

DEF-18 CANCEL THE ARMY'S TANK UPGRADE PROGRAM AND LAY AWAY PRODUCTION FACILITIES

| Savings from the 1995 Plan | Annual Savings (Millions of dollars) | | | | | Cumulative Five-Year Savings |
|-------------------------------|---|------|------|------|------|------------------------------------|
| | 1996 | 1997 | 1998 | 1999 | 2000 | |
| Budget Authority | 590 | 620 | 520 | 590 | 640 | 2,960 |
| Outlays | 40 | 270 | 470 | 500 | 530 | 1,810 |

NOTE: The Administration has made significant changes to its 1995 plan for this program. See Appendix B for estimated savings compared with the Administration's fiscal year 1996 request.

The shrinking of the U.S. military, coupled with the disappearance of a long-time foe and the unprecedented peacetime investment in modern weapons that occurred in the 1980s, has sharply reduced the need for new weapons. In particular, the Army now has enough of the latest type of tank, the Abrams, to equip the forces it plans to have for the foreseeable future, and so has no plans to buy new tanks for at least the next 15 years.

The Army has proposed instead to upgrade about 1,000 M1s--the first model of the Abrams tank--to a later configuration designated as the M1A2. That program is intended, in part, to increase the capability of some of the tanks that the Army will have in the field for the next 20 years and in part to keep producers of tanks and tank parts in business, pending the need for a tank to replace the Abrams.

During the Bush Administration, the Army advocated closing the tank production line and putting it in mothballs. In March 1992, then Chairman of the Joint Chiefs of Staff General Colin Powell testified before the Congress that the Army's current tank is the best in the world. That testimony disputes the Army's current rationale for upgrading tanks, which is based on the need for better ones. Indeed, although the M1A2 is 20 percent more capable than the M1 model--as measured by one scoring system developed for the Defense Department--converting 1,000 M1 tanks to the M1A2 model would increase the total capability of the 7,880 Abrams tanks in the Army's inventory by only 3 percent. That slight increase in capability would come at a high price--a total of about \$3 billion over the next five years.

This alternative would cancel the Army's upgrade program but would retain the components of the tank industrial base in a mothballed status. Mothballing the government-owned facilities that manufacture tanks and components could cost nearly \$400 million over the next five years. By preserving the facilities, however, the United States would retain the capability to produce tanks again when the next generation is needed to replace the Abrams or in the event of a crisis that would require more Abrams tanks. Compared with the 1995 plan, savings from adopting this alternative would amount to about \$590 million in 1996 and would total nearly \$3 billion over five years. Savings compared with the Administration's 1996 plan would be slightly less--\$480 million in 1996 and \$2.6 billion through 2000.

Closing the tank line would also have some disadvantages. Without an upgrade program, the U.S. inventory would include only very small numbers of the most capable M1A2 tanks. As regional powers acquire improved tanks, the absence of M1A2s might erode the U.S. advantage in a war, even though the M1A1 remains a highly capable tank. Closing the tank line would also end U.S. capability to produce large numbers of new tanks quickly. The Army estimates that producing new M1A2 tanks at high rates from a mothballed line could take six years--about one year more than to produce large numbers of new tanks from a line involved in modifying tanks.

Perhaps the most important drawback of this option is that some businesses that currently manufacture tank components might close and so be unavailable to produce tanks in the event of a crisis. A

related concern is the potential loss of workers whose skills are unique to tank manufacture and who would have to be retrained in order to perform up to government standards. Even though Defense Department officials have asserted that the United States currently has enough capable tanks to meet any foresee-

able contingency and that there would be enough time in the event of a major crisis to restart the tank line, shutting the tank line down completely carries some risks. Those risks have to be weighed against the hundreds of millions of dollars that would need to be spent annually to provide insurance against them.

DEF-19 CUT SPENDING FOR DUAL-USE TECHNOLOGY PROGRAMS TO HISTORICAL LEVELS

| Savings from the 1995 Plan | Annual Savings (Millions of dollars) | | | | | Cumulative Five-Year Savings |
|-------------------------------|---|------|-------|-------|-------|------------------------------------|
| | 1996 | 1997 | 1998 | 1999 | 2000 | |
| Budget Authority | 960 | 990 | 1,100 | 1,100 | 1,170 | 5,320 |
| Outlays | 420 | 810 | 990 | 1,050 | 1,110 | 4,380 |

NOTE: The Administration has made significant changes to its 1995 plan for these programs. See Appendix B for estimated savings compared with the Administration's fiscal year 1996 request.

