air Force initiative to establish an income insurance program for activated reservists.

---

### Information on Magnitude, Causes, and Effects of Income Loss Is Incomplete

The 2000 and 2002 DOD surveys provide incomplete information on the magnitude of income change experienced by activated reservists, the causes of income loss, and the effects of income loss on reservists' attitudes toward military life and on retention. Such data are critical for assessing the full nature and scope of income change problems and in developing cost-effective solutions. Based on the 2000 survey data, DOD estimated that the average total income change for all reservists (including losses and gains) was almost \$1,700 in losses. However, this figure should be considered with caution because of the estimating methodology that was used and because it is unclear what survey respondents considered as income loss or gain in answering this question.<sup>19</sup> For example, when members reported income loss or gain, they may or may not have included the value of indirect compensation, such as health care benefits, or considered changes in their expenses, such as those for household and car maintenance and for child care. In addition, it is unclear whether survey respondents included paid civilian leave received concurrently with military pay or whether they included differential pay if provided by their employer. Further, reservists were mobilized or deployed for varying lengths of time, which is likely to affect their overall income change. According to DOD's analysis of the survey data, certain groups reported greater losses of income on average. For example, self-employed reservists reported an average income loss of \$6,500, physicians/registered nurses reported an average income loss of \$9,000, and self-employed physicians/registered nurses reported an average income loss of \$25,600. DOD's analysis presents little data on those groups who reported an overall income gain. Two groups that were identified as reporting a gain were clergy and those who worked for a family business without pay.

The existing survey data provide incomplete information on the causes of income change. Income change can be attributed to various factors, including a difference between civilian and military pay, a change in

---

<sup>19</sup> The 2000 survey asked respondents: "Please estimate your (and your spouse's) total income change from all sources as a result of your most recent mobilization and deployment. If you (and your spouse) have continuing losses from a business or practice, include those in your estimate."



---

spousal income, a change resulting from continuing losses from a business or practice, a different job being performed, or some combination of these. The 2002 spouse survey estimates showed that about 60 percent had an increase in the military member's earnings, 10 percent had an increase in their own earnings due to working more hours or taking a second job, 31 percent had a reduction in the military member's earnings, 19 percent had a reduction in their own earnings because they were unable to work as much, 6 percent had other increases in income, and 15 percent had other reductions in income. In addition to these factors, military households may also experience a change in expenses during the activation period. The 2000 survey estimates showed that about 22 percent of drilling unit members had an increase in child-care expenses, 26 percent had an increase in household maintenance and car repair expenses, and 63 percent had an increase in telephone expenses. However, neither survey provides complete information on the extent these individual factors contribute to overall income change.

Although reservists have reported that income loss causes problems for them, the effects of these problems are not clear. When asked to rank income loss among other problems they have experienced during mobilization or deployment, about 41 percent of drilling unit members ranked it as one of their most serious problems.<sup>20</sup> But the survey data are inconclusive concerning the effects of income loss problems on servicemembers' attitudes toward military life or on retention. Our prior work has shown that retention decisions are highly personal in nature and that many factors may affect the decision of a servicemember to stay in the military or leave. A 1998 RAND study conducted for DOD found that income loss during the 1991 Persian Gulf War, while widespread among reservists, did not have a measurable effect on the retention of enlisted reservists.<sup>21</sup> The study was cautiously optimistic that mobilizing the reserves under similar circumstances in the future would not have adverse effects on enlisted recruiting and retention. However, the effects of future mobilizations can depend on the mission, the length of time reservists are deployed, the frequency of deployment, the degree of support from employers and family members, and other factors. Office of the Secretary of Defense (OSD) officials told us it was too early to know how the current

---

<sup>20</sup> The survey listed 22 possible problems and asked respondents to choose their top 3 most serious problems experienced during mobilization or deployment.

<sup>21</sup> RAND, *The Effect of Mobilization on Retention of Enlisted Reservists After Operation Desert Shield/Storm*, MR-943-OSD (1998). The study did not include officers.

---

mobilization would affect retention or what factors would be driving reservists' retention decisions.

---

### Reservists Have Experienced Widely Varying Degrees of Income Loss or Gain

The 2000 DOD survey showed that an estimated 41 percent of reservists who were drilling unit members in the Selected Reserve lost family income when they were mobilized or deployed for a military operation, 30 percent had no change in income, and 29 percent had an increase in income. Table 1 shows the distribution of income change reported by drilling unit members in the 2000 survey.

**Table 1: Estimates of Drilling Unit Members' Total Reported Change in Family Income for Mobilizations or Deployments Prior to 2001**

Total income change	Percentage
Decreased \$50,000 or more	0.9
Decreased \$25,000 to \$49,999	1.5
Decreased \$10,000 to \$24,999	4.1
Decreased \$5,000 to \$9,999	6.0
Decreased \$2,500 to \$4,999	8.9
Decreased \$1 to \$2,499	19.5
<b>Subtotal</b>	<b>40.9</b>
No change in income	30.0
<b>Subtotal</b>	<b>30.0</b>
Increased \$1 to \$2,499	16.6
Increased \$2,500 to \$4,999	6.8
Increased \$5,000 or more	5.7
<b>Subtotal</b>	<b>29.1</b>
<b>Total</b>	<b>100.0</b>

Sources: DOD 2000 Reserve Component Survey (data); GAO (presentation).

Our analysis of the 2000 DOD survey estimates showed that differences in total family income change were attributable to different civilian occupations. For example, a higher percentage of self-employed reservists lost income (55 percent)<sup>22</sup> compared with drilling unit members overall (41 percent). About 10 percent of self-employed drilling unit members had income loss of \$25,000 or more, compared with about 3 percent for drilling unit members overall. The percentage of federal employee reservists who

---

<sup>22</sup> The sampling error for this estimate is plus or minus 9 percentage points.

---

lost income did not differ statistically from the overall average for drilling unit members. Of federal employee reservists, about 39 percent had an income loss, and 62 percent had no change or a gain in income.<sup>23</sup> Of reservists in selected civilian career fields,<sup>24</sup> a higher percentage of health care professionals had income loss compared with reservists in other career fields, and about 38 percent of health care professionals<sup>25</sup> had an income loss of \$25,000 or more. Income change differences were also evident based on reserve component and pay grade. For example, a higher percentage of members in the Marine Corps Reserve and the Naval Reserve had income loss compared with members of the Army National Guard.

The 2002 DOD survey of spouses of activated reservists found that an estimated 58 percent had an increase in monthly family income, 30 percent had a loss in monthly income, and 12 percent experienced no change in monthly income (see table 2).

---

<sup>23</sup> The percentages do not add to 100 due to rounding. Sampling errors for federal employees who had a decrease, no change, or a gain in income were about plus or minus 6 percentage points.

<sup>24</sup> The 2000 survey obtained information on reservists in the following civilian career fields: medical professionals, lawyers, information technology specialists, clergy, and pilots/navigators.

<sup>25</sup> The sampling error for this estimate was about plus or minus 8 percentage points.

**Table 2: Estimates of Spouses' Monthly Reported Change in Family Income during Activation**

Monthly income change	Percentage
Decreased more than \$3,500	3
Decreased \$2,001-\$3,500	4
Decreased \$1,001-\$2,000	7
Decreased \$501-\$1,000	8
Decreased \$251-\$500	6
Decreased \$1-\$250	2
<b>Subtotal</b>	<b>30</b>
No change	12
<b>Subtotal</b>	<b>12</b>
Increased \$1-\$250	8
Increased \$251-\$500	12
Increased \$501-\$1,000	16
Increased \$1,001-\$2,000	14
Increased \$2,001-\$3,500	6
Increased more than \$3,500	2
<b>Subtotal</b>	<b>58</b>
<b>Total</b>	<b>100</b>

Sources: DOD (data); GAO (presentation).

### Additional Income Protection Measures Have Been Proposed to Supplement Existing Pay Policies and Protections

Current pay policies and protections, as well as emergency aid services, may help mitigate reservists' financial hardship during activation. For example, basic military compensation has increased in recent years. In addition, the Soldiers' and Sailors' Civil Relief Act provides numerous financial protections to reservists. (See app. III for more information on existing pay policies and protections.) Additional income protection measures for reservists have been proposed. Three proposals are (1) an Army initiative to provide special deployment pay to self-employed physicians who fill critical medical wartime positions in the reserves, (2) legislative proposals to authorize differential pay for federal employee reservists, and (3) an Air Force initiative to establish income insurance for activated reservists.

---

Special Deployment Pay for  
Physicians in Critical Wartime  
Specialties

The Army, through DOD's Unified Legislation and Budgeting process,<sup>26</sup> has proposed a special deployment pay to limit income loss and improve retention of certain Army Reserve Medical Corps physicians. The pay would be targeted at reservists called to active duty who are (1) self-employed,<sup>27</sup> (2) serve as officers in the Army Reserve Medical Corps in critical wartime medical specialties, and (3) deploy involuntarily beyond the established rotation. The special deployment pay would be available during contingencies and funded through a supplemental appropriation. Under this proposal, an eligible reservist would receive an additional monthly pay that would vary by specialty, level of training, and years of active duty service as a Medical Corps officer. The monthly pay would be limited to no more than twice the special pay currently earned by an eligible individual. The Army estimates the mean cost at \$6,000 per month per eligible professional. The Army estimates that had this pay policy been in place in May 2003, Army Reserve physicians deployed beyond the established rotation period (90 days) would have received a total of \$630,000 in special deployment pay for that month.<sup>28</sup>

According to the Army, this special pay is needed because of difficulties retaining and replacing fully trained physicians<sup>29</sup> in the Army Reserve Medical Corps to meet its wartime needs. These retention difficulties are due, in part, to reservists' concerns about financial loss during deployment. According to the Army, it has been unsuccessful in recruiting and retaining enough fully trained physicians to meet authorized personnel levels in the Selected Reserve and has had to rely on transfers from the Individual Ready Reserve to reconstitute its Selected Reserve strength. The Army attributes retention challenges within the reserves to a decrease in the number of active duty physicians transferring to the reserve

---

<sup>26</sup> DOD established the Unified Legislation and Budgeting process in 1994 to develop and review personnel compensation proposals.

<sup>27</sup> Internal Revenue Publication 533 defines "self-employed" individuals as sole proprietors or independent contractors; members of a partnership that carries on a trade or business; or otherwise in business for themselves. A 2001 survey of medical personnel conducted for the Army Surgeon General found that almost 40 percent of Army Reserve Medical Corps officers identified themselves as self-employed.

<sup>28</sup> The cost estimate assumes that about 30 percent of the 350 Army Reserve Medical Corps officers deployed in May 2003 would have qualified for the special deployment pay. The actual total monthly cost may be less since this figure assumes that all qualifying physicians had been deployed involuntarily beyond the 90-day rotation schedule.

<sup>29</sup> The Army considers physicians to be fully trained and deployable when they have passed a written exam and completed their residency.

---

component, attrition due to an aging force and professionals meeting retirement eligibility, and the inability of some medical professionals to tolerate income loss resulting from frequent or lengthy activations.

Every 2 years, the Assistant Secretary of Defense for Health Affairs publishes a list of critical officer skills needed to meet Ready Reserve medical shortages and for which the services could offer retention and recruiting incentives. During fiscal years 2002 and 2003, the Army Reserve was projected to have critical shortages—that is, projected to fill less than 80 percent of authorized positions during the next 24 months—in 18 wartime health care specialties, such as general surgery, thoracic surgery, and preventative medicine. For example, as of January 2003, the Army Reserve had filled 78 percent of authorized general surgeon positions, 62 percent of thoracic surgeon positions, and 41 percent of preventative medicine positions.

A 1996 survey conducted for the Chief, Army Reserve, found that 54 percent of Army Reserve physicians cited the financial impact of mobilization as a primary reason that they did not intend to remain in the reserves until retirement. The survey showed that catastrophic financial loss associated with long-term deployments was the primary factor in their decisions to leave the Army Reserve. Furthermore, over three-quarters of all Army Reserve physicians surveyed in 1996 and 2001 required mobilization periods of 90 days or less to avoid seriously affecting their medical practices. Fifty-nine percent of respondents to the 2001 survey preferred a maximum deployment length of 60 days or less. However, these respondents indicated that a special deployment pay would allow them to deploy for longer periods of time and would increase the likelihood that they would remain in the Army Reserve. The amount of special pay that respondents would need varied by medical specialty, with the majority indicating a need for less than \$10,000 a month to maintain their practices while deployed.

To increase retention among medical professionals concerned about the financial impact of lengthy mobilizations on their practices, the Army implemented the Presidential Reserve Call-Up 90-Day Rotation Pilot Program in 1999. The 3-year pilot program limited deployments of physicians, dentists, and nurse anesthetists to 90 days in the area of operations. A 2001 survey of Army Reserve medical personnel found that intent to remain in the Army Reserve increased among self-employed medical professionals who were aware of the 90-day rotation pilot program. By 2001, the percentage of Army Reserve medical professionals who indicated that they did not intend to remain until retirement had

---

---

## Differential Pay for Activated Federal Employees

dropped slightly. Those aware of the 90-day cap who indicated that they would leave because of the financial impact of mobilization decreased by 23 percent from 1996 to 2001. Moreover, those indicating that they would leave because of concerns about future mobilizations decreased by 20 percent over the same time period. Respondents to the 2001 survey indicated that a special deployment pay would allow them to deploy for longer periods of time. For example, of respondents whose original optimal deployment length was 31 to 60 days, 76 percent indicated that they could increase their deployment time up to 90 days with a special deployment pay.

Federal employee reservists called to active military duty do not receive paid compensation from their civilian employing agency other than paid military and annual leave.<sup>30</sup> Under various legislative proposals introduced during the current congressional cycle,<sup>31</sup> federal agencies that employ reservists called to active duty would be required to pay the difference, if any, between the employee's civilian pay and military pay from appropriated funds. DOD's 2000 survey estimates indicated that 9 percent of drilling unit members were federal employees in 1999. Proponents of differential pay for federal employee reservists state that providing this pay (1) would recognize the demands and burdens placed on reservists and their families, (2) would help federal employee reservists maintain their standard of living, and (3) would set an example for other employers of reservists. The Office of Personnel Management has opposed similar legislation in the past on the basis of equity and cost issues. In addition, as noted earlier, available data indicate that federal employee reservists are not suffering income loss to a greater extent than other reservists, such as certain health care professionals.

Federal law provides many rights and benefits for federal employees called to active military duty. In December 2001, federal agencies were granted discretionary authority to pay both the employee and government

---

<sup>30</sup> Activated federal employees who use military leave receive full compensation from their civilian agency in addition to their military pay for the same period. Federal employee reservists earn up to 15 days of military leave a year. Employees who perform active military duty to assist domestic civilian authorities in the protection of life or property may be granted an additional 22 days of military leave.

