



Highlights of [GAO-07-984](#), a testimony before the Commission on the National Guard and Reserves

## Why GAO Did This Study

Over 580,000 reservists have been activated for military operations between September 2001 and March 2007. The challenges of continuing to mobilize large numbers of reserve component servicemembers for ongoing operations while balancing their support to homeland defense missions have led to questions about whether changes are needed in the way the reserve components are structured and resourced, particularly in light of mounting 21<sup>st</sup> century fiscal imbalances.

This testimony focuses on: (1) the nation's fiscal and security challenges and their implications for the Department of Defense (DOD) and the National Guard and Reserves; (2) the need for DOD to better align its reserve component business model, including human capital strategies, with the reserve forces' current and future needs; and (3) the extent to which DOD's current compensation system for reserve and National Guard personnel is helping the department to meet its human capital goals of recruiting and retaining a high-quality force. The testimony is based on GAO's body of work on the nation's long-term fiscal outlook, National Guard and reserve readiness, military personnel issues such as recruitment and retention, and the report GAO is issuing today on reserve and National Guard compensation issues. GAO has made several recommendations to address these challenges.

[www.gao.gov/cgi-bin/getrpt?GAO-07-984](http://www.gao.gov/cgi-bin/getrpt?GAO-07-984).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Janet A. St. Laurent at (202) 512-4402 or [stlaurentj@gao.gov](mailto:stlaurentj@gao.gov).

# GUARD AND RESERVE PERSONNEL

## Fiscal, Security, and Human Capital Challenges Should be Considered in Developing a Revised Business Model for the Reserve Component

### What GAO Found

The nation's growing fiscal imbalance and changing security environment require a fundamental reexamination of defense activities, including the role and structure of the reserve components. The fiscal imbalance, which is due to factors such as mounting budget deficits and rising health care costs, could threaten the nation's future economy and national security. As the fiscal imbalance constrains federal funding, future defense budgets are likely to be affected. DOD faces significant fiscal challenges due to rising compensation and acquisition costs, military operations, and inefficient policies and business practices. To put DOD on a more sustainable path, GAO has suggested that DOD reexamine defense policies and practices, address high risk areas, and develop budgets that set clear priorities based on current and future threats. Reexamining reserve component policies and practices should be included as part of an overall DOD-wide effort to address long-term affordability and sustainability challenges.

DOD's heavy reliance on the reserve components in recent years to support military operations and homeland security needs has highlighted the need to better align the reserves' business model with their 21<sup>st</sup> century roles. GAO's work has shown that the reserve components face several human capital challenges that will need to be considered as part of an overall effort to develop a new business model. Specifically, GAO's past work has shown that the reserves face challenges including (1) recruiting and retaining members with needed skills, and (2) developing policies, procedures and business processes that facilitate a smooth transition between reserve and active duty status. GAO has made numerous recommendations to assist DOD in addressing these issues.

DOD also does not know the extent to which its reserve compensation system is helping to meet recruiting and retention goals because (1) it has not established a strategy to identify the appropriate mix of compensation and (2) its approach does not provide decision makers with adequate transparency over total costs to compensate reservists, which have risen 47 percent since fiscal year (FY) 2000 in constant dollars. DOD's and Congress' piecemeal approach of adding pays and benefits has contributed to a shift in the mix of compensation toward more deferred benefits—such as retirement pay and health care—from 12 percent of total compensation in FY 2000 to 28 percent in FY 2006, primarily due to costs for enhanced health care for retirees. This allocation is questionable from an efficiency perspective since only 24 percent of those who join the reserves will ultimately receive retirement benefits. Further, reserve compensation costs are found in multiple federal budgets, which does not provide decision makers with adequate transparency over total costs. GAO is recommending today that DOD (1) establish an overall compensation strategy and (2) compile costs in a transparent manner to enable decision makers to determine the affordability, effectiveness, and sustainability of the reserve compensation system. DOD partially concurred with the recommendations.