In recent years, the Congress and the Administration have expanded funding for research and development (R&D) on dual-use technologies--those that have both civilian and military applications. One new program that has been financed with part of this increase is the Technology Reinvestment Project. TRP provides support to consortia that develop or disseminate dual-use technologies; it is administered by the Department of Defense's Advanced Research Projects Agency (ARPA) in cooperation with the three military departments and five other federal agencies. In most cases, recipients of TRP awards must match their federal support dollar for dollar.

Several other dual-use programs have also received considerable funding increases over the past several years, including R&D in high-performance computing, electronics processing, electronics modules, and electric vehicles. Those programs are administered by ARPA, whose technical managers are given considerable independence in selecting technologies and managing projects. Organizations that receive R&D awards from ARPA are not necessarily obligated to share project costs, although some do.

For 1995, the Congress appropriated \$550 million for TRP and more than \$1 billion for other dual-use programs. The Administration, which has a strong commitment to technology policy, supports continued funding in 1996 and beyond. This option would cancel the TRP and reduce funding for other dual-use initiatives to their 1992 levels. Relative to the Administration's 1995 plan, savings would be nearly \$1 billion in 1996 and about \$5.3 billion over the five-year period. Compared with the Administra-

tion's 1996 request, savings would be \$800 million in 1996 and about \$3.2 billion through 2000.

Advocates of greater funding for dual-use technologies contend that those programs ultimately will help to lower the cost of defense equipment. Although military R&D has spawned numerous commercial applications, today some civilian products outpace their defense counterparts and are less expensive, particularly those in the field of microelectronics. By incorporating widely available components from the commercial sector, some defense equipment could be made more capable while keeping costs reasonable. Programs such as ARPA's efforts in electronics processing may help to adapt commercial technologies for military use.

Initiatives such as TRP may also improve the integration of the defense industrial base into civilian sectors of the U.S. economy. Historically, military and civilian production have been treated as two distinct sectors because of onerous cost-accounting requirements and detailed specifications for military products, among other factors. But as U.S. military spending has declined, integrating those sectors in order to meet future military needs has become more important. Some analysts fear that, otherwise, only a few companies would remain in the defense business and retain the capability to produce sophisticated military equipment. That could become a problem if threats to national security emerge that would need advanced technology to counter them.

Advocates believe that dual-use programs can bolster economic growth in certain industries, espe-

cially high-technology ones. For example, flat-panel displays, which are used widely in laptop computers, also have many important uses in defense equipment. The Administration has proposed spending nearly \$600 million over five years on flat-panel displays through a combination of funds from ARPA, TRP, and the Department of Energy awarded on a cost-sharing basis. DoD officials hope to cultivate a domestic manufacturing industry for flat-panel displays by awarding dual-use R&D funds to companies that promise to build production facilities in the United States. Under this line of argument, U.S. companies would be better positioned to capture a share of the growing commercial market for flat-panel displays, and the Defense Department would have a reliable supplier for its military needs.

Critics of direct funding for dual-use R&D argue that other policy changes can encourage the integration of civilian and military efforts more effectively. Adopting commercial standards in place of military specifications, for example, might allow weapons producers to incorporate civilian components on a more widespread basis than would, say, an ARPA-sponsored study in which commercial technologies are customized for military use. Dual-use programs that tailor civilian technologies to defense specifications could leave too little in common with the commercial marketplace, thereby defeating one of the key purposes of dual-use items: to benefit from economies of scale in production.

Ultimately, dual-use programs may not be sufficient to sustain domestic suppliers of high-technology goods. One example can be found in the GCA Corporation, which received funding from SEMA-

TECH, an ARPA-sponsored consortium of private companies that was established, in part, to ensure the viability of domestic suppliers of equipment for manufacturing semiconductors. SEMATECH provided GCA, one of the few U.S. producers of photolithography machinery, with funding to boost the technical sophistication of its equipment. Nonetheless, sales prospects dropped off, and in 1993, GCA closed its business. Dual-use programs also cannot control whether companies that develop technology with their help share those innovations with foreign firms, even though such sharing may undermine the objectives of the program.

Moreover, these dual-use programs sponsor a type of R&D for which the grounds for government funding are less clear. Most economists believe that federal support for basic research is justified because the private sector will underinvest in research of that type. More contentious, however, is the degree to which the government should support applied R&D, the type funded by TRP and most dual-use programs. As projects move from underlying scientific knowledge closer to products and processes, the commercial benefits of that R&D are likely to become more apparent. Applied research projects could take numerous paths, and it is difficult to select a few projects from among several promising applications and then evaluate critically the role of federal support. Some analysts therefore contend that the private sector--with its vested interests in identifying commercial potential--is better suited to promote applied R&D projects. Furthermore, if supported with federal funds, R&D programs can become entrenched politically and difficult to discontinue.