<sup>31</sup> Four legislative proposals that would offer differential pay to activated federal employee reservists are S. 593, Reservists Pay Security Act of 2003; S. 442, Reservists and Guardsmen Pay Protection Act of 2003; H.R. 217, Reservists Pay Security Act of 2003; and H.R. 1345, Equity for Reservists Pay Act of 2003.

---

shares of the Federal Employees Health Benefits Program premium for any or all of an 18-month period when an employee is called to active duty in support of a contingency operation.<sup>32</sup> As of March 2003, about 64 percent of federal agencies reported paying the entire premium when an employee is called to active duty. At agencies that have not used this discretionary authority, employees may continue to pay their share of premiums for the first 12 months and their share of premiums plus the government's share of premiums and a 2 percent administrative processing fee for the next 6 months.<sup>33</sup>

Other benefits for activated federal employee reservists include the following:

- continuation of life insurance for up to 12 months at no cost;
- continued accrual of military leave, which may be carried over to the following fiscal year or used while activated; and
- retroactive retirement credits upon return to their civilian positions.

In an August 2002 memorandum, the Office of Personnel Management cited "equity issues" in its opposition to differential pay for federal employee reservists. While the Office of Personnel Management did not elaborate, differential pay could create inequities in pay between federal employee reservists and their active duty counterparts who are serving in the same positions and pay grades. Two servicemembers performing the same military job could receive different amounts of compensation simply because one is a reservist with a full-time job in the federal civilian sector. In addition, there may not be a correlation between a reservist's civilian and military pay grades. A federal employee's civilian salary is based on work performed at a certain pay grade and may require different skills and knowledge than the employee's military job. Providing differential pay would, in effect, be paying the reservist for a job other than that being performed.

The Office of Personnel Management also stated that the cost of providing differential pay for activated federal employee reservists on an indefinite basis would be significant and that data are lacking to make an accurate

---

<sup>32</sup> Public Law 107-107, sec. 519. (Dec. 28, 2001) 5 U.S.C. sec. 8906(e)(3).

<sup>33</sup> Federal employees can extend coverage beyond 18 months for 31 days and convert to an individual policy offered by the plan carrier. Public Law 103-353, Oct. 13, 1994, 38 U.S.C. sec. 4301-4333.



---

cost projection. It noted that because federal agencies would fund the cost of differential pay, agencies with greater numbers of activated reservists would have higher costs, reducing the amount of funds available for other program operations. The Congressional Budget Office developed a cost estimate for one of the legislative proposals.<sup>34</sup> It estimated that this proposal would cost \$201 million for the fiscal year 2003-08 period, which includes retroactive payments for federal employees called to active duty since September 11, 2001.<sup>35</sup>

A factor that complicates calculation of the total cost of differential pay is DOD's lack of complete information about reservists' employment. Until recently, DOD did not require reservists to provide information to DOD about their civilian employers. In response to our recommendation that DOD collect complete data about reservists' employment, DOD and the services implemented the Civilian Employment Information Program in March 2003.<sup>36</sup> Under this program, Selected Reserve members are required to provide their employment status, employer's name, and civilian job title, among other information. When fully established, the program will allow DOD to consider employment-related factors during premobilization planning and assist the department in accomplishing its employer outreach efforts. The data could also help to identify the number of federal employees who could be called to active duty and to develop a total cost estimate if a pay differential were offered to them.

While civilian employers are not required under the Uniformed Services Employment and Reemployment Rights Act<sup>37</sup> to provide differential pay to activated reservists, we have found that many employers do so. As part of our earlier work on employer support for the Guard and Reserve, we contacted 359 employers of reservists in high tempo units between November 2001 and March 2002 about their pay practices for activated employees. Of 183 employers who completed and returned the survey,

---

<sup>34</sup> S. 593, Reservist Pay Security Act of 2003, as introduced on March 11, 2003.

<sup>35</sup> For its analysis, the Congressional Budget Office assumed that (1) 15 percent of those reserves called to active duty at any time are federal employees; (2) the average annual reduction in salary while serving on active duty is about \$3,000; and (3) an average of 20,000 federal employees will be on active duty military service between July 1, 2003, and September 30, 2003, diminishing to about 2,000 by 2008. Lengthier, larger, or more frequent deployments could increase the costs of differential pay.

<sup>36</sup> [GAO-02-608](#).

<sup>37</sup> Public Law 103-353, 38 U.S.C., sec. 4301-4333.

---

about 40 percent indicated that they provide either full pay, differential pay, or a combination of both to activated reservists. For this report, we also surveyed officials from 22 states about their compensation policies for state employees called to federal active duty and found that most offer some type of financial assistance to their activated employees. Nineteen of the 22 states offer financial assistance, such as pay differentials, to employees who are on military leave without pay and can document a loss of income. (App. IV provides information on income assistance, military leave, health benefits, and other benefits offered by the 22 states to their employees who are called to active duty.) DOD's 2002 spouse survey estimates showed that the reserve member's civilian employer continued to pay the member's salary in full or in part for 22 percent of spouses.

#### Income Insurance for Activated Reservists

From 1996 to 1997, DOD offered the Ready Reserve Mobilization Income Insurance Program to reservists as a way to protect their civilian income when called to active duty. The program was canceled after it failed financially. Through DOD's Unified Legislation and Budgeting process, the Air Force has proposed that DOD establish a somewhat similar income insurance program that addresses some of the problems associated with the original program but not others.

The original DOD program was initiated after concerns were raised following the 1991 Persian Gulf War that income loss would adversely affect retention of reservists. According to a 1991 DOD survey of reservists activated during the Gulf War, economic loss was widespread across all pay grades and military occupations. In response to congressional direction,<sup>38</sup> DOD in 1996 established the Ready Reserve Mobilization Income Insurance Program, an optional, self-funded income insurance program for members of the Ready Reserve ordered involuntarily to active duty for more than 30 days. Reservists who elected to enroll could obtain monthly coverage ranging from \$500 to \$5,000 for up to 12 months within an 18-month period. Far fewer reservists than DOD expected enrolled in the program. Many of those who enrolled were activated for duty in Bosnia and, thus, entitled to almost immediate benefits from the program. The program was terminated in 1997 after going bankrupt.

We reported in 1997 that private sector insurers were not interested in underwriting a reserve income mobilization insurance program due to concerns about actuarial soundness and unpredictability of the frequency,

---

<sup>38</sup> See section 512, National Defense Authorization Act for Fiscal Year 1996 (P.L. 104-106).

---

duration, and size of future call-ups.<sup>39</sup> Certain coverage features violated many of the principles private sector insurers usually require to protect themselves from adverse selection.<sup>40</sup> These features include voluntary coverage and full self-funding by those insured, the absence of rates that differentiated between participants based on their likelihood of mobilization, the ability to choose coverage that could result in full replacement of their lost income rather than those insured bearing some loss, and the ability to obtain immediate coverage shortly before an insured event occurs. DOD officials told us that private sector insurers remain unsupportive of a new reserve income insurance mobilization program and that the amount of federal financial commitment required for the program is prohibitive. Thus, DOD has no plans to implement a new mobilization insurance program.

However, the Air Force has proposed that DOD establish a self-funded income insurance program for reserve component members ordered involuntarily to active duty for more than 30 days, or in support of forces activated during a war declared by Congress or a period of national emergency. The Air Force proposal attempts to address adverse selection, low participation rates, and funding concerns that contributed to the failure of the Ready Reserve Mobilization Income Insurance Program. For instance, to address adverse selection and low participation rates, all drilling unit members and individual mobilization augmentees would be automatically enrolled in the program for \$1,000 of monthly coverage with the option to opt out. Individual Ready Reserve members would have the option to enroll. To further mitigate adverse selection and funding concerns, payments would not be made during the first 6 months of enrollment in the program, regardless of mobilization or recall status. This delay would allow funds to accrue for future payouts. Furthermore, DOD would be able to suspend the annual enrollment open season during national emergencies and periods of war that are declared by Congress. Mandatory waiting periods for coverage to become effective would help counter adverse selection that resulted when reservists with knowledge of their imminent mobilization enrolled in the Ready Reserve Mobilization

---

<sup>39</sup> U.S. General Accounting Office, *Reserve Forces: Observations on the Ready Reserve Mobilization Income Insurance Program*, GAO/T-NSIAD-97-154 (Washington, D.C.: May 8, 1997).

<sup>40</sup> Adverse selection occurs when those enrolling in an insurance program have significantly higher claim probabilities than the average for the population to which the insurance is offered.

---

Income Insurance Program. However, instituting waiting periods and requiring mandatory participation still would not overcome financial liability associated with large mobilizations. Even infrequent mobilizations could produce a large number of claims. As a result, funding for the program could be exhausted quickly. In 1998, the Congressional Research Service estimated that if every Selected Reservist were enrolled for coverage of \$1,000 per month and paid premiums of \$10 per month, the fund would accumulate \$9 million in income each month and \$702 million over 5 years, assuming that premiums were invested at a 10 percent compound interest rate.<sup>41</sup> A mobilization of 250,000 reservists would create a monthly liability of \$250 million, making the fund insolvent by the fourth month of mobilization.<sup>42</sup>

The Air Force proposal does not completely address some of the problems experienced with the prior program, including adverse selection, low participation rates, proof of loss of income, and funding concerns. As currently structured, the Air Force's proposed income insurance program would not have graduated premiums that differentiate between participants based on their likelihood of mobilization. However, participants would be able to purchase additional coverage or opt out of the program depending on their perceived risk of activation. Similar to the Ready Reserve Mobilization Income Insurance Program, the Air Force's proposed program is designed to be financed entirely by premiums paid by individual members. DOD would need to assume responsibility for any unfunded liability that may result from a larger than expected mobilization. As a result, the Secretary of Defense would need to submit a supplemental appropriation request.

In addition, the Air Force's proposed income insurance program does not require proof of loss of income. As designed, the program would pay benefits based on the amount of coverage chosen by the reservists regardless of actual losses incurred. Premium rates would be set for a specified amount of insurance coverage. There is no provision to prevent reservists from subscribing to amounts of coverage significantly greater than their actual loss of income. To minimize the program's financial liability, reservists could be required to document income loss when

---

<sup>41</sup> This estimate seems overly optimistic in today's environment based on the assumed 10 percent compound interest rate.

<sup>42</sup> Reserve mobilizations exceeded 200,000 by mid-March 2003 and remained above that level into July 2003.

---

submitting claims. However, verifying losses from self-owned businesses, lost commissions or bonuses, or additional expenses could be difficult and delay timely payment of benefits.

Even if these design criteria were addressed, designing a financially sound program may not be possible. There is no reliable way to estimate the duration, number, and timing of future mobilizations and the number and specialties of reservists that would be called up. DOD's increased reliance on the reserve components in a changing and unpredictable world situation makes projections of future call-ups exceedingly difficult. To be financially sound, an insurance program, at a minimum, should have a large eligible population of whom a large proportion are insured and the proportion of those insured who file claims should be reasonably stable over time. In addition, to be affordable, the majority of those insured will not, in any period, incur the losses that they insure against.

Furthermore, it is unclear whether reservists want or need an income insurance program. Although the 2000 DOD survey indicated that an estimated 41 percent of drilling unit members had losses in family income when mobilized or deployed, it is unknown whether reservists would be willing to participate in a new income insurance program. For example, high premiums and a mandatory waiting period before becoming eligible for payouts could discourage participation. A survey conducted before the Ready Reserve Mobilization Income Insurance Program was implemented showed that about 70 percent of enlisted members and 55 percent of officers indicated interest in participating in such a program. The DOD Office of the Actuary estimated that about 40 percent of reservists would participate. However, only about 3 percent of Selected Reserve members actually enrolled. The enrollment pattern indicated that reservists in certain military specialties had a greater need or demand for income protection. Of the approximate 5,500 military specialties in the reserve components, about 1,930 (35 percent) had some reservists enrolled in the program, including 420 military specialties that had enrollment levels of 10 percent or more. Although these 420 military specialties accounted for less than 8 percent of the total military specialties within the reserve components, they made up over 25 percent of the total reservists enrolled in the program. Of the 420 specialties with enrollment levels of 10 percent or more, 250 were in aviation, legal, and medical fields.

---

## DOD Faces Challenges in Family Readiness and Support

Although DOD has placed greater emphasis on family readiness, many reserve families indicate they do not feel prepared for call-ups. In addition, although reservists and their families are eligible for military family support services, many reservists appear not to be aware of these services, and most spouses of activated reservists have not used these services. DOD officials have acknowledged they face challenges in providing family support outreach to reservists and have taken steps to improve outreach. Personal financial management, one of DOD's core family support programs, illustrates the continuing challenges DOD faces in providing outreach to reservists. DOD has not assessed the financial well-being of reserve families, nor has it assessed the impact of reservists' financial problems on mission readiness. DOD has noted a need to improve reservists' and their spouses' awareness of and access to personal financial management programs, but it has not tailored its programs to reservists by developing plans that specify how these needs will be met.

---

## Surveys Indicate a Lack of Readiness among Many Reserve Families and Low Awareness and Use of Support Programs

DOD has recognized the importance of family readiness and family support for its servicemembers, including reservists. Under a 1994 DOD policy, the military services must "ensure National Guard and Reserve members and their families are prepared and adequately served by their services' family care systems and organizations for the contingencies and stresses incident to military service." According to DOD, families of reservists who use family support services and who are provided information from the military cope better during activations. Furthermore, military members who are preoccupied with family issues during deployments may not perform well on the job, which in turn, may negatively affect the mission. According to DOD's 2000 survey estimates, reservists who had been activated stated that among the most serious problems they experienced were burdens placed on their spouse and problems created for their children. More than half of all reservists are married, and about half have dependents. As of September 2001, there were about 960,000 family members of Selected Reserve members, including spouses, children, and adult dependents.

Despite this recognition of the importance of family readiness and family support, many reserve families feel they are not prepared when the member is notified for active duty. According to DOD officials, Operations Noble Eagle and Enduring Freedom highlighted that not all reserve families were prepared. Since many families never thought their military member would be mobilized, they had not become involved in their family readiness networks. Results from the 2000 DOD survey also showed a substantial number of reservists did not anticipate call-up— about

---

35 percent of drilling unit members thought it was unlikely or very unlikely that they would be mobilized or deployed in the next 5 years. Furthermore, about one-fourth of drilling unit members said their dependent care arrangements were not realistically workable for deployments lasting longer than 30 days.