DEF-20 REDUCE THE BASIC ALLOWANCE FOR SUBSISTENCE OF ENLISTED PERSONNEL

| Savings from the 1995 Plan | Annual Savings (Millions of dollars) | | | | | Cumulative Five-Year Savings |
|-------------------------------|---|------|------|------|------|------------------------------------|
| | 1996 | 1997 | 1998 | 1999 | 2000 | |
| Budget Authority | 95 | 225 | 365 | 510 | 660 | 1,855 |
| Outlays | 90 | 220 | 355 | 500 | 650 | 1,815 |

Although originally intended to defray a portion of the cost of subsistence for service members not receiving rations in kind, since 1974 the basic allowance for subsistence (BAS) has generally been raised in lockstep with military basic pay. In part as a result, the money that a typical enlisted service member receiving BAS spends on the food he or she consumes at home is probably less than the amount of his or her allowance (which is higher than what officers receive). The U.S. Department of Agriculture regularly estimates the cost of food at home for various families and individuals; the enlisted allowance is greater than the cost for a typical male adult in a family of four under all but the most liberal of the USDA food plans. Thus, in addition to its intended role as compensation for the lack of government-provided meals, BAS has served as an income supplement for enlisted members who receive it.

The role of the basic allowance for subsistence in supplementing income is particularly important for very junior married personnel, whose seemingly low pay levels have received special attention in the wake of reports that many military families may be receiving food stamps. For a married person in the lowest enlisted pay grade, BAS averages 13.5 percent of total compensation (including the tax advantage that accrues because subsistence and housing allowances are not subject to federal income tax), compared with only about 8.4 percent for all married enlisted personnel. To some extent, however, the concerns about low pay levels are misplaced: even the most junior married enlisted person receives total compensation that exceeds the total family income of nearly 20 percent of U.S. families and half of all young families (those headed by a person under age 25). The use of food stamps apparently derives less from low total compensation than from the way the military's quar-

ters allowance is administered: married personnel living in government quarters are not paid a cash allowance and so, having a lower cash income than their counterparts living off-base, are more likely to qualify for food stamps. According to the Department of Defense, 40 percent of the military families receiving food stamps live on-base, although overall only about 20 percent of the families of members in the three lowest enlisted pay grades live on-base.

The harmful effects of a too-generous subsistence allowance became apparent during Operation Desert Shield/Desert Storm. Many military families were suddenly, and unexpectedly, deprived of the income supplement when their service members were deployed to the Persian Gulf (and lost BAS because they received government rations). Although families' food costs may indeed have fallen, their income fell by even more. Many perceived that as an unfair burden to place on families already hurt by the members' sudden departure. To address this problem in the subsequent deployment of troops to Haiti, the Defense Department adopted a stopgap policy that resulted in the services' paying BAS to all enlisted personnel in Haiti, regardless of whether they had been entitled to it before the deployment, as well as feeding the deployed troops.

This option would reduce BAS for enlisted personnel to a level equivalent to that for officers (currently \$146.16 per month), phased in over five years. The most common form of enlisted BAS, which is given to people on leave or authorized to mess separately (for example, single personnel authorized to live off-base and to receive a quarters allowance, and married personnel accompanied by their dependents), would eventually be reduced by 31 percent, to \$4.81 per day at 1995 rates compared with the current

\$6.98. Compared with BAS costs under current law and the Administration's 1995 plan for reducing military personnel levels, the option would save \$95 million in 1996 and a total of \$1.9 billion over the 1996-2000 period. Additional savings might accrue if the change in BAS rates prompted DoD to abandon the interim policy of paying BAS to all troops in certain deployments. Some of the savings might be offset if a targeted pay raise or some other measure was used to counter specific problems arising from the option (see below).

Linking the BAS rate for enlisted personnel to that for officers reflects an essentially arbitrary choice. Alternatively, the rate could be based on one of the four USDA food plans. Food costs for a male adult age 20 to 50 in a family of four under the low-cost plan (second lowest of the four) are slightly lower than the current allowance for officers, and under the moderate-cost plan are about \$28 per month higher. The thrifty plan (lowest cost) is used in determining food stamp payments; costs under the liberal plan (highest cost) are roughly the same as the current enlisted BAS level.

The option would have two major advantages in addition to the obvious one of reducing defense expenditures. First, as suggested above, it would reduce or eliminate the problem of families of deployed service members experiencing a decline in living standard (albeit at the cost of reducing their disposable income at other times). Because the allowance would no longer include an income supplement, the income lost when the member deploys would be roughly offset by the reduction in the family's total food costs. Second, the option would elim-

inate an inequity in the current system that favors married personnel and others who receive a subsistence allowance over people who must eat in government messes, many of whom are single junior personnel. The former receive a payment that probably exceeds their actual food costs; the latter apparently incur out-of-pocket costs on the occasions when they do not eat in the mess halls--about 44 percent of all meals. To a small extent, the cut might discourage some married people from entering the military and some single personnel already in the military from marrying. Some observers might see that as an advantage and others as a disadvantage.

The option achieves its savings by cutting the total compensation of a majority of enlisted personnel. That approach might be undesirable for two reasons. First, it would probably reduce personnel retention and could make recruiting more difficult--both traditional areas of concern. Second, the most junior personnel eligible for BAS would suffer the largest percentage reduction in compensation because the dollar amount of the allowance is the same for all enlisted pay grades.

Although the income of junior enlisted personnel may not be as low as is sometimes thought, that group would definitely be hardest hit by this option. The BAS cut would reduce the total compensation of very junior married personnel by about 4 percent--twice as much as for senior noncommissioned officers. Offsetting the reduction for junior personnel through an increase in basic pay for the three lowest enlisted pay grades would cost about \$300 million per year, based on 1995 pay rates. That possible offset is not reflected in the savings shown in the table.

DEF-21 RESTRUCTURE OFFICER ACCESSION PROGRAMS

| Savings from the 1995 Plan | Annual Savings (Millions of dollars) | | | | | Cumulative Five-Year Savings |
|-------------------------------|---|------|------|------|------|------------------------------------|
| | 1996 | 1997 | 1998 | 1999 | 2000 | |
| Budget Authority | 145 | 240 | 340 | 445 | 450 | 1,620 |
| Outlays | 110 | 205 | 305 | 410 | 435 | 1,465 |

The military services have drawn on several management tools to reduce the size of the officer corps. They have encouraged voluntary separations through specific actions such as tightening criteria for promotion and liberalizing early-out procedures. They have reduced the number of senior officers by selective early retirement, and they can make further cuts through reductions in force if necessary. Finally, the military services have reduced the number of new officers (accessions) who enter the force each year, consistent with the projected smaller force.

This option would restructure officer accession programs beyond the changes the Department of Defense has already made. Overall accession levels would not be cut below the level planned by the department, but more officers would be drawn from lower-cost commissioning programs--Reserve Officer Training Corps (ROTC) and Officers Candidate School/Officer Training School (OCS/OTS)--and fewer from the more costly service academies. In addition, a ceiling would be placed on the per capita amount that could be spent on each recipient of a ROTC scholarship. Further, the option would cut Junior ROTC programs and eliminate the preparatory schools operated by the service academies. Relative to the Administration's 1995 plan, savings would be about \$145 million in 1996 and a total of \$1.6 billion through 2000.

Of that total, \$1 billion would come from cutting class size at the three service academies. At present, each academy graduates about 1,000 second lieutenants or ensigns a year. This option would reduce that number to 625 by cutting the size of the entering class for the three academies from a total of 3,000 to only 1,875. Estimated savings from that action reflect only the costs that would change in the near

term, such as faculty and cadet pay and operating expenses. Those savings would be offset by the additional costs of about \$70 million over the five years that would be needed to procure officers from OCS and ROTC to replace those from the academies. In the longer term, savings also might accrue from changes in the academies' physical plant.

Additional savings under this option would stem from changes in the structure of ROTC programs. In 1995, DoD plans to spend \$280 million for ROTC scholarships. (DoD covers other costs of education, but this option deals only with tuition.) About 40 percent of ROTC students now attend private institutions. The average cost per student in 1994 for tuition at four-year private institutions, based on data from the Department of Education, was \$11,000 a year, more than four times the average cost of \$2,500 at public universities. The option would cap ROTC scholarships at the \$2,500 level consistent with average tuition at public institutions. Under a cap, DoD might choose to reduce the number of programs at high-cost institutions, reallocating resources to lower-cost schools in order to maximize the number of officers trained. Alternatively, the department might elect to pay only a fraction of total tuition at high-cost institutions, requiring the student to make up the difference. Students currently enrolled would be allowed to complete their education without financial penalty.

Further, this option would cut Junior ROTC programs by about 25 percent. Junior ROTC provides introductory military training and uniforms to students in secondary school, at an overall cost in 1995 of \$160 million. Recent Congressional action significantly expanded Junior ROTC in an effort to place more programs in the inner cities. The reduction

called for in this option would restrict that expansion by 50 percent. DoD could retain programs in urban areas or elsewhere. Savings would be \$40 million in 1996 and \$220 million over five years.

Finally, the option would close the preparatory schools operated by each service academy. Those schools accept students who cannot meet the stringent admission criteria of the academies and gives them a year of additional training and schooling so that they can gain entry to an academy. Savings in 1996 would be about \$20 million and would total about \$120 million through 2000.