DOD's 2002 spouse survey showed that an estimated 33 percent of spouses felt they were unprepared or very unprepared when they first learned of the member's order to active duty, while 37 percent felt they were very well prepared or well prepared and 30 percent felt they were neither prepared nor unprepared. The survey data indicated that less than half of spouses were involved in family readiness groups,<sup>43</sup> attended readiness briefings, received preactivation materials, or had a military point of contact to help them deal with emergency issues that might arise. Our analysis showed that some of these factors appeared to be related to whether spouses felt prepared or unprepared when the member was notified for active duty, although involvement in family readiness groups and receiving preactivation materials upon the member's notification to active duty did not appear to be significant factors. (See app. V.) Compared with unprepared spouses, a higher percentage of prepared spouses had a longer period of notice before the member was activated. As might be expected, a higher percentage of prepared spouses than unprepared spouses were coping well or very well during the activation. An estimated 84 percent of prepared spouses were coping well or very well, 3 percent were coping poorly or very poorly, and 13 percent were coping neither poorly nor well. Of unprepared spouses, 41 percent were coping well or very well, 31 percent were coping poorly or very poorly, and 28 percent were coping neither poorly nor well.

Although activated reservists and their family members are eligible for the same family support services as their active duty counterparts, the DOD 2000 survey estimates showed that more than half of all reservists either believed that family support services were not available to them or did not know whether these services were available (see table 3).

---

<sup>43</sup> Asked what prevented them from participating with their unit's family readiness program or from being a member of their unit's family readiness group, about 37 percent of spouses were not aware of a family readiness group, 34 percent did not have time, for 31 percent the location was not convenient, and 30 percent had not been asked. (These percentages do not add to 100 percent because more than one reason could be indicated.)

**Table 3: Reservists' Views on Availability of Selected Family Support Programs or Services**

Estimated percentage of drilling unit members			
Program/service	Available off installation, on installation or both	Not available	Don't know
Services for families during separation	25	13	62
Crisis referral services	15	17	68
Financial counseling/management education	22	16	61
Family support centers	35	14	51

Sources: DOD 2000 Reserve Component Survey (data); GAO (presentation).

Note: Rows may not add to 100 percent due to rounding.

DOD has found that the degree to which reservists are aware of family support programs and benefits varies according to component, unit programs, command emphasis, reserve status, and willingness of the individual member to receive or seek out information. Among the key challenges in providing family support are the long distances that many reservists live from their home unit and military installations,<sup>44</sup> the difficulty in persuading reservists to share information with their families, the unwillingness of some reservists and their families to take the responsibility to access available information, conflicting priorities during drill weekends that limit the time spent on family support, and a heavy reliance on volunteers to act as liaisons between families and units.

Spouses of activated reservists have not made extensive use of military family support programs. DOD's 2002 spouse survey indicated that most spouses did not use family programs during activation. When asked to rate the helpfulness of various military support services, an estimated 94 percent of spouses said they had not used family programs. In response to another survey question concerning the difficulty they experienced

<sup>44</sup> The 2000 survey of reservists showed that about 40 percent of drilling unit members lived 50 miles or farther from their home unit. The 2002 survey of spouses showed that about 22 percent lived more than 100 miles away from where the member's unit regularly drills or trains. In addition, 28 percent of spouses said they lived more than 50 miles from the nearest military installation.



---

accessing military services, 87 percent said they had not used family programs. It is unclear from the survey data why spouses did not use family programs. About 1 percent of spouses rated family programs as their most important military support service.

DOD has recognized the need for improved outreach. For example, the department has published benefit guides for reservists and family members and has enhanced information posted on its Web sites.<sup>45</sup> DOD published a “Guide to Reserve Family Member Benefits” that informs family members about military benefits and entitlements and a family readiness “tool kit” to enhance communication about predeployment and mobilization information among commanders, servicemembers, family members, and family program managers. Each reserve component has established family program representatives to provide information and referral services, with volunteers at the unit level providing additional assistance. The U.S. Marine Corps began offering an employee assistance program in December 2002 to improve access to family support services for Marine Corps servicemembers and their families who reside far from installations. Through this program, servicemembers and their families can obtain information and referrals on a number of family issues, including parenting, preparing for and returning from deployment, basic tax planning, legal issues, and stress. The National Guard has established family assistance centers across the United States to act as an entry point for service and assistance that a family member may need during the current mobilization. As of May 2003, over 400 family assistance centers had been established.

---

### DOD Has Identified Outreach Challenges for Personal Financial Management Programs

Personal financial management, one of DOD’s core family support programs, illustrates the continuing challenges DOD faces in providing outreach to reservists. These challenges include improving access to and awareness of personal financial management programs for reservists and their family members. Under DOD policy, military personnel bear primary responsibility for the welfare of their families, but the commitment demanded by military service requires that they be provided a comprehensive family support system, to include financial planning assistance. Servicemembers receive financial management training during

---

<sup>45</sup> Examples of these Web sites are [www.armyfamilyteambuilding.org/home.asp](http://www.armyfamilyteambuilding.org/home.asp), [www.afcrossroads.com/index-home.cfm](http://www.afcrossroads.com/index-home.cfm), [www.usmc-mcss.org/mcftb/fa\\_te\\_build\\_main.html](http://www.usmc-mcss.org/mcftb/fa_te_build_main.html), and [www.cnet.navy.mil](http://www.cnet.navy.mil).

---

their basic training and, in some cases, during advanced training. In addition, personal financial management is one of the core services offered at the military services' family support centers. Personal financial management consists of programs conducted by counselors who provide personal and family financial training, counseling, and assistance.

DOD studies have identified problems with personal financial management in the active duty force, particularly among junior enlisted members. A 2002 study found that (1) 20 percent of the junior enlisted force in the active component has financial problems; (2) these personnel have substantially more financial problems than does the comparable civilian population; and (3) financial problems are not related to family income, which suggests that financial problems are shaped by spending patterns and management skills rather than by the level of income.<sup>46</sup> According to this study, "unit leaders consistently complained that much of their time was spent dealing directly with financially overextended members. These problems had a corrosive effect on the unit because they affected work performance through added stress on members as well as through absences to deal with creditors or get credit counseling." A 2000 Navy study found that 57 percent of Navy leaders cited financial concerns as the main servicemember issue with which they dealt most often.<sup>47</sup> Further, in response to a House Committee on Armed Services requirement in the Fiscal Year 2002 National Defense Authorization Act, the Navy identified \$250 million in productivity and salary losses due to poor personal financial management.

In 2002, as part of its human capital strategic plan, DOD identified a need to improve the financial literacy and responsibility of servicemembers, including reservists.<sup>48</sup> The plan states that mission readiness and quality of life are dependent upon servicemembers' using their financial resources responsibly and that the military services must make a commitment to educate servicemembers and their families and encourage them to use good financial sense. Financial literacy training and counseling is one of

---

<sup>46</sup> RAND, *Assessing the Personal Financial Problems of Junior Enlisted Personnel*, MR-1444-OSD (2002).

<sup>47</sup> Caliber Associates, *U.S. Navy Family Service Center Leadership Survey 2000*.

<sup>48</sup> Department of Defense, Deputy Assistant Secretary of Defense (Military Community and Family Policy), *A New Social Compact: A Reciprocal Partnership Between the Department of Defense, Service Members, and Families* (July 2002).

---

the pillars that support financial well-being. However, DOD has not developed plans to address these needs.

DOD is reviewing a draft uniform personal financial management policy. Currently, DOD and service regulations address aspects of personal financial management. The draft policy seeks to establish a uniform approach to educating and training all servicemembers, including reservists. Regarding the reserves specifically, the draft policy would require the military departments to provide a financial planning package and instructional information to reservists as part of their mobilization training. In addition, the draft policy outlines metrics to track financial well-being, such as the number of delinquent government credit cards, the number of individuals who have had their wages garnished, the self-reported financial condition of military personnel and their families, and the number of administrative Uniform Code of Military Justice actions taken against military personnel for financial indebtedness and irresponsibility.

In addition to drafting a personal financial management policy, DOD has taken steps to improve personal financial management programs. In May 2003, DOD formally launched a “financial readiness campaign” to address servicemembers’ poor financial habits and to increase financial management awareness, savings, and protection against predatory practices. It has also entered into a number of partnerships with nonprofit organizations and government agencies that have agreed to support counselors who offer financial assistance programs to servicemembers. The services have also made improvements. For example, the Navy has increased the number of mandatory hours of personal financial management training and uses mobile financial management teams to train financial specialists, including in geographically remote regions where there are no financial educators to provide training. The services also provide financial planning information on their Web sites.

As shown in table 3, the 2000 DOD survey showed that an estimated 61 percent of drilling unit members did not know whether financial counseling and management education services were available, and 16 percent did not think these services were available. DOD’s 2002 spouse survey showed that about 76 percent of spouses did not use the military’s financial information and counseling services, although it is unclear why they did not. Although DOD has identified challenges in the service personal financial management programs, it has not developed plans to provide outreach to reservists and their spouses. A DOD official from the Office of the Deputy Under Secretary of Defense for Military Community

---

and Family Policy said that little attention has been placed on extending personal financial management programs to the reserve population. In a 2002 report to Congress,<sup>49</sup> DOD stated, “The services should improve access to personal financial management information by Reserve forces.” The DOD report also stated that most personal financial management training “does not adequately provide support to spouses.” The Army noted that “increasing spouse participation is not easy and requires significant marketing and leadership support.” The Air Force and the Marine Corps specifically identified the lack of spousal outreach as a gap in their programs. The services also recognize a need to improve marketing of financial management programs to reservists and their spouses. Two services—the Army and the Air Force—cited lack of resources, including dedicated personal financial management personnel, as a challenge to increasing access to and awareness of personal financial management programs.

In addition, while DOD has assessed the financial well-being of the active duty force, it has not conducted such assessments of reservists. Our review of DOD survey data showed that reservists reported having many of the same financial problems as their active duty counterparts.<sup>50</sup> For instance, about 20 percent of reservists and 19 percent of active duty personnel characterized their family’s financial condition as “in over your head” or “tough to make ends meet but keeping your head above water.” However, a higher percentage of reservists reported having such financial difficulties as bouncing checks, receiving a letter of indebtedness, and falling behind in paying rent or mortgage, than did their active duty counterparts. For example, 12 percent of reservists fell behind in paying rent or mortgage compared with 3 percent of active duty members. In addition, while DOD has found a link between financial problems and readiness in the active component, it has not assessed the impact of reservists’ financial problems on mission readiness.

---

<sup>49</sup> In 2001, Congress expressed concern that the military departments were not providing sufficient personal financial management training and that when personal financial problems occurred, the services were not providing adequate supervision to ensure that servicemembers and their families regained financial security. Due to these concerns, Congress directed DOD to review personal financial management programs. H. Rpt. 107-194.

<sup>50</sup> We compared responses to identical questions included in DOD’s 1999 Survey of Active Duty Members and the 2000 Reserve Component Survey.

---

## DOD Has Not Fully Assessed the Need for Expansion of TRICARE to Nonactivated Reservists

Reservists' family members are eligible for TRICARE when reservists have been activated for 31 days or more, and a number of recent improvements have been made to reserve family health benefits. These improvements include earlier access to certain benefits, expanded options, higher reimbursement rates for nonnetwork physicians, and efforts to improve outreach. Reserve families may choose to use TRICARE when reservists are activated or remain under civilian health insurance coverage. Our prior work showed that despite having access to TRICARE, most reservists with civilian health insurance had opted to retain their civilian health care coverage for their families during periods of activation. To further expand reservists and their family members' access to health care, Congress is considering legislation to offer military health care coverage to reservists and their families when members are not on active duty. However, DOD has not fully assessed the need for or ramifications of this proposal. For example, DOD does not know the impact this proposal would have on recruiting and retention, the effects on active duty personnel, the extent reservists and their families might participate in such a program, or the impact on the TRICARE system. Cost estimates range up to \$5.1 billion a year.

---

## Improvements to Reserve Family Health Benefits

When activated for a contingency operation, reservists and their family members are eligible for health care benefits under TRICARE, DOD's managed health care program. TRICARE offers beneficiaries three health care options: Prime, Standard, and Extra. TRICARE Prime is similar to a private HMO plan and does not require enrollment fees or copayments. TRICARE Standard, a fee-for-service program, and TRICARE Extra, a preferred provider option, require copayments and annual deductibles. None of these three options require reservists to pay a premium. Benefits under TRICARE are provided at more than 500 military treatment facilities worldwide, through a network of TRICARE-authorized civilian providers, or through nonnetwork physicians who will accept TRICARE reimbursement rates.

Reservists who are activated for 30 days or less are entitled to receive medical care for injuries and illnesses incurred while on duty. In addition, Congress requires the Army to monitor the health status of those designated as early-deploying reservists by providing annual medical and dental screenings, selected dental treatment, and—for those over age 40—physical examinations every 2 years. Those under age 40 are required to undergo a physical examination once every 5 years. For its early-deploying reservists, the Army conducts and pays for physical and dental examinations and selected dental treatment at military treatment facilities

---

or pays civilian physicians and dentists to provide these services. Reservists who are placed on active duty orders for 31 days or more are automatically enrolled in TRICARE Prime and receive most care at a military treatment facility. Family members of reservists who are activated for 31 days or more may obtain coverage under TRICARE Prime, Standard, or Extra. Family members who participate in Prime obtain care either at a military treatment facility or through a network provider. Under Standard or Extra, beneficiaries may use either a network provider or a nonnetwork physician who will accept TRICARE rates. Upon release from active duty that extended for at least 30 days, reservists and their family members are entitled to continue their TRICARE benefits for 60 days or 120 days, depending on the reservists' cumulative active duty service time. Reservists and their dependents may also elect to purchase extended health care coverage for 3 months at a time for a maximum of up to either 18 months or 3 years under the Continued Health Care Benefit Program.

Legislation passed in December 2002 (P.L. 107-314, sec. 702) made family members of reservists activated for more than 30 days eligible for TRICARE Prime if they reside more than 50 miles, or an hour's driving time, from a military treatment facility. In March 2003, DOD altered TRICARE policy such that all family members of reservists activated for 31 days or more are eligible for TRICARE Prime. In conjunction with this change, DOD announced a change in the eligibility of reserve families for TRICARE Prime Remote for Active Duty Family Members.<sup>51</sup> DOD stated that a legislative provision of the program that required a family member to "reside with" the servicemember would be interpreted as meaning that eligible family members resided with the servicemember before the servicemember left for their home station, mobilization site, or deployment location, and the family members continue to reside there.