Supporters of the military academies have contended that those programs are needed to produce future service leaders. This argument has not persuaded the Congress, but past attempts to mandate cuts at the academies have been only partly successful; class size has declined modestly, but academy graduates now account for a larger share of officer accessions than at any time since at least 1980. There is little evidence for the contention that the academies have already reduced their class size to the minimum efficient level, as supporters have claimed in arguing that further cuts would not produce savings.

Opponents of a dollar ceiling on ROTC scholarships might argue that the quality of a graduate from a private institution is higher than that of a graduate from a public institution. Setting a cap--and limiting

the number of accessions from private institutions--thus might reduce the overall quality of the officer corps. However, the national security benefits of paying the higher tuition at private schools are unclear at best. Supporters of the public educational system might claim that the quality of education at public schools equals that provided at private ones.

Proponents of Junior ROTC include many Congressional supporters who contend that it provides discipline and reinforces positive values for teenage youth, particularly in inner-city schools. Nonetheless, the program's contribution to national security is difficult to measure, and if its benefits lie in the behavioral changes it encourages, it arguably should be funded in competition with other social programs targeted toward such populations.

Similarly, supporters of the service academies' preparatory schools claim that those schools are needed to provide an opportunity for students from less fortunate circumstances to enter the military academies. Those schools also provide an avenue for enlisted personnel to enter the academies. Opponents argue that the schools are used to enable the academies to recruit athletes and minorities who cannot otherwise qualify for admission, and that at an average total cost of about \$40,000 per student they are more expensive than most other secondary education or than OCS/OTS programs, the primary avenue of commissioning for enlisted personnel.

DEF-22 RESTRUCTURE THE BONUS PROGRAM FOR PILOTS

| Savings from the 1995 Plan | Annual Savings (Millions of dollars) | | | | | Cumulative Five-Year Savings |
|-------------------------------|---|------|------|------|------|------------------------------------|
| | 1996 | 1997 | 1998 | 1999 | 2000 | |
| Budget Authority | 2 | 6 | 11 | 17 | 25 | 61 |
| Outlays | 2 | 6 | 11 | 16 | 25 | 60 |

Since 1989, the U.S. Air Force has projected an overall shortage of pilots, in part because of the departure of pilots to the commercial sector. In order to address the shortage, the Air Force has undertaken several initiatives including paying its pilots bonuses. Under the Aviator Continuation Pay (ACP) bonus program, which the Congress authorized in 1989, pilots who qualify can receive up to \$12,000 a year for agreeing to remain on active duty through their 14th year of service. At present, the Air Force pays all pilots of fixed-wing aircraft the same bonus regardless of which weapon systems (fighters, bombers, tankers, strategic airlift, theater airlift, or trainers) they fly.

The Air Force has made good use of the ACP program. However, in part because of the military drawdown and the subsequent reduced need for pilots, some major weapon systems (namely, tankers and theater airlift) will probably have a surplus of pilots. Under this option, the bonus would be made available only to pilots of major weapon systems for which shortages are projected. Moreover, bonus payments would vary according to the degree of short-

age. Relative to the Administration's 1995 plan, this option would save \$2 million in 1996 and a total of \$61 million through 2000.

Precedents exist for targeting bonuses in this manner. For example, the Navy uses this approach in providing bonuses to its pilots. Furthermore, several types of military pay are targeted in accordance with the degree of personnel shortage, including special and incentive pay for physicians and recruiting and reenlistment bonuses for enlisted personnel.

The Air Force historically has opposed targeting bonuses in that way, arguing that doing so would adversely affect morale, possibly exacerbate retention problems, and ultimately increase pilot shortages. Moreover, the Air Force maintains that pilots would object to a bonus system that would result in internal inequities, since they all endure similar hardships during peacetime and face the same substantial risk in war. However, whether all pilots share that view is arguable. Combat pilots, for instance, face different risks and deployment patterns than transport or tanker pilots.

DEF-23 RESTRUCTURE RESERVE COMPENSATION

| Savings from the 1995 Plan | Annual Savings (Millions of dollars) | | | | | Cumulative Five-Year Savings |
|-------------------------------|---|------|------|------|------|------------------------------------|
| | 1996 | 1997 | 1998 | 1999 | 2000 | |
| Budget Authority | 125 | 235 | 410 | 595 | 780 | 2,145 |
| Outlays | 120 | 225 | 390 | 565 | 740 | 2,040 |

NOTE: This table includes estimated net savings in the federal budget. See Appendix A for estimated savings in the Department of Defense budget.

In 1995, more than 900,000 people will serve part time in the reserves, with personnel costs of roughly \$6 billion. Those reservists typically participate in 48 training drills per year, which usually involve one weekend of reserve duty each month, and also serve on active duty for two weeks each year. They are compensated with pay and allowances for time spent training as well as with credit toward military retirement benefits.

This alternative would make three changes to the reserve compensation system that would save about \$125 million in federal budget authority in 1996 and a total of more than \$2.1 billion through 2000 compared with the Administration's 1995 plan. Annual savings would continue to grow in the years beyond 2000. In addition to realizing savings, this alternative would aim to equalize active and reserve service for pay purposes, to treat different categories of reservists more equitably, and to improve efficiency in personnel management.

Treat Reserve Service Like Active Service for Pay Purposes. Part-time reservists, like their active-duty counterparts, receive periodic pay increases in three basic ways: in annual across-the-board raises intended to keep military pay competitive with civilian pay, through promotion to higher pay grades, and through longevity increases based on years of military service. Under the current pay table, longevity increases can contribute as much as or more than promotion raises to total career earnings, particularly for officers. On average, longevity increases raise basic pay by about 5 percent and generally come every two years.

A reservist receives the same credit toward longevity raises from a year of part-time work as does an active-duty person serving full time. Typically, however, reservists serve only about 60 days a year (including, for many personnel, days for which they are not paid). A person with 10 years of part-time reserve service, for example, is paid at the same rate as a counterpart in the same grade with 10 years of full-time service, even though the reservist will have served far fewer days. In calculating credit for retired pay, however, the reserve compensation system recognizes this difference. The reservist receives four points for each weekend (two drill periods each day, worth one point each), one point for each active-duty day, and an additional 15 points each year just for remaining affiliated. A total of 360 points earns the same credit toward retired pay as does one year of service for an active-duty member.

This option would put part-time service on the same point basis for determining raises based on longevity that is used for determining retired pay. In general, one "year of service" for pay purposes would require about five years of part-time duty--longer for people who meet only the minimum service requirements and less for those who put in substantial additional time. Thus, on average, reservists would tend to receive longevity increases at intervals of roughly 10 years instead of the current two years. Past service, however, would continue to be counted as under the current system; that is, past service would be grandfathered. Compared with the system under current law, this alternative would save about \$40 million in 1996 and \$1.7 billion over the 1996-2000 pe-

riod. Annual savings would continue to grow in later years as more of the total accumulated reserve service time was covered by the new system.

Eliminate Dual Compensation for Reservists Employed by the Federal Government. More than 120,000 reservists are employed in civilian jobs in the federal government. Those people benefit from the government's strong support of reserve training and may experience fewer conflicts with employers than do reservists who work in the private sector. In addition, reservists employed by the government receive dual compensation during their two weeks of annual training--both their government and reserve pay--without having to use vacation time or annual leave. Although a few of the larger private-sector employers mirror this government pay practice, dual compensation is not the general rule for reservists who are employed outside the federal government.

This alternative would eliminate dual compensation for reservists who are given time off from their federal jobs to carry out their active-duty commitment. Instead, they would receive only the higher of the two payments during the service period. Savings would be about \$90 million in each of the five years. This particular proposal has been included in the National Performance Review initiatives.

Eliminate Reserve Retirement. The United States is the only country that offers retirement benefits to its part-time military personnel. Those benefits parallel the ones provided for active-duty service and have remained largely unchanged since their enactment in 1948. Reservists are entitled to retired pay at age 60 after 20 years of active or reserve service, but at least the last eight years must have been spent in the reserves. The amount of retired pay is based on length of service and the average highest three years of pay. Payments to reserve retirees in 1993 totaled \$1.9 billion. In 1996, DoD will set aside an amount equal to 9.6 percent of reservists' basic pay, or roughly \$350 million, to pay for their future retirement benefits.

This option would terminate reserve retirement for people entering the reserve components after the

end of fiscal year 1995. The federal government would not realize savings for many years because the actual payments would not occur until those new reservists reached age 60. Officers would be affected most because they receive about 80 percent of the total amount of retirement benefits paid to reservists, even though they constitute only 15 percent of reservists.

Although these three changes offer potential advantages, they could also raise problems. The changes would be imposed during a period of considerable turmoil caused by the reduction in the number of military personnel, including reserve personnel. Broad changes in the compensation system may be easier to effect once the drawdown is complete.

More important, these changes would result in lower paychecks for reservists and would eliminate their retirement benefits, which could lead to problems in retention and possibly in recruiting. Retention already is lower among reservists who are at the early stages of their reserve career than among their active-duty counterparts. These changes, however, would tend to have their greatest effects on career retention. In the long run, lower career retention would result in younger, more junior reserve forces, which might even be seen as an advantage. In addition, personnel who remain would probably see their opportunities for promotion improve, offsetting some of the effect of less frequent raises based on longevity and the lack of retirement benefits.

The military could target bonuses toward those reservists most in demand, making payments at various points during reservists' careers to retain those with needed skills. Bonuses could also be used to recruit new reservists into occupational areas that are difficult to fill. Added costs for bonuses, however, are not reflected in the savings noted above.