Under DOD authorities in the National Defense Authorization Acts for 2000 and 2001, DOD instituted several demonstration programs to provide financial assistance to reservists and family members. For example, DOD instituted the TRICARE Reserve Component Family Member Demonstration Project for family members of reservists mobilized for Operations Noble Eagle and Enduring Freedom to reduce TRICARE costs and assist dependents of reservists in maintaining relationships with their

---

<sup>51</sup> TRICARE Prime Remote for Active Duty Family Members provides reserve component families with access to civilian health care providers when the servicemember and family reside more than 50 miles, or a 1-hour commute, from a military medical treatment facility.

---

current health care providers. The demonstration project eliminates the TRICARE deductible and the requirement that dependents obtain statements saying that inpatient care is not available at a military treatment facility before they can obtain nonemergency treatment from a civilian hospital. In addition, DOD may pay a nonnetwork physician up to 15 percent more than the current TRICARE rate.

About 40 percent of the problems reservists have reported relate to understanding TRICARE's benefits and obtaining assistance when questions or problems arose. Because these problems could be reduced through improved education about TRICARE's benefits and better assistance while navigating the TRICARE system, we recommended in September 2002 that DOD ensure that reservists, as part of their ongoing readiness training, receive information and training on health care coverage available to them and their dependents when mobilized and provide TRICARE assistance during mobilizations targeted to the needs of reservists and their dependents.<sup>52</sup> DOD has added information for reservists to its TRICARE Web site and, in response to our recommendation, has begun to implement a TRICARE reserve communications plan aimed at outreach and education of reservists and their families.

The TRICARE Web site is a robust source of information on DOD's health care benefits. The Web site contains information on all TRICARE programs, TRICARE eligibility requirements, briefing and brochure information, location of military treatment facilities, toll free assistance numbers, network provider locations and other general network information, beneficiary assistance counselor information, and enrollment information. There is also a section devoted specifically to reservists, with information and answers to questions that reservists are likely to have. Results from DOD's 2000 survey showed that about 9 of every 10 reservists had access to the Internet.

DOD has begun to implement a TRICARE communications plan to educate reservists and their family members on available health care and dental benefits. The plan identifies a number of tactics for improving how health care information is delivered to reservists and their families. Under the plan, materials are to be delivered through direct mailing campaigns, fact sheets, brochures, working groups, and briefings. The plan also identifies

---

<sup>52</sup> GAO-02-829.

---

methods of measurement that will assist in identifying the degree information is being requested and received. In March 2003, OSD distributed educational materials for beneficiary counseling assistance coordinators, reserve component staff, and others. In May 2003, the TRICARE Management Activity established a working group to improve reserve component communications.

---

## Reservists' Families Have Health Care Choices and Challenges

Most reservists who are not on active duty have civilian health insurance through either their own or their spouse's employer. Estimates from DOD's 2000 survey showed that nearly 80 percent of reservists had health care coverage when they were not on active duty and about 20 percent did not. According to DOD's 2002 survey, an estimated 90 percent of spouses of activated reservists had private health insurance prior to activation, and 4 percent had no insurance. The other 6 percent had TRICARE coverage or some combination of TRICARE and private health insurance. While DOD requires activated reservists to use TRICARE for their own health care, using TRICARE is an option for their dependents. During mobilization, some reservists may choose to save the cost of premiums by dropping civilian insurance for their dependents and relying on TRICARE, which has no associated premium. However, doing so means that dependents must learn the benefits and requirements of a new health plan. It also means they may be unable to use the same civilian providers if these providers do not participate in TRICARE networks or accept TRICARE patients. Reservists' decisions regarding health care coverage for their dependents are affected by a variety of factors—whether they or their spouses have civilian health coverage, the amount of support civilian employers are willing to provide with health care premiums, and where they and their dependents live.

Despite the availability of DOD health care benefits with no associated premium, our prior work has shown that many reserve family members elect to maintain their civilian health care insurance during mobilizations.<sup>53</sup> According to estimates from DOD's 2000 survey, about 90 percent of reservists with civilian health care coverage maintained it during their mobilization. Reservists we interviewed often told us that they maintained this coverage to better ensure continuity of health benefits and care for their dependents. The Uniformed Services Employment and Reemployment Rights Act does not require employers to continue paying

---

<sup>53</sup> [GAO-02-829](#).



---

their share of health care premiums when mobilizations extend beyond 30 days. However, employers continued to pay at least their portion of health insurance premiums beyond this 30-day period for about 80 percent of the reservists we contacted who maintained their employer-sponsored coverage. DOD's 2002 survey of spouses of activated reservists indicated that only a small percentage of reserve families had to pick up the entire premium in order to retain the member's civilian health care coverage during activation. Specifically, the survey estimated that

- 35 percent of families paid the employee share of the premium,
- 29 percent paid no additional costs because the member's employer paid the full health care premium,
- 18 percent paid no additional costs because the family was covered under the spouse's health care plan, and
- 8 percent paid the full health care premium.<sup>54</sup>

Our surveys of reservists' civilian employers also show that a high percentage of employers provide assistance with continued health care benefits for their activated reservists. Of the 183 employers of reservists in high tempo units who completed and returned our survey on employer support, 121 employers provided information on their health benefit policies. Of these 121 employers, 105 (88 percent) reported that they paid the full health care premium or the employer share of the health care premium during the activation period. Of the 22 states we surveyed about pay and benefit policies for their activated reserve employees, 13 (59 percent) reported that they paid the full health care premium or the employer share of the health care premium. Most of these states provided these benefits during the entire activation period.

In our prior work, we found that many reservists who did drop their civilian insurance and whose dependents did use TRICARE reported difficulties moving into and out of the system, finding a TRICARE provider, establishing eligibility, understanding TRICARE benefits, and knowing where to go for assistance when questions and problems arose. While reserve and active component beneficiaries report similar difficulties using the TRICARE system, these difficulties are magnified for reservists and their dependents. For example, 75 percent of reservists live more than 50 miles from military treatment facilities, compared with 5 percent of active component families. As a result, access to care at

---

<sup>54</sup> An estimated 11 percent of the spouses did not know how much it cost.

---

military treatment facilities becomes more challenging for dependents of reservists than their active component counterparts.

Reservists may also transition into and out of TRICARE several times throughout a career. These transitions create additional challenges in ensuring continuity of care, reestablishing eligibility in TRICARE, and familiarizing or refamiliarizing themselves with the TRICARE system. Reservists are also not part of the day-to-day military culture and, according to DOD officials, generally have less incentive to become familiar with TRICARE because it becomes important to them and their families only if they are mobilized. Furthermore, when reservists are first mobilized, they must accomplish many tasks in a compressed period.<sup>55</sup> For example, they must prepare for an extended absence from home, make arrangements to be away from their civilian employment, obtain military examinations, and ensure their families are properly registered in the Defense Enrollment Eligibility Reporting System (DOD's database system maintaining benefit eligibility status). It is not surprising that many reservists, when placed under condensed time frames and high stress conditions, experience difficulties when transitioning to TRICARE.

---

### DOD Has Not Assessed the Need for or Ramifications of Expanding TRICARE to Reservists Not on Active Duty and Paying Health Insurance Premiums of Activated Reservists

To further expand reservists and their family members' access to health care, Congress is considering legislation to offer TRICARE to reservists when they are not on active duty.<sup>56</sup> The legislation would entitle members of the Selected Reserve and certain members of the Individual Ready Reserve<sup>57</sup> and their dependents to the same TRICARE benefits as a member of the uniformed services on active duty or a dependent of such a member. An enlisted reservist enrolled in the TRICARE program would pay an annual premium of \$330 for self only coverage and \$560 for self and family coverage, while a reserve officer would pay an annual premium of \$380 for self only coverage and \$610 for self and family coverage. (Military personnel on active duty and family members of personnel on active duty

---

<sup>55</sup> OSD has established a goal of providing reservists with at least 30 days notice prior to mobilization when operationally feasible. Our prior work on DOD's mobilization process found that advance notice was often not possible following the events of September 11, 2001.

<sup>56</sup> See S. 1050, amend. 696.

<sup>57</sup> The amendment applies to a special category of Individual Ready Reserve members who have volunteered to be called to active duty under Presidential Reserve Call-up authority when needed.

---

do not pay a premium for TRICARE coverage.) The legislation also would require DOD to pay premium costs incurred by reservists who choose to continue their civilian health care insurance coverage when activated. DOD would cover the civilian insurance costs up to the total cost of the reservist's premium and would be required to pay an amount equal to TRICARE's average cost of providing TRICARE for self and family coverage. Proponents have stated that the legislation (1) would recognize an expansion of reserve roles and missions in recent years and an increased demand placed on reservists and their families, (2) would assist DOD in recruiting and retaining reservists, and (3) would help reservists who opt to join TRICARE maintain continuity of their health care coverage.

We have a number of concerns with the proposal to extend TRICARE coverage to reservists not on active duty and their family members and to require DOD to pay premium costs incurred by reservists who choose to continue their civilian health care insurance coverage when activated. First, while there has been an expansion of reserve participation in military operations, with a dramatic increase in mobilizations to support operations in Iraq, many reservists have deployed only once or not at all. According to the results of DOD's 2000 survey, only 25 percent of reservists reported in 2000 that they had been mobilized or deployed. Of those mobilized or deployed at least once, nearly 70 percent had participated in only one operation. Since September 2001, DOD has called 300,000 reservists to active duty, representing one-fourth of the 1.2 million reservists eligible for call-up. Second, DOD officials we spoke with about the proposed legislation noted that DOD currently has not identified an overall recruiting and retention problem in the reserves and that it was too early to project the potential for future recruiting and retention problems that might result from the ongoing mobilization. They also could not tell us what effect the proposed legislation would have on the military's ability to recruit and retain reservists. Third, as noted previously, most reservists activated prior to 2001 achieved continuity of care for their families by retaining civilian health insurance during activation. However, DOD officials said that little is known about reservists' behavior patterns of health care usage during mobilizations since September 2001 and that it is difficult to project their behavior if the current proposal were approved. According to a DOD official, it is unknown whether younger members of the reserve force would purchase TRICARE health care coverage even at reduced rates. In addition, a high percentage of reservists' civilian employers who currently pay some or all of health care premiums for reservists during activations could discontinue providing such assistance if DOD makes this coverage available to reservists year-round.

---

Other concerns with the proposed legislation have also been raised. DOD officials said that creating greater uniformity of benefits between active and reserve forces could have unanticipated effects on the active component if active component members are enticed into leaving the active component and joining the reserves. The OSD Health Affairs Policy Director also noted that DOD could have difficulties tracking reservists' premium costs in order to pay these costs during activation as required by the legislative proposal. Another concern is the stress that could be placed upon the TRICARE system. Currently, TRICARE provides care for 8.7 million beneficiaries—eligible active duty personnel, retirees, and dependents. It is not clear to what extent reservists and their eligible dependents would use TRICARE and the impact this could have on the system. Beneficiary groups have described problems with access to care from TRICARE civilian providers. In March 2003, we testified on DOD's oversight of the TRICARE civilian provider network, noting the problems with assessing the network's adequacy due to insufficient information.

In addition, controlling rising health care costs is a major concern of DOD's. According to a 2003 Congressional Budget Office analysis of long-term defense spending,<sup>58</sup> spending for military medical care, which already makes up more than 10 percent of DOD's operation and support costs, is the fastest growing category of operation and support spending. In this projection of the administration's plans, annual medical spending rises by 67 percent over the 2007-2020 period, from \$33 billion to \$55 billion. Many of the same forces that cause national health expenditures to rise—an increase in the volume of health care services available and expanded use of new, high-cost drugs and procedures—translate into higher military medical costs. In addition, retirees and their dependents now make up a larger share of beneficiaries, increasing the average age and costs of the people who receive health coverage through DOD. Two reasons military medical costs are expected to rise dramatically over the next 5 years are (1) new benefits for military retirees over age 65 (called TRICARE for Life), which had an actuarial liability estimated at \$592 billion as of September 30, 2001, and (2) a switch to an accrual accounting system—with DOD's budget being charged each year for the expected costs of future benefits. DOD's fiscal year 2003 budget for the defense health program was \$14.8 billion.

---

<sup>58</sup> Congressional Budget Office, *The Long-Term Implications of Current Defense Plans* (Washington, D.C.: January 2003).

---

The Congressional Budget Office estimated that implementing the legislation— extending TRICARE coverage to reservists not on active duty and their family members and requiring DOD to pay premium costs incurred by reservists who choose to continue their civilian health care insurance coverage when activated—would cost a total of \$466 million in 2004 and \$7.3 billion over 2004-2008.<sup>59</sup>

- The Congressional Budget Office estimated that extending TRICARE coverage to reservists who are not on active duty would cost \$393 million in 2004 and \$7.1 billion over 2004-2008. On the basis of DOD data, the Congressional Budget Office estimated that the provision would apply to 760,000 reservists after excluding 120,000 who work for the federal government.<sup>60</sup> It also estimated that about 70 percent of qualified reservists would opt to enroll in the TRICARE program.
- The Congressional Budget Office estimated that requiring DOD to pay premium costs for continued civilian health care coverage during activation would cost \$73 million in 2004 and \$155 million over 2004-2008. According to this estimate, the amount DOD would pay reservists would cover about 60 percent of the average civilian premium.<sup>61</sup>

DOD estimated that the cost of extending TRICARE coverage to reservists who are not on active duty would be \$5.1 billion per year. DOD's estimate does not include the costs to pay the premiums of activated reservists' civilian health care. DOD's estimate is significantly higher than the Congressional Budget Office estimate due to certain assumptions concerning the number of potential beneficiaries, the proportion of potential beneficiaries that would opt to enroll in TRICARE, and the per capita costs of providing care. DOD officials told us that they used historical cost profile data to develop their cost estimates. However, we did not independently verify either the DOD or the Congressional Budget Office cost estimate. Noting the high cost of this proposed legislation, the Secretary of Defense has expressed opposition to this legislation, stating he will recommend that the President veto the National Defense

---

<sup>59</sup> Congressional Budget Office, Cost Estimate, S. 1050, National Defense Authorization Act for Fiscal Year 2004 as passed by the Senate (June 2, 2003).

<sup>60</sup> Federal government employees in the reserves who are called to active duty continue to receive health benefits under the Federal Employee Health Benefits Program up to 18 months.

<sup>61</sup> The Congressional Budget Office projected that the average cost of self and family TRICARE coverage in 2004 will be \$5,600.

---

Authorization Act for Fiscal Year 2004 if a provision to expand TRICARE is included.

---

## Conclusions

DOD survey estimates showed income change varied considerably among activated reservists, with a sizeable proportion of reservists experiencing income loss, but more than half experiencing no change or a gain in income. However, these data are questionable because it is unclear what survey respondents considered as income loss or gain in determining their financial status. For example, the number of reservists reporting income loss could be lower if respondents did not include the sum of their military pay—basic pay, special pays, allowances, and indirect compensation, such as health care benefits. Currently, DOD cannot determine the need for compensation programs to provide income protection to reservists because it lacks sufficient information on the scope and nature of income change experienced by activated reservists. More specifically, DOD lacks sufficient data on the magnitude of income change, the causes of income change, and the effects of income change on reservists' retention decisions. Survey results showed that a higher percentage of reservists in certain groups, such as self-employed reservists and health care professionals, experienced greater income loss compared with reservists overall and that, for some, income loss or the potential for income loss is a significant factor in their decisions on whether to stay in the reserves. A number of approaches to providing income protection have been proposed, including an income insurance program, differential pay for activated federal employee reservists, and special pay for certain reserve physicians. Of these three, only the last is targeted at reservists who (1) fill critical wartime specialties, (2) experience high degrees of income loss when on active duty, and (3) demonstrate that income loss is a significant factor in their retention decisions. This is the kind of business case approach that we think is necessary to determine the need for income protection compensation programs.

In the area of family support, DOD and the military services have taken steps to improve personal financial management programs. They have also identified challenges such as increasing reservists' and spouses' awareness of and access to personal financial management programs. However, they have not developed specific plans to address these identified needs. Further, while DOD has assessed the financial well-being of active duty members and linked financial well-being with mission readiness, it has not conducted similar assessments of the reserve force. Our review of DOD survey data showed that reservists reported having many of the same financial problems as their active duty counterparts. For instance, a higher

---

percentage of reservists reported having such financial difficulties as bouncing checks and receiving a letter of indebtedness than have their active duty counterparts. Conducting these assessments would provide a better understanding of financial difficulties reservists encounter and the impact these difficulties have on mission readiness.

Recent improvements have been made to reservists and their families' access to TRICARE when the member is activated. In past military operations, most activated reservists retained civilian health care insurance coverage for their families during the activation period. To further expand access to health care benefits, legislation has been proposed that would provide TRICARE benefits to reservists and their family members when they are not on active duty. Furthermore, the legislation would require DOD to pay premium costs incurred by reservists who choose to continue civilian health care insurance coverage when activated. While proponents have cited a number of reasons for this legislation, concerns have also been raised. We believe these concerns may outweigh the perceived benefits and costs of the legislation. Currently, DOD lacks sufficient information to determine the need for the expanded health care benefits offered in the legislation and the implications of the proposal for reservists, active duty members, and the military health care system. DOD officials further stated that currently no problem has been demonstrated in overall reserve recruiting and retention. DOD has not yet identified problems reservists and their families have experienced with access to health care during mobilizations since September 11, 2001, such as problems in maintaining continuity of health care; the causes of these problems; and their effects on readiness, recruiting, and retention.

---

## Recommendations for Executive Action

We recommend that the Secretary of Defense direct the Under Secretary of Defense for Personnel and Readiness to determine the need for compensation programs aimed at addressing reservists' income loss during periods of active duty by obtaining more complete information on the magnitude of income change, the causes of income change, and the effects of income change on reserve retention. At a minimum, these efforts should be designed to identify reservists who (1) fill critical wartime specialties, (2) experience high degrees of income loss when on active duty, and (3) demonstrate that income loss is a significant factor in their retention decisions. We further recommend that, on the basis of this information, the Secretary of Defense develop targeted compensation programs, as appropriate, to retain these reservists in the armed forces.

---

We recommend that the Secretary of Defense direct the Secretaries of the Army, the Air Force, and the Navy and the Commandant of the Marine Corps to develop specific plans for improving reservists' and their spouses' awareness of and access to personal financial management programs. In developing these plans, the military services, in conjunction with the Under Secretary of Defense for Personnel and Readiness, should assess the financial well-being of reservists and determine whether reservists' financial problems affect mission readiness.

We recommend that the Secretary of Defense direct the Under Secretary of Defense for Personnel and Readiness to assess problems reservists have experienced since the mobilizations following the events of September 11, 2001, in maintaining continuity of health care; the causes of these problems; and their effects on readiness, recruiting, and retention. As part of this assessment, DOD should evaluate the ramifications of extending TRICARE coverage to reservists not on active duty and their family members as well as paying premium costs incurred by reservists who choose to continue their civilian health care insurance coverage when activated. DOD should also evaluate the potential impact of extending such coverage on the retention of active duty personnel and on the TRICARE system.

---

## Matters for Congressional Consideration

In order to provide DOD an opportunity to determine the need for and ramifications of expanding TRICARE, Congress may wish to delay a decision on the legislative proposal to offer TRICARE to reservists and their families when members are not on active duty. Furthermore, Congress may wish to direct the Secretary of Defense to assess and report on reserve health care benefits as we have recommended in this report.

---

## Agency Comments and Our Evaluation

In written comments on a draft of this report, DOD concurred with our recommendations. Regarding our recommendation that DOD develop targeted compensation programs to retain reservists in the armed forces, DOD stated that the department must exercise concern about paying its part-time force more than its full-time force when undertaking similar duties. As discussed in our report, we agree that equity between active component and reserve component personnel is one factor that must be considered in compensation programs that address income loss. Nevertheless, we believe that DOD could target such compensation programs appropriately by gathering more complete information on reservists' income loss and applying the three criteria included in our recommendation.



---

On the basis of DOD's concurrence with our recommendation concerning reserve health care benefits, we have added matters for congressional consideration concerning the legislative proposal to extend TRICARE benefits to nonactivated reservists and their families. We believe the proposed expansion of TRICARE deserves scrutiny due to its high costs, the current lack of information on the need for this expansion of TRICARE, and its potential ramifications. An assessment of this proposed expansion of TRICARE is likely to be a complex and time-consuming undertaking.

DOD's comments are reprinted in appendix VI.

---

We are sending copies of this report to the Secretary of Defense, the Under Secretary of Defense for Personnel and Readiness; the Secretaries of the Army, the Air Force, and the Navy; and the Commandant of the Marine Corps. We will also make copies available to appropriate congressional committees and to other interested parties on request. In addition, the report will be available at no charge at the GAO Web site at <http://www.gao.gov>.

If you or your staff have any questions concerning this report, please call me at (202) 512-5559. Major contributors to this report are listed in appendix VII.



Derek B. Stewart  
Director, Defense Capabilities and Management

---

# Appendix I: Scope and Methodology

---

To evaluate information on income change reported by reservists when activated for a military operation, we obtained and analyzed the results of the Department of Defense's (DOD) 2000 Reserve Component Survey and 2002 Survey of Spouses of Activated National Guard and Reserve Component Members. We stratified the results of these surveys by pay grade group, reserve component, and for certain other groups such as type of employers. Further, we discussed the extent of income change with officials from the following offices or commands:

- Office of the Assistant Secretary of Defense for Reserve Affairs.<sup>1</sup>
- Office of the Deputy Under Secretary of Defense for Military Personnel Policy, Office of Military Compensation.
- National Guard Bureau.
- National Committee for Employer Support of the Guard and Reserve.
- Service Reserve Forces Policy Committees.
- Office of the Assistant Secretary of the Army for Manpower and Reserve Affairs.
- U.S. Army Reserve Command, Fort McPherson, Georgia.
- Office of the Chief of Army Reserve.
- U.S. Army National Guard.
- U.S. Air Force Reserve.
- U.S. Air National Guard.
- U.S. Naval Reserve.
- U.S. Marine Corps Reserve, Quantico, Virginia.

We reviewed relevant reports from the DOD Office of the Inspector General and the U.S. Army Audit Agency and our prior GAO reports and testimony. We discussed with an official from the Congressional Budget Office the estimated cost of a pay differential for federal employees who are called to active duty. We did not verify the methodology used to calculate this estimate. We analyzed current compensation and benefits policies for activated federal employees from the Office of Personnel Management. Further, we surveyed officials from 22 states between May and July 2003 and obtained their compensation and benefits policies to gain the perspective of state governments' financial assistance and benefits for state employee reservists called to federal active duty. To determine the 22 states, we chose the 11 states with the highest total population of reservists in the state, the 5 states with the smallest total

---

<sup>1</sup> Unless otherwise noted, the officials listed in this scope and methodology appendix have their offices in the Pentagon or at other locations in the Washington, D.C., metropolitan area.

reservist population, and 6 states in the middle. We obtained a standard set of information regarding each state's policy. We also updated information on employer compensation policies from our June 2002 report on employer support of the National Guard and the Reserve.<sup>2</sup> We had surveyed 359 employers of reservists in high tempo units between November 2001 and March 2002. Due to concerns about mail contaminated with anthrax, not all completed surveys were obtained before issuance of the employer support report. We updated the data with an additional 72 surveys for a total of 183 completed surveys. Employers were not randomly selected; therefore, the results are not projectable to all employers. We also reviewed data from the Defense Manpower Data Center regarding Army Reserve Medical Corps authorized and actual fill rates for critical medical specialties and gains and losses from the Army Selected Reserve and the Army Individual Ready Reserve from 1991 to 2002 to review an Army proposal for special deployment pay. We reviewed DOD surveys on Army Reserve physicians' experiences during mobilizations, on a rotation program to address earlier concerns about the length of deployments, and on associated catastrophic income loss. We also contacted military aid associations, including the Army Emergency Relief, the Navy-Marine Corps Relief Society, and the Air Force Aid Society, to obtain and review information on emergency loans and financial assistance provided to activated reservists on active duty.

To evaluate reserve families' readiness and awareness and use of family support programs, we reviewed DOD family policy regulations. We also reviewed DOD Web sites and other materials designed to inform servicemembers and their families about benefits. To obtain further insight into reservists' awareness and access to family support programs, we reviewed service personal financial management regulations and policies to determine the extent to which these programs are extended to reservists and their family members. To evaluate the financial well-being of reservists, we reviewed RAND and other DOD studies. We also compared the results of the 2000 DOD survey with the 1999 DOD Survey of Active Duty Personnel. Specifically, we met with and obtained information from DOD officials from the Office of the Assistant Secretary of Defense for Reserve Affairs, the Office of the Deputy Under Secretary of Defense for Military Community and Family Policy, the military services, and reserve components. We also met with representatives from the National

---

<sup>2</sup> [GAO-02-608](#).

Military Family Association and the JumpStart Coalition for Financial Literacy to discuss challenges reservists face when called to active duty.

To evaluate a legislative proposal for DOD to offer TRICARE to reservists and their families when members are not on active duty, we reviewed relevant GAO reports. We discussed health care benefits and eligibility criteria for reservists and their family members and recent improvements to military health care with DOD health care officials. We obtained cost estimates of the legislative proposal from the Congressional Budget Office and DOD, but we did not verify the methodology used to calculate the estimates. During our survey of officials from 22 states, we obtained their respective health care benefits policies to gain the perspective of state governments' health benefits for state employee reservists called to federal active duty. We met with and obtained information from DOD officials within the Office of the Assistant Secretary of Defense for Reserve Affairs, Office of the Assistant Secretary of Defense for Health Affairs, and the TRICARE Management Activity.

We completed our work for this report from March to July 2003 in accordance with generally accepted government auditing standards.

---

# Appendix II: DOD Surveys of Reservists and Spouses

---

This appendix describes DOD's 2000 survey of reserve personnel and 2002 survey of spouses of activated reserve personnel. We did not participate in the design or collection of the results.

---

## 2000 Survey of Reserve Component Personnel

The 2000 Survey of Reserve Component Personnel is a survey of Selected Reserve members of the reserve components sponsored by the Office of the Assistant Secretary of Defense for Reserve Affairs. The study population consisted of 728,347 members below flag or general officer rank and having at least 6 months of reserve duty service as of August 2000. The sample consisted of 74,487 members, and eligible respondents returned 35,223 questionnaires for a response rate of 47 percent. DOD officials believe that the response rate for the survey is as good as other similar surveys that they have conducted. However, there is a potential for bias in the estimates to the extent that respondents and nonrespondents had different opinions on the questions asked. Data were weighted by the Defense Manpower Data Center to allow the study to provide estimates for the study population or subpopulations. This was a mail-out survey, with the data collection period running from August 16, 2000, through December 29, 2000.

Because this is a probability sample based on random selections, the sample is only one of a large number of samples that might have been drawn. Since each sample could have provided different estimates, confidence in the precision of the particular sample's results is expressed as a 95 percent confidence interval (e.g., plus or minus 4 percentage points). This is the interval that would contain the actual population value for 95 percent of the samples that could have been drawn. As a result, we are 95 percent confident that each of the confidence intervals in this report will include the true values in the study population. All percentage estimates from the survey review have sampling errors of plus or minus 5 percentage points or less, unless otherwise noted. We used the weighting factors and the sampling error methodology provided by the Defense Manpower Data Center to develop 2000 estimates and sampling error estimates. In some cases, we used the estimates developed by the Defense Manpower Data Center.

---

## 2002 Survey of Spouses of Activated National Guard and Reserve Component Members

The 2002 survey of spouses was sponsored by the Office of the Assistant Secretary of Defense for Reserve Affairs to assess the needs and concerns of National Guard and Reserve families prior to and during activation, to assess the status of family support initiatives, and to gather data from spouses of members who have been activated since September 11, 2001. The study population for this survey consisted of 29,673 spouses of reservists activated for Operations Noble Eagle, Enduring Freedom, Bosnia, Southwest Asia, or Southern Watch. The survey was a stratified random sample consisting of 7,658 spouses. Eligible respondents returned 3,874 completed surveys for a response rate of 51 percent. DOD officials believe that the response rate for the survey is as good as other similar surveys that they have conducted. However, there is a potential for bias in the estimates to the extent that respondents and nonrespondents had different opinions on the questions asked.

As with the 2000 survey, the 2002 spouse survey is also a probability sample based on random selections, so the sample is only one of a large number of samples that might have been drawn. For this survey, we express confidence in the precision of our estimates as a 95 percent confidence interval. All percentage estimates from the 2002 survey have sampling errors of plus or minus 5 percentage points or less, unless otherwise noted. To produce estimates of the study population, the sample data were weighted to reflect the sample design and to adjust for nonresponse. Because weighting factors were not provided to us for use with the data, we computed weighting factors as the ratio of the population to respondents for each stratum.

---

# Appendix III: Policies and Protections That May Help Mitigate Reservists' Financial Hardship During Activation

---

This appendix discusses existing pay policies and protections, as well as emergency aid services, that may help mitigate reservists' financial hardship during activation.