The military could also use these bonuses to phase in the retirement changes more quickly, by offering reservists a choice between continuing under reserve retirement or potentially receiving bonus payments. Reservists choosing bonus payments would then forgo future retirement benefits.

DEF-24 DENY UNEMPLOYMENT COMPENSATION TO SERVICE MEMBERS
WHO VOLUNTARILY LEAVE MILITARY SERVICE

| Savings from the 1995 Plan | Annual Savings (Millions of dollars) | | | | | Cumulative Five-Year Savings |
|-------------------------------|---|------|------|------|------|------------------------------------|
| | 1996 | 1997 | 1998 | 1999 | 2000 | |
| Budget Authority | 265 | 270 | 265 | 270 | 275 | 1,345 |
| Outlays | 265 | 270 | 265 | 270 | 275 | 1,345 |

Many military personnel who leave active-duty service are eligible for unemployment benefits. Their payment amounts are calculated in the same way as those of civilian personnel who qualify for unemployment benefits. However, eligibility of former military personnel differs from that of recipients in the civilian labor force in one important respect. Former military personnel can apply for and receive unemployment benefits even if they voluntarily leave military service, but civilian recipients must have lost their job involuntarily.

The majority of personnel who leave military service do so voluntarily. For example, many choose not to reenlist following completion of their term of service; others, who have completed a minimum of 20 years of service, opt for voluntary retirement. Still others may choose to leave military service in return for cash payments under the voluntary separation incentive and special separation benefits programs enacted in 1991. A much smaller group is separated involuntarily for reasons related to job or promotion performance or, in recent years, because of the drawdown of military forces.

This option would apply the same rules to former military personnel that other members of the civilian labor force must follow by stipulating that only personnel who left service involuntarily because of force reductions would be eligible to receive payments. Eliminating payments to people who leave service voluntarily would reduce the number of recipients by at least two-thirds, resulting in savings of about \$270 million annually. Because the Department of Defense ultimately reimburses the Department of Labor for the cost of unemployment payments to former service members, those savings would occur in the defense budget.

The unemployment insurance program was established with the intent of aiding people who lose their job involuntarily. Subjecting military personnel to the same rules as the rest of the workforce regarding unemployment compensation thus could be seen as a more equitable use of an existing entitlement program. But if military service is considered to be fundamentally different from other types of employment, one could argue that voluntary separation from service is not comparable with voluntary termination of civilian employment and therefore should not be subject to the same restrictions on eligibility for unemployment compensation.

DEF-25 CLOSE THE UNIFORMED SERVICES UNIVERSITY OF THE HEALTH SCIENCES

| Savings from the 1995 Plan | Annual Savings (Millions of dollars) | | | | | Cumulative Five-Year Savings |
|-------------------------------|---|------|------|------|------|------------------------------------|
| | 1996 | 1997 | 1998 | 1999 | 2000 | |
| Budget Authority | 20 | 30 | 40 | 80 | 80 | 250 |
| Outlays | 10 | 30 | 40 | 70 | 80 | 230 |

NOTE: This table includes estimated net savings in the federal budget. See Appendix A for estimated savings in the Department of Defense budget.

Historically, the Department of Defense has faced shortages in medical personnel, particularly physicians. To alleviate that situation, DoD has developed various programs to provide a supply of those personnel. One such program is the Health Professionals Scholarship Program (HPSP), which pays tuition and a stipend to medical students and to students in other health-related programs in return for a military service obligation. Another example is the Uniformed Services University of the Health Sciences (USUHS), a medical school operated by DoD.

The Congress created the university in 1972 to train physicians committed to long-term military careers. At a total cost of about \$100 million in 1994, the school provides a full education for its participants, including a stipend to cover room, board, and books. Based on figures from 1994, USUHS is the most expensive source of military physicians at \$562,000 per person. By comparison, scholarships cost \$125,000, and other sources, such as the Financial Assistance Program (FAP) and the Volunteers Program, range in cost from \$19,000 to \$58,000. Even after adjusting for the lengthier service commitment required of physicians trained at USUHS, their training cost is still higher than for physicians from other sources.

USUHS has met only a small fraction of DoD's need for new physicians--less than 12 percent in 1992, for example. Scholarships provided about 73 percent, and the remaining 15 percent came from other sources, including volunteers.