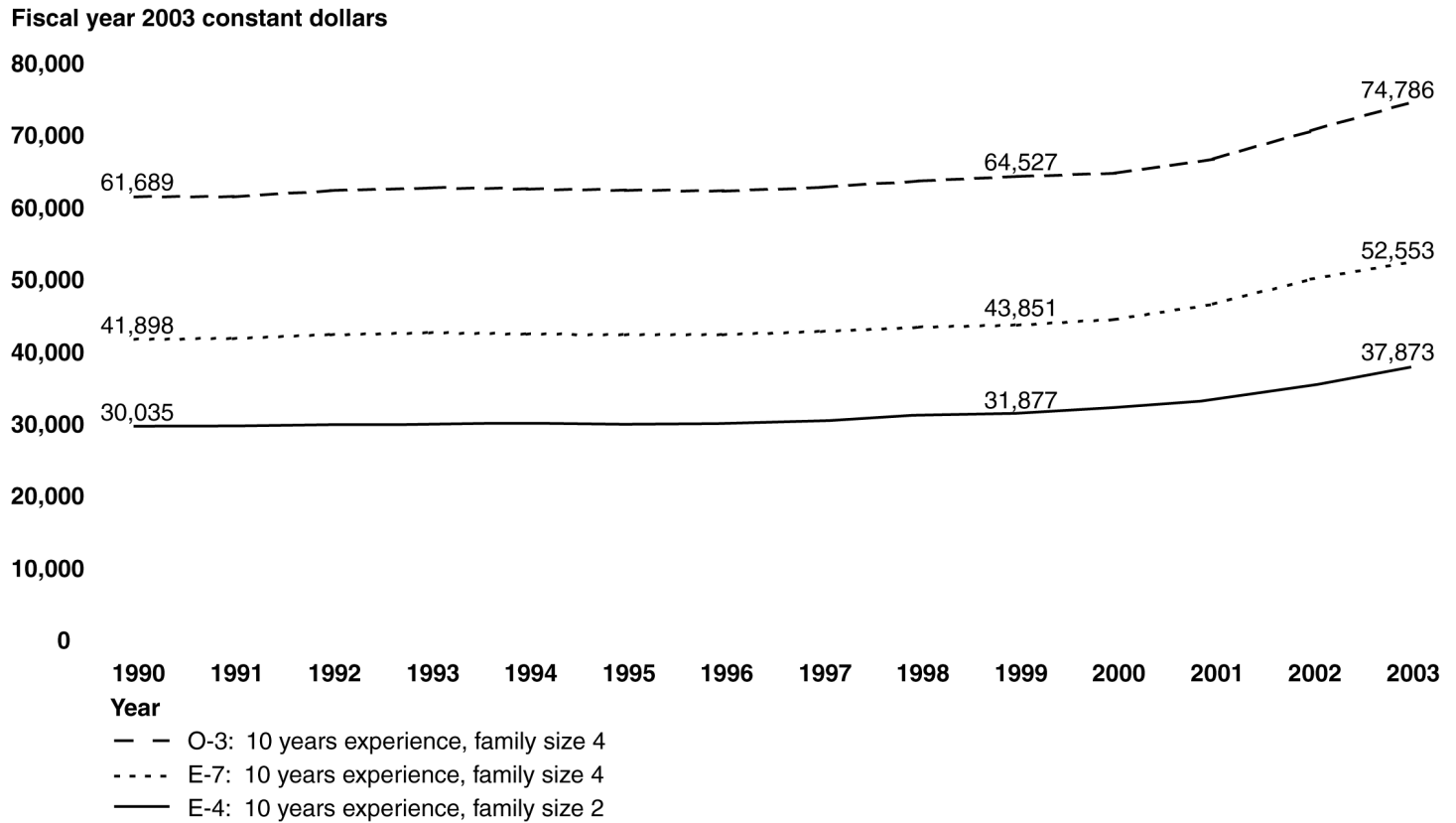
While basic military compensation, in constant dollars, remained fairly steady during most of the 1990s, it has increased in recent years.<sup>1</sup> As a result, reservists activated today are earning more in the military than they did just a few years ago. (See fig. 2.) For example, an enlisted member in pay grade E-4 who is married with no other dependents would earn \$3,156 per month in basic military compensation in fiscal year 2003, compared with \$2,656 per month in fiscal year 1999, or a 19 percent increase. These figures are calculated in constant 2003 dollars to account for the effects of inflation.

---

<sup>1</sup> Basic military compensation consists of basic pay, basic allowance for housing, basic allowance for subsistence, and the federal tax advantage. It does not include special and incentive pays, other allowances, and the value of fringe benefits such as health care and retirement.

**Appendix III: Policies and Protections That  
May Help Mitigate Reservists' Financial  
Hardship During Activation**

**Figure 2: Annual Basic Military Compensation for Selected Pay Grades (Fiscal Years 1990-2003)**



Source: DOD.

Note: GAO analysis.

In addition to increases in basic military compensation, Congress in April 2003 increased family separation allowance from \$100 to \$250 per month and imminent danger pay from \$150 to \$225 per month. These increases expire September 30, 2003.<sup>2</sup> The Senate and House are also

<sup>2</sup> Public Law 108-11, section 1316, April 16, 2003.



---

**Appendix III: Policies and Protections That  
May Help Mitigate Reservists' Financial  
Hardship During Activation**

---

considering a new special pay of up to \$1,000 per month that would compensate servicemembers for frequent or lengthy deployments.<sup>3</sup>

In addition to these increases in pay, other pay policies and protections may help to mitigate reservists' financial hardship during deployment. For example:

- The Soldiers' and Sailors' Civil Relief Act caps debt interest rates at 6 percent annually for debts incurred prior to activation and provides many other financial protections if members can show that their ability to pay is materially affected by being activated. Legislation currently before Congress would amend the act to expand certain protections for activated servicemembers.<sup>4</sup>
- Income that servicemembers earn while mobilized in combat zones is tax-free. The President designates combat zones. Military pay received while in these combat zones is excluded from gross income and not subject to federal income tax. Legislation currently before Congress would expand combat zone tax exemptions to any designated contingency operation.<sup>5</sup>
- For Iraqi Freedom, Noble Eagle, and Enduring Freedom, DOD has authorized reservists to receive both a housing allowance and per diem for their entire period of activation, up to 2 years.
- Military Reservist Economic Injury Disaster Loans up to \$1.5 million are available through the Small Business Administration to help small businesses meet necessary operating expenses and debt payments until a

---

<sup>3</sup> Senate Bill 1050, the National Defense Authorization Act for Fiscal Year 2004, would require payment of up to \$1,000 each month during which a member has been (1) deployed for at least 401 days out of the preceding 730 days; (2) deployed continuously for more than 191 days; or (3) in the case of a reservist called or ordered to active duty for a period of more than 30 days, if this period begins within 1 year after the date on which the member was released from previous active-duty service lasting more than 30 days. The House version of the act contains similar language. This high tempo allowance would replace a \$100 per diem allowance authorized for servicemembers deployed for more than 400 days in a 720-day period. However, DOD has suspended the payment of this per diem.

<sup>4</sup> H.R. 100, the Servicemembers Civil Relief Act, passed the House of Representatives by a vote of 425 to 0 in May 2003. As approved by the House, the bill would delay eviction proceedings for at least 3 months if rent does not exceed \$1,700 and the servicemember invokes the act; guarantee the payment of premiums for a servicemember's life insurance policy for policies up to \$250,000; and give protection to a servicemember who has fallen behind on car payments by requiring the lessor to obtain a court order before repossessing the car.

<sup>5</sup> H.R. 1307, the Armed Forces Tax Fairness Act of 2003, passed the House of Representatives in March 2003.

key employee—including the owner—is able to return from active duty to the business and normal operations resume.

Servicemembers who are experiencing financial hardship can also obtain emergency assistance in the form of interest-free loans or grants from private aid organizations to pay for basic living expenses such as food or rent during activation. The Army Emergency Relief, the Air Force Aid Society, and the Navy-Marine Corps Relief Society are nonprofit charitable organizations that provide financial, educational, and other assistance to servicemembers and their families who are in need. These organizations provide assistance to active component members, reservists, and retirees.

- In 2002, the Navy-Marine Corps Relief Society distributed approximately \$41 million to almost 51,000 individuals, including \$1.5 million provided due to inadequate income to meet basic living expenses such as rent or mortgage, food, and utilities. The Navy-Marine Corps Relief Society did not track separately the assistance it provided to reservists.
- The Air Force Aid Society distributed over \$24 million in 2002 to more than 34,000 individuals. Of this amount, \$600,000 was provided to reservists. The Aid Society reported significant increases in reservists' receiving emergency assistance and phone card use. About 140 reservists received emergency assistance for basic living expenses because they experienced loss of civilian pay or military pay problems.
- Army Emergency Relief distributed \$41 million in 2002 to more than 56,000 people. At least \$850,000 went to about 900 reservists for emergency travel assistance, vehicle repairs, rent or mortgage assistance, and as an income supplement while waiting for delayed military pay when called to active duty.

---

# Appendix IV: Selected States' Policies on Compensation for Activated Employees

---

This appendix displays the results of our survey of 22 states to obtain their policies regarding pay and benefits offered to state employees who are called to federal active duty. It describes the military leave policies and financial assistance programs such as state pay differentials for activated state employees who experience income loss as a result of federal activation. It also describes each state's policy on the continuation of dependent health care coverage and other reported benefits. To determine the 22 states, we chose the 11 states with the highest total population of reservists in the state, the 5 states with the smallest total reservist population, and 6 states in the middle. We conducted our survey of the 22 states between April and July 2003.

In summary, we found that 19 of the 22 states surveyed offer pay differentials to employees who are on military leave without pay and can document a loss of income. Of these 19 states, 16 are mandated under state law or executive order to provide financial assistance, while 3 states—Colorado, Georgia, and Texas—allow the individual state agencies to offer pay differentials at the agencies' discretion. The other three states do not offer pay differentials to activated employees on unpaid leave. The manner in which states calculate the amount of the pay differential varies. For example, 7 states calculate the amount of the pay differential as the difference between an employee's civilian salary and basic military pay, not including military special pays and allowances. In contrast, 10 states include military special pays, allowances, or both in the calculation, which can lower the differential amount that the state pays to its activated employees. Georgia allows state agencies to formulate their own differential calculation, while Pennsylvania offers a flat rate monthly stipend to all activated employees. States offering financial assistance do so for a period of time ranging from 90 days in Colorado to the duration of the activation in states like Florida and Alabama. We did not find a correlation between the size of a state's reservist population and the type or extent of financial assistance the state offers. The results of our survey are presented in table 4.

**Appendix IV: Selected States' Policies on  
Compensation for Activated Employees**

**Table 4: Income Assistance, Military Leave, and Health Benefits Offered to State Employees Called to Federal Active Duty**

State (Reserve population) <sup>a</sup>	Income assistance offered to activated state employees on military leave without pay	Military leave and compensation policy for state employees on federal active duty	Status of dependent health care coverage for state employees on federal active duty	Status of other reported state benefits for employees on federal active duty <sup>b</sup>
<b>Alabama</b> (22,255)	State pay differential	Alabama began implementing a pay differential policy for activated state employees in July 2002. It is active for the duration of the war on terrorism and retroactive to September 11, 2001. The state offers 21 working days of paid military leave each year, after which activated employees are placed on military leave without pay. Employees activated for 30 or more consecutive days and who are on military leave without pay are eligible to receive a pay differential if their state pay exceeds their base military pay, excluding all special pays and allowances. Employees must submit a military Leave and Earnings Statement each month to receive the differential. Activated employees receive the differential for the duration of their activation.	The state continues to contribute its portion of an employee's dependent health care premium for the duration of the activation.	Employees in the state's retirement system continue to receive retirement credit while on military leave without pay, unless they receive credit for the time in another public retirement system, other than the federal social security system. Employees who used accrued leave while on active duty for the war on terrorism are eligible to reclaim the expended leave. Activated state employees do not continue to accrue leave while on leave without pay.

**Appendix IV: Selected States' Policies on  
Compensation for Activated Employees**

State (Reserve population) <sup>a</sup>	Income assistance offered to activated state employees on military leave without pay	Military leave and compensation policy for state employees on federal active duty	Status of dependent health care coverage for state employees on federal active duty	Status of other reported state benefits for employees on federal active duty <sup>b</sup>
<b>Alaska</b> (3,650)	Not available	Alaska offers its employees 16.5 working days of paid military leave each year for reserve training, but it does not offer paid military leave for active duty.	The state suspends its employees' dependent health coverage when they are called to active military duty. Activated employees may continue their dependent health care coverage under the Consolidated Omnibus Budget Reconciliation Act (COBRA) in which they must pay the full premium plus a 2 percent administrative fee.	Employees in the state's retirement system continue to receive retirement credit while on active military duty.
<b>Arizona</b> (11,041)	State pay differential	Arizona enacted a pay differential policy for activated state employees in May 2002. The policy is retroactive to September 11, 2001, and expires on June 30, 2004. The state offers 60 working days of paid military leave for every 2 consecutive years that a reservist is employed by the state. Employees who are on military leave without pay and have exhausted all annual and military leave balances are eligible to receive a pay differential if their state pay, including all other compensation except overtime, exceeds the sum of their base military pay, special pays, and allowances. Employees must submit each military Leave and Earnings Statement received during the period of active duty to receive the pay differential. During any consecutive 5-year period, activated employees may receive a	Employees on military leave without pay may continue to participate in the health benefit plan for a maximum of 6 months by paying both the state and employee contributions. After 6 months, they are eligible for COBRA.	Upon return from active duty, the employing agency pays the employee's and employer's share of retirement contributions accrued during the period of active duty.

**Appendix IV: Selected States' Policies on  
Compensation for Activated Employees**

State (Reserve population) <sup>a</sup>	Income assistance offered to activated state employees on military leave without pay	Military leave and compensation policy for state employees on federal active duty	Status of dependent health care coverage for state employees on federal active duty	Status of other reported state benefits for employees on federal active duty <sup>b</sup>
		pay differential one time for up to 270 days.		
<b>Arkansas</b> (12,446)	Not available	Arkansas offers its employees called to duty in emergency situations 30 days of paid military leave, after which activated employees go on military leave without pay.	The state continues to contribute a portion of an employee's dependent health care premium for the duration of an employee's activation.	The state continues to contribute its portion to any life or disability insurance policies. State employees continue to accumulate retirement credit while on active duty.
<b>California</b> (57,441)	State pay differential	California enacted a pay differential policy for activated state employees in February 2002. The policy is active for the war on terrorism and is retroactive to September 11, 2001. It expires December 31, 2003. The state offers 30 days of paid military leave each year, after which activated employees are placed on military leave without pay. Employees are eligible to receive a pay differential if their state pay exceeds the sum of their base military pay, special pays, and allowances. Employees must prepare a worksheet to receive the pay differential and must provide a copy of their military Leave and Earnings Statement and military orders to their supervisor. Employees are eligible to receive the pay differential until the policy expires in December 2003.	While on military leave during war or national emergency, employees continue to receive state paid health, dental, and vision care benefits for the duration of the activation or until the policy expires in December 2003.	State employees continue to accrue retirement credits while on military leave without pay. They also continue to accrue annual leave, vacation, and sick leave for up to 6 months.

**Appendix IV: Selected States' Policies on  
Compensation for Activated Employees**

State (Reserve population) <sup>a</sup>	Income assistance offered to activated state employees on military leave without pay	Military leave and compensation policy for state employees on federal active duty	Status of dependent health care coverage for state employees on federal active duty	Status of other reported state benefits for employees on federal active duty <sup>b</sup>
<b>Colorado</b> (13,524)	Pay differential at agency discretion	Colorado enacted a pay differential policy for activated state employees in December 2001. The policy is retroactive to September 11, 2001, and is active for military operations designated in the war against terrorism. The policy authorizes state agencies to provide a pay differential to their employees at the agencies' discretion. The state offers 15 working days of paid military leave each year. Following the 15 days of paid leave, agencies may grant their employees administrative leave, during which they receive a pay differential if their state pay exceeds the sum of their base military pay, special pays, and allowances. Employees may receive administrative leave for up to 90 days. According to a state official, all Colorado state agencies were offering a pay differential to their employees as of June 12, 2003. Employees must furnish proof of their military pay, such as a military Leave and Earnings Statement, to receive the pay differential.	The state continues to contribute the employer's portion of an employee's dependent health care coverage as long as the employee is in a pay status. An employee may remain in a pay status by using at least 1 day of annual leave each month while on military leave. Otherwise, an employee can continue group health insurance benefits by paying the entire premium amount.	The state does not offer any additional benefits while state employees are on military leave without pay.
<b>Florida</b> (30,477)	State pay differential	Florida enacted a pay differential policy for activated state employees in September 2001. The policy applies to state employees called	The state continues to provide all health insurance and to contribute its portion of an employee's dependent health care	Employees may choose to continue all other benefit programs by paying their portion of the premiums for the duration of the activation.

**Appendix IV: Selected States' Policies on  
Compensation for Activated Employees**

State (Reserve population) <sup>a</sup>	Income assistance offered to activated state employees on military leave without pay	Military leave and compensation policy for state employees on federal active duty	Status of dependent health care coverage for state employees on federal active duty	Status of other reported state benefits for employees on federal active duty <sup>b</sup>
		<p>to active duty for the war on terrorism. The state offers 30 days of paid military leave per year. After the first 30 days, employees are eligible for a pay differential if their state pay exceeds their base military pay, excluding special pays and allowances. Employees must provide copies of their military Leave and Earnings Statements to their supervisors to receive the pay differential. Employees receive the pay differential for the duration of their activation.</p>	<p>premium for the duration of the activation.</p>	<p>Employees on military leave receive full retirement credit for their period of military service upon their return to employment. They also accrue full annual and sick leave and holiday pay.</p>
<b>Georgia</b> (25,123)	Pay differential at agency discretion	<p>Georgia authorized state agencies to offer a pay differential to their activated state employees at the agencies' discretion in July 2002. The state offers 18 working days of paid military leave each year, after which employees are placed on military leave without pay. State agencies have the discretion to offer a pay differential and independently determine the calculation of the pay differential. A pay differential is the difference between state government and military salaries.</p>	<p>The state continues to contribute its portion of an employee's dependent health care premium for up to 18 months if the employee was activated on an emergency basis. After 18 months, employees may retain health insurance for their family by paying 102 percent of the premium as specified under the COBRA provisions.</p>	<p>The state suspends retirement benefits while the employees are on military leave without pay. The activated employees have the option of paying their premiums retroactively upon return from active duty to reclaim lost credits. They do not accrue any kind of leave while on leave without pay.</p>
<b>Illinois</b> (24,382)	State pay differential	<p>Illinois enacted a pay differential policy for activated state employees in February 2003. While on military leave, activated</p>	<p>The state continues to contribute its portion of an employee's dependent health care premium for the duration of the activation.</p>	<p>The state continues to pay an employee's full retirement coverage while on military leave without pay. Employees also continue to accrue</p>



**Appendix IV: Selected States' Policies on  
Compensation for Activated Employees**

State (Reserve population) <sup>a</sup>	Income assistance offered to activated state employees on military leave without pay	Military leave and compensation policy for state employees on federal active duty	Status of dependent health care coverage for state employees on federal active duty	Status of other reported state benefits for employees on federal active duty <sup>b</sup>
<b>Iowa</b> (12,593)	Not available	employees are eligible for a pay differential if their state pay exceeds their base military pay, excluding special pays and allowances. Employees must submit a copy of their military Leave and Earnings Statement to their employing agency to receive the pay differential. Employees receive the pay differential for the duration of their activation.		vacation and sick leave.
<b>Nevada</b> (3,939)	State pay differential	Nevada enacted a pay differential policy for activated state employees in October 2001. The state offers 15 working days of paid administrative leave each year for employees called to active military duty. Employees are then placed on civil leave at reduced pay and receive a pay differential if their state pay exceeds the sum of their base military pay, special pays, and allowances except for clothing. To receive the differential, employees must provide their supervisor copies of their deployment orders and military Leave and	The state suspends its contributions for dependent health care coverage for employees on military leave without pay. Employees may continue their dependent health care coverage under COBRA.	Employees continue to accrue retirement credit while on military leave without pay.
<b>Nevada</b> (3,939)	State pay differential	Nevada enacted a pay differential policy for activated state employees in October 2001. The state offers 15 working days of paid administrative leave each year for employees called to active military duty. Employees are then placed on civil leave at reduced pay and receive a pay differential if their state pay exceeds the sum of their base military pay, special pays, and allowances except for clothing. To receive the differential, employees must provide their supervisor copies of their deployment orders and military Leave and	The state allows its employees to continue dependent health care coverage for the duration of the activation if the employees pay the full premium.	The state offers two retirement policies. Under one policy, the employee can elect to pay for a portion of the premium and the state contributes the remainder. Under the second option, the state pays the entire premium, but the employee either receives less pay or forfeits the equivalent basic salary and/or cost-of living increases. According to a state official, the state encourages its employees who are called to active duty to transition their retirement coverage to the second option, which allows

**Appendix IV: Selected States' Policies on  
Compensation for Activated Employees**

State (Reserve population) <sup>a</sup>	Income assistance offered to activated state employees on military leave without pay	Military leave and compensation policy for state employees on federal active duty	Status of dependent health care coverage for state employees on federal active duty	Status of other reported state benefits for employees on federal active duty <sup>b</sup>
		Earnings Statements, among other forms, each month they are on active duty. Employees receive the pay differential for the duration of their activation.		them to continue to accumulate retirement credit while on active duty.
<b>New Hampshire</b> (3,617)	State pay differential	New Hampshire enacted a pay differential policy for activated full-time, permanent state employees in March 2003. The policy applies only to the conflict in Iraq. The state offers 15 days of paid military leave each federal fiscal year to eligible employees called to active military duty, after which employees are placed on military leave without pay. Employees receive a pay differential if their state pay exceeds their base military pay, excluding special pays and allowances. To receive the differential, employees must submit an application and a military Leave and Earnings Statement to the Adjutant General's office. They receive the pay differential for up to 1 year after activation beginning March 21, 2003.	The state pays the full premium for all state employees' dependent health care coverage and continues to pay the full premium for the duration of their military activation.	State employees continue to accrue retirement credit while on military leave without pay.
<b>New Jersey</b> (15,891)	State pay differential	New Jersey enacted a pay differential policy for activated state employees in February 2003. The policy applies to the global war on terrorism, armed conflict in Iraq, or heightened tensions with North Korea. The state also	The state continues to contribute its portion of an employee's dependent health care premium for the duration of the activation.	The state continues to contribute its portion to an employee's life insurance and pension coverage during federal active duty.

**Appendix IV: Selected States' Policies on  
Compensation for Activated Employees**

State (Reserve population) <sup>a</sup>	Income assistance offered to activated state employees on military leave without pay	Military leave and compensation policy for state employees on federal active duty	Status of dependent health care coverage for state employees on federal active duty	Status of other reported state benefits for employees on federal active duty <sup>b</sup>
		<p>authorized pay differentials for employees called to active service to support the Bosnia and Kosovo missions. The state offers 90 days of paid military leave to state employees serving in the National Guard and 30 days of paid leave to members of the Reserves. After employees exhaust their paid military leave they are placed on leave without pay, but without loss of time, during which they receive a pay differential if their state pay exceeds their base military pay, excluding special pays and allowances. Employees must submit their orders to their employing agency to receive the pay differential. Employees remain on partial military leave for the duration of their time on active duty.</p>		
<b>New York</b> (30,997)	State pay differential	<p>New York enacted a pay differential policy for activated state employees in September 2000. The policy expires in December 2004. The state offers 44 working days or 60 days (whichever is longer) of paid military leave each year or continuous period of absence that spans more than 1 calendar year, after which activated employees are placed on military leave at reduced pay. Employees receive a pay</p>	<p>The state offers its employees on military leave at reduced pay continued health care coverage for their dependents at no cost for the duration of the employees' activation.</p>	<p>Employees enrolled in the M/C Life Insurance Program may continue their life insurance coverage by paying their portion of the premiums.</p>

**Appendix IV: Selected States' Policies on  
Compensation for Activated Employees**

State (Reserve population) <sup>a</sup>	Income assistance offered to activated state employees on military leave without pay	Military leave and compensation policy for state employees on federal active duty	Status of dependent health care coverage for state employees on federal active duty	Status of other reported state benefits for employees on federal active duty <sup>b</sup>
		<p>differential if their state pay exceeds the sum of their base military pay, basic allowance for housing, and basic allowance for subsistence. They must submit a military Leave and Earnings Statement to their employing agency to receive the pay differential. Activated employees receive the differential until the policy expires.</p>		
<b>North Carolina</b> (20,697)	State pay differential	<p>North Carolina extended its pay differential policy for involuntarily activated state employees to include all reservists in September 2001. The state offers 30 days of paid military leave for each period of involuntary service, after which activated employees are placed on military leave without pay. Employees receive a pay differential if their state pay exceeds their base military pay, excluding special pays and allowances. To receive the differential, employees must provide their military Leave and Earnings Statements to their employing agency. They receive the pay differential for the duration of their activation.</p>	<p>The state continues to contribute its portion of an employee's dependent health care premium for 30 days from the date of active service. After 30 days, an employee may choose to continue dependent coverage in the State Health Plan by paying the full premium.</p>	<p>Activated state employees continue to receive retirement service credit while on military leave without pay and to accrue vacation and sick leave.</p>
<b>Ohio</b> (28,080)	State pay differential	<p>Ohio enacted a pay differential policy for activated state employees in 1991. The state offers 22 working days of paid military</p>	<p>The state continues to contribute its portion of an employee's dependent health care coverage for the duration of the employee's time</p>	<p>Employees continue to earn retirement credit while on active military duty for up to 10 years if they meet certain state employment criteria.</p>

**Appendix IV: Selected States' Policies on  
Compensation for Activated Employees**

State (Reserve population) <sup>a</sup>	Income assistance offered to activated state employees on military leave without pay	Military leave and compensation policy for state employees on federal active duty	Status of dependent health care coverage for state employees on federal active duty	Status of other reported state benefits for employees on federal active duty <sup>b</sup>
<b>Oklahoma</b> (15,502)	State pay differential	leave each year, after which activated employees are placed on military leave without pay. Employees receive a pay differential if their state pay exceeds the sum of their base military pay, special pays, and allowances. They must apply for the pay differential on a pay period-by-pay period basis and submit each military Leave and Earnings Statement they receive while on active duty to their employing agency. They receive the pay differential for the duration of their activation.	on active duty.	Activated employees may continue to pay into their retirement accounts.
		Oklahoma enacted a pay differential for activated state employees in May 2003. The policy is retroactive to September 11, 2001. The state offers 20 days of paid military leave each federal fiscal year, after which activated employees are placed on military leave without pay. State agencies must grant their employees on military leave without pay a pay differential for active service on or after September 11, 2001, during the period Operation Enduring Freedom is in effect, if the employees' state pay exceeds the sum of their base military pay and housing allowance. Agencies may require employees to submit a military Leave and	To ensure continuation of state-sponsored dependent health care coverage, activated employees may choose to use annual leave each month to remain in pay status. Employees continue to pay their portion of the premium if they remain in pay status, and the amount of state pay received for the used annual leave is deducted from the pay differential payments.  The state suspends its employees' dependent health benefits when they are on military leave without pay. Employees may retain health insurance for their family by paying 102 percent of the premium as specified under COBRA provisions.	

**Appendix IV: Selected States' Policies on  
Compensation for Activated Employees**

State (Reserve population) <sup>a</sup>	Income assistance offered to activated state employees on military leave without pay	Military leave and compensation policy for state employees on federal active duty	Status of dependent health care coverage for state employees on federal active duty	Status of other reported state benefits for employees on federal active duty <sup>b</sup>
		Earnings Statement to receive the differential. Employees receive the pay differential for the duration of their activation.		
<b>Pennsylvania</b> (35,189)	Stipend	Pennsylvania began offering stipends to all activated permanent state employees in September 2001. The state offers 30 days of paid military leave, after which activated employees are placed on military leave without pay. All employees on military leave without pay receive a \$500 monthly stipend, regardless of whether they gain or lose income as a result of being called to federal active duty. Activated employees must show their military orders to their employing agency to receive military leave. Employees receive the stipend for the duration of their activation.	The state pays the full premium for all state employees' dependent health care coverage and continues to pay the full premium for the duration of state employees' military activation.	Employees retain retirement and supplemental health benefits if they continue to pay their portion of the premium.
<b>Texas</b> (46,922)	Pay differential at agency discretion	The governor of Texas encouraged agencies to provide pay differentials to federally activated employees in November 2001. The state offers 15 working days of paid military leave each federal fiscal year, after which employees are placed on military leave without pay. Agency heads may grant federally activated employees on leave without pay a pay differential if their state pay exceeds the sum of	The state will continue to contribute its portion of employees' dependent health care coverage for employees who are still in a pay status beginning September 2003. Activated employees can remain on a pay status by using as little as 1 hour of paid leave (compensatory, overtime, vacation, etc.) each month they are on military leave. If employees are unable or choose not to remain in a pay status, they may	Employees will continue to accrue full retirement credit by receiving at least 1 hour of state pay during each month of active military service by using any combination of paid leave beginning September 2003.