This option assumes that the class of students admitted in August 1995 would be USUHS's last; the

institution would close at the end of fiscal year 1999 after those students have graduated. Other programs for obtaining physicians would be expanded to offset the loss of physicians trained at USUHS. CBO's estimate of the Administration's 1995 plan, as modified by Congressional action, assumes continuation of the USUHS program at current levels. Compared with that plan, net federal savings would be about \$20 million in 1996 and \$250 million over five years. Those savings include reductions in military and civilian personnel assigned to the university and would be in addition to planned drawdowns. They also reflect the added cost of obtaining physicians from other sources, such as the HPSP and FAP. But because DoD would not lose the first class of physicians trained at USUHS until after 2000, this estimate of savings does not reflect the additional out-year cost to the federal government of maintaining a steady supply of physicians. Including those additional costs would lower cumulative five-year savings to the federal government by about \$130 million.

Fiscal year 1995 was a year of controversy for USUHS. Despite the Administration's recommendation to close the university at the end of fiscal year 1997, the Congress directed DoD to keep USUHS open. In its reasons for doing so, the Congress cited many of the arguments of the university's supporters. Those supporters claim, for example, that USUHS physicians are better trained for the special needs of the services because of the university's focus on the study of military medicine and preparation of military medical officers. In addition, some of the higher costs of USUHS are repaid, in effect, because USUHS-trained physicians have a longer service

commitment than physicians from other sources. For example, graduates of USUHS must pay back seven years of active duty, whereas scholarship recipients must pay back only about one year of active duty for each year of health professional training. The longer tenure of USUHS graduates may enhance stability in the medical corps and reduce demands on the other sources of physicians.

Supporters of USUHS also argue that direct cost comparisons between it and other sources of physi-

cians may be unfair to the university because of indirect subsidies that the federal government provides to medical schools, which in effect raise the true governmental cost of physicians from sources other than USUHS. Nonetheless, taking those subsidies into account would lead to the dubious conclusion that closing USUHS would increase the amount that the federal government spends on indirect subsidies to medical schools.

DEF-26 ADOPT HMO STAFFING PATTERNS IN MILITARY MEDICAL FACILITIES

| Savings from the 1995 Plan | Annual Savings (Millions of dollars) | | | | | Cumulative Five-Year Savings |
|-------------------------------|---|------|------|------|------|------------------------------------|
| | 1996 | 1997 | 1998 | 1999 | 2000 | |
| Budget Authority | 20 | 50 | 80 | 110 | 110 | 370 |
| Outlays | 10 | 50 | 80 | 100 | 110 | 360 |

NOTE: This table includes estimated net savings in the federal budget. See Appendix A for estimated savings in the Department of Defense budget.

In December 1993, the Department of Defense announced its plans to reform the military health care system by establishing a program of managed care nationwide, referred to as Tricare. Ensuring that people who are eligible for health care from the military have access to high-quality health care benefits and improving the efficiency of the military health care system are two of the major goals of the Tricare program. DoD has already introduced a new approach to delivering and financing health care in the military to encourage coordination among the Army, Navy, and Air Force and to provide them with strong fiscal incentives to control costs. When fully implemented, Tricare will also introduce several managed care strategies, which have been adopted by many civilian plans, to improve the cost-effectiveness of the system.

This option, building on the incentives under Tricare, would require DoD to adopt staffing patterns at the military medical facilities based on the standards used by civilian health maintenance organizations (HMOs). HMOs are generally accepted as a cost-effective way to deliver care to a defined group of enrollees by controlling their use of health care and delivering services as economically as possible.

Putting HMO staffing patterns into effect could lead to substantial savings for DoD by reducing the overall number of physicians the military employs. Civilian HMO staffing standards suggest that DoD would need 8,090 physicians. That number is based on the assumption that roughly 5 million beneficiaries seek care from military medical facilities worldwide; the number is adjusted upward for differences in age and sex of military beneficiaries and civilian

HMO enrollees. Recognizing other key differences between military and civilian HMOs, such as training and the services' readiness requirements, the number of physicians needed would rise to 12,130. At the end of fiscal year 1996, however, DoD plans to have about 13,420 physicians--or about 1,290 more than required for the military in this option. By having fewer physicians, DoD could lower health care costs by about \$20 million in 1996 and nearly \$370 million over the next five years, in comparison with the Administration's 1995 plan. These estimated savings are in addition to those resulting from the drawdown already planned for uniformed and civilian physicians. The estimates of savings also assume that HMO staffing standards would be phased in over three years.

Even though adopting HMO staffing patterns would be consistent with the department's move toward managed care for the military, this option has some drawbacks. HMO staffing patterns assume significantly lower levels of health care use by enrollees than is true for the military beneficiaries who currently use the military's medical facilities. Therefore, reducing the number of military physicians would decrease the access of beneficiaries to military medical care.

The higher rates of health care use by military beneficiaries compared with HMO rates, however, underscore the differences in practice patterns between military physicians and those who work in civilian HMOs. Unless military physicians changed how they practice medicine, reducing the number of physicians could lead to rationing or poorer service. That said, phasing the HMO staffing patterns in over