**Appendix IV: Selected States' Policies on  
Compensation for Activated Employees**

State (Reserve population) <sup>a</sup>	Income assistance offered to activated state employees on military leave without pay	Military leave and compensation policy for state employees on federal active duty	Status of dependent health care coverage for state employees on federal active duty	Status of other reported state benefits for employees on federal active duty <sup>b</sup>
<b>Vermont</b> (3,824)	State pay differential	<p>their base military pay, special pays, and allowances.</p> <p>A new law requires state agencies to provide a pay differential to their employees in September 2003. The employing agency requests a copy of the employee's military Leave and Earnings Statement to determine the differential. Under the new law, employees can receive the pay differential up to 5 years.</p>	<p>retain dependent health insurance coverage for up to 12 months by paying the full premium.</p>	<p>The state does not offer any additional benefits while state employees are on military leave without pay.</p>
		<p>Vermont enacted a pay differential policy for activated state employees in 2001. The policy expires June 2005. The state offers 11 working days of paid military leave each federal fiscal year to its employees, after which they are placed on military leave without pay. Employees receive a pay differential if their state pay exceeds the sum of their base military pay, special pays, and allowances. Employees must provide a military Leave and Earnings Statement to their employing agency to receive the differential. Employees can receive the pay differential for a period of up to 6 months from their date of activation.</p>	<p>The state continues to contribute the employer portion of an activated employee's dependent health care coverage for 1 month after the employee's activation. After 1 month, employees may continue their dependent health care coverage by paying the full premium.</p>	

**Appendix IV: Selected States' Policies on  
Compensation for Activated Employees**

State (Reserve population) <sup>a</sup>	Income assistance offered to activated state employees on military leave without pay	Military leave and compensation policy for state employees on federal active duty	Status of dependent health care coverage for state employees on federal active duty	Status of other reported state benefits for employees on federal active duty <sup>b</sup>
<b>Virginia</b> (22,458)	State pay differential	Virginia enacted a pay differential policy for activated classified state employees in March 2002. The state offers 15 working days of paid military leave each federal fiscal year to its employees, after which they are placed on military leave without pay. Employees receive a pay differential if their state pay exceeds the sum of their base military pay, special pays, and allowances. Employees must provide a military Leave and Earnings Statement to their employing agency to receive the differential. Employees may receive the pay differential for the duration of their activation.	The state continues to contribute the employer portion of an activated employee's dependent health care coverage and the additional 2 percent administrative fee under COBRA for up to 18 months. After 18 months, employees may convert their dependent health care to nongroup coverage.	Employees continue to receive retirement credit while on active duty if they receive an honorable discharge. The state continues to pay basic life insurance for up to 2 years from the date military leave without pay begins. Optional life insurance can be continued if the employee continues to pay the premiums.
<b>Wyoming</b> (2,344)	State pay differential	Wyoming enacted a pay differential policy for activated state employees in October 2001. The policy expires in October 2005. The state offers up to 15 calendar days of paid military leave in any calendar year, after which employees are placed on military leave without pay. While on military leave without pay, activated employees are eligible for a pay differential if their state pay exceeds their base military pay, excluding special pays and allowances. Employees must submit a copy of each military Leave and	The state continues to contribute its portion of an employee's dependent health care coverage for the duration of the activation.	The state continues to match any type of pay deferrals that activated employees make to their deferred compensation plans. Employees continue to accrue vacation leave while on active military duty. Life insurance continues if employees continue to pay their portion of the premium.



**Appendix IV: Selected States' Policies on  
Compensation for Activated Employees**

State (Reserve population) <sup>a</sup>	Income assistance offered to activated state employees on military leave without pay	Military leave and compensation policy for state employees on federal active duty	Status of dependent health care coverage for state employees on federal active duty	Status of other reported state benefits for employees on federal active duty <sup>b</sup>
		Earnings Statement they receive while on active military duty to their employing agency to receive the pay differential. Employees receive the pay differential for the duration of their activation.		

Source: GAO.

<sup>a</sup>Reserve population denotes the total number of reserve members residing in the state as of April 2003 and includes, but is not limited to, state employees who are reservists. The population figures exclude Active Guard/Reserve members.

<sup>b</sup>Information in this column reflects responses to an open-ended question regarding state benefits, other than health coverage, for state employees activated for federal duty and may not necessarily describe the full range of benefits offered to state employees on federal active duty.

# Appendix V: Preactivation Activities of Spouses of Activated Reservists

This appendix provides an analysis of data from the 2002 DOD survey of spouses of activated reservists concerning preactivation activities of spouses. Based on spouses' self-reported feelings of being prepared or unprepared upon receiving a notice of activation for the military member, we compared their responses to questions concerning preactivation activities—volunteering or participating in unit family readiness programs or groups, attending preactivation briefings, receiving preactivation materials. We also compared their responses to questions concerning other factors that could affect preparedness, such as being assigned a military point of contact and the amount of advance notice received prior to activation. Finally, we compared their responses to a question concerning how well they have coped with the activation. The results of our analysis are presented in table 5.

**Table 5: Comparison of Spouses' Preparedness to Preactivation Activities and Other Factors**

Numbers in percent				
Question	Spouses who felt prepared or very prepared	Spouses who felt unprepared or very unprepared	Spouses who felt neither prepared nor unprepared	All spouses
Are you a volunteer with the family readiness program or a member of your spouse's unit's Family Readiness Group?				
Yes	13	12	9	11
No	87	88	91	89
Have you attended any briefings to help you and your family prepare for your spouse's order to active duty?				
Yes, in the past year	14	10	11	12
Have you attended any briefings to help you and your family prepare for your spouse's order to active duty?				
Yes, upon notification of this order to active duty	24	30	28	27
Did you receive any preactivation materials such as checklist or booklet ... to help you and your family prepare?				
Yes, in the past year	28	19	22	23
Did you receive any preactivation materials such as checklist or booklet ... to help you and your family prepare?				
Yes, upon notification of this order to active duty	44	43	43	43

**Appendix V: Preactivation Activities of  
Spouses of Activated Reservists**

Numbers in percent				
<b>Question</b>	<b>Spouses who felt prepared or very prepared</b>	<b>Spouses who felt unprepared or very unprepared</b>	<b>Spouses who felt neither prepared nor unprepared</b>	<b>All spouses</b>
Before the military member reported for active duty, did you have a military point of contact ... to help you deal with emergency issues that might arise during the activation?				
Yes	48	36	41	42
No	52	64	59	58
How far in advance did your family receive notice of the activation before the military member reported for active duty?				
24 hours or less	14	28	22	21
2-6 days	24	29	27	27
1-2 weeks	23	20	22	22
2-4 weeks	20	15	18	18
more than 1 month	18	8	11	13
Overall, how well have you coped with this activation?				
Very well	37	6	15	20
Well	47	35	44	42
Neither poorly nor well	13	28	30	23
Poorly	2	21	9	10
Very poorly	1	10	2	4

Source: GAO analysis of DOD 2002 Survey of Spouses of Activated National Guard and Reserve Component Members.

Note: Percentages may not add to 100 due to rounding.

# Appendix VI: Comments from the Department of Defense



RESERVE AFFAIRS

ASSISTANT SECRETARY OF DEFENSE  
1500 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1500

21 AUG 2003

Mr. Derek B. Stewart  
Director, Defense Capabilities Management  
U. S. General Accounting Office  
Washington, D. C. 20548

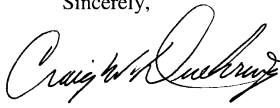
Dear Mr. Stewart:

This is the Department of Defense (DoD) response to the GAO draft report GAO-03-1004, "MILITARY PERSONNEL: DoD Needs More Data to Address Financial and Health Care Issues Affecting Reservists," GAO Code 350343 (formally GAO Code 350264). I appreciate the opportunity to review and comment on the draft GAO report.

We concur with each of the GAO recommendations, number 1 – 5. However, specific comments/concerns have been provided on recommendations 2 – 5 for your consideration.

The Department's comments on the draft report recommendations are provided in the enclosure. No technical changes were identified by reviewers for separate forwarding to the GAO staff.

Sincerely,

  
for T. F. Hall

Enclosure:  
As stated



GAO DRAFT REPORT – DATED AUGUST 1, 2003  
GAO CODE 350343/GAO-03-1004

“MILITARY PERSONNEL: DoD Needs More Data to Address Financial and Health Care  
Issues Affecting Reservists”

DEPARTMENT OF DEFENSE COMMENTS  
TO THE RECOMMENDATIONS

**RECOMMENDATION 1:** The GAO recommended that the Secretary of the Defense direct the Under Secretary of Defense for Personnel and Readiness to determine the need for compensation programs aimed at addressing reservists’ income loss during periods of active duty by obtaining more complete information on the magnitude of income change, the causes of income change, and the effects of income change on reserve retention. At a minimum, those efforts should be designed to identify reservists who (1) fill critical wartime specialties, (2) experience high degrees of income loss when on active duty, and (3) demonstrate that income loss is a significant factor in their retention decisions. (Pages 37-38/GAO Draft Report)

Now on p. 43.

**DOD RESPONSE:** Concur.

**RECOMMENDATION 2:** The GAO recommended that, on the basis of the above information, the Secretary of the Defense develop targeted compensation programs, as appropriate, to retain those reservists in the armed forces. (Page 38/GAO Draft Report)

Now on p. 43.

**DOD RESPONSE:** Partially concur. The Department is constantly examining and reexamining bonuses and special pays, which are targeted at individuals with critical skills that are considered hard to fill or that are inherently dangerous, hazardous or unattractive. Bonus agreements are effected in exchange for a commitment to serve in the Selected Reserve, and Reservists that qualify for the special or incentive pays are compensated for each day or period they are in a duty status. With respect to establishing programs that provide income protection to Reservists, the Department must continue to exercise concern about paying its part-time force more than its full-time force, when undertaking similar duties. Also, Reserve personnel receive a significant pension at age 60, if they completed at least 20 qualifying years of service. This represents deferred compensation for earlier service, which may have involved some income loss.

**RECOMMENDATION 3:** The GAO recommended that the Secretary of the Defense direct the Secretaries of the Army, the Air Force, and the Navy, and the Commandant of the Marine Corps to develop specific plans for improving reservists’ and their spouses’ awareness of and access to personal financial management programs. (Page 38/GAO Draft Report)

Now on p. 44.

Now on p. 44.

**DOD RESPONSE:** Concur. The Under Secretary of Defense for Personnel and Readiness recently launched a DoD Financial Readiness Campaign aimed at improving the education and assistance available to Service members and their families and to stimulate a culture that values savings and responsible financial behavior. The campaign supports the ongoing efforts of the Services with products and services provided by 26 Federal Agencies and nonprofit organizations. Many of these products and services can also support members of the Reserve component, and will be provided where meaningful and applicable. Additionally, a draft policy is pending final review by the Military Departments that will require the Services to provide personal financial planning materials to National Guard and Reserve personnel as an integral part of mobilization training.

**RECOMMENDATION 4:** The GAO recommended that the Secretary of the Defense direct the Military Services, in conjunction with the Under Secretary of Defense for Personnel and Readiness, to assess the financial well being of reservists and determine whether reservists' financial problems affect mission readiness. (Page 38/GAO Draft Report)

**DOD RESPONSE:** Concur. The Under Secretary of Defense will include the Reserve Components in the on-going efforts to assess financial well being of Service members and the impact of financial problems on mission readiness.

Now on p. 44.

**RECOMMENDATION 5:** The GAO recommended that the Secretary of the Defense direct the Under Secretary of Defense for Personnel and Readiness to assess problems reservists have experienced since the mobilizations following the events of September 11, 2001, in maintaining continuity of health care; the causes of those problems; and their effects on readiness, recruiting, and retention. As part of this assessment, DoD should evaluate the ramifications of extending TRICARE coverage to reservists not on active duty and their family members as well as paying premium costs incurred by reservists who choose to continue their civilian health care insurance coverage when activated. DoD should also evaluate the potential impact of extending such coverage on the retention of active duty personnel and on the TRICARE system. (Page 38/GAO Draft Report)

**DOD RESPONSE:** Concur. It is important to note that many Reserve TRICARE problems are the result of a lack of information and understanding concerning enrollment and participation in TRICARE. Efforts to educate Reservists and their families concerning their TRICARE benefits and entitlements and the need to ensure dependent information in the Defense Enrollment Eligibility Reporting System (DEERS) is accurate and up-to-date, must be continuous, ongoing and widespread. Also, it is worth noting that, while over 30% of the Reserve force does not have dental insurance, less than 5% of that force has enrolled in the TRICARE Dental Program, which is a relatively cost effective and benefit rich dental plan. If TRICARE were offered, there is no indication reservists would sign up in any greater numbers than they have for the TRICARE Dental Program.

---

# Appendix VII: Staff Acknowledgments

---

## Acknowledgments

Kelly Baumgartner, Brenda S. Farrell, Thomas W. Gosling, Krislin M. Nalwalk, Jennifer R. Popovic, Mark F. Ramage, Loch-Hung Leo Sze, and Nicole Volchko made significant contributions to this report.

---

## GAO's Mission

The General Accounting Office, the audit, evaluation and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

---

## Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through the Internet. GAO's Web site ([www.gao.gov](http://www.gao.gov)) contains abstracts and full-text files of current reports and testimony and an expanding archive of older products. The Web site features a search engine to help you locate documents using key words and phrases. You can print these documents in their entirety, including charts and other graphics.

Each day, GAO issues a list of newly released reports, testimony, and correspondence. GAO posts this list, known as "Today's Reports," on its Web site daily. The list contains links to the full-text document files. To have GAO e-mail this list to you every afternoon, go to [www.gao.gov](http://www.gao.gov) and select "Subscribe to e-mail alerts" under the "Order GAO Products" heading.

---

## Order by Mail or Phone

The first copy of each printed report is free. Additional copies are \$2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. General Accounting Office  
441 G Street NW, Room LM  
Washington, D.C. 20548

To order by Phone:   Voice:   (202) 512-6000  
                                  TDD:    (202) 512-2537  
                                  Fax:     (202) 512-6061

---

## To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: [www.gao.gov/fraudnet/fraudnet.htm](http://www.gao.gov/fraudnet/fraudnet.htm)

E-mail: [fraudnet@gao.gov](mailto:fraudnet@gao.gov)

Automated answering system: (800) 424-5454 or (202) 512-7470

---

## Public Affairs

Jeff Nelligan, Managing Director, [NelliganJ@gao.gov](mailto:NelliganJ@gao.gov) (202) 512-4800  
U.S. General Accounting Office, 441 G Street NW, Room 7149  
Washington, D.C. 20548