



**ANSWERS TO QUESTIONS
FOR THE RECORD**

Following a Hearing on

**Approaches to Reducing the
Department of Defense's
Compensation Costs**

Conducted by the
Subcommittee on Personnel
Committee on Armed Services
United States Senate

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On July 26, 2023, the Senate Armed Services Committee's Subcommittee on Personnel convened a hearing at which David E. Mosher, the Congressional Budget Office's Director of National Security Analysis, testified about approaches to reducing the Department of Defense's (DoD's) compensation costs.¹ After the hearing, Senators Joe Manchin III and Dan Sullivan submitted questions for the record. This document provides CBO's answers. It is available at www.cbo.gov/publication/59506.

Senator Manchin's Question About Whether CBO Supports Section 902 of the National Defense Authorization Act for Fiscal Year 2024

Question. Mr. Mosher, does the Congressional Budget Office endorse or support section 902 of S.2226, the National Defense Authorization Act (NDAA), and does this include endorsing or supporting this section's inclusion through the NDAA conference process and within the final version of the Fiscal Year 2024 NDAA?

Answer. CBO's role is to provide objective, nonpartisan information to support the budget process and to help the Congress make effective budget and economic policy. The agency does not make policy recommendations or take positions on legislation.

Senator Sullivan's Question About How DoD Could Make Its Military Compensation Plan More Understandable to Potential Recruits

Question. [T]he military offers an attractive compensation plan that not only includes a competitive salary but medical and life insurance, housing allowances, and extensive paid leave. In your opinion, what could the DOD do to make the current military compensation plan more understandable to potential recruiting pools?

Answer. Although military personnel are well compensated when compared with their peers in the civilian sector, the structure of DoD's compensation package is complicated. Its mix of cash, noncash, and deferred compensation (which includes veterans' benefits) differs significantly from the more straightforward wages or

salaries that potential recruits or service members who are contemplating reenlistment might use for comparison. Thus, one concern is that prospective and current members of the military may undervalue the military compensation package. The armed services provide military personnel with an accounting of the value of their compensation each year, but it is not clear how well that information is understood or how it informs members' decisions about reenlisting.

CBO has not specifically examined ways to make the current military compensation package more easily understood to potential recruits. In its broader analysis of military compensation, however, the agency has presented options for changing aspects of the current compensation system, such as relying more on cash bonuses, that could improve understanding.² In a related effort undertaken at the request of the Senate Armed Services Committee, CBO is developing an infographic that will illustrate, in part, how military compensation compares with compensation in the private sector.

Senator Sullivan's Question About How DoD Could Make Its Military Compensation Plan More Attractive

Question. Mr. Mosher, in what ways could the DOD improve the military compensation plan to make it more attractive?

Answer. An analysis by CBO has found that compared with their peers in the civilian sector, military personnel are well compensated.³ On average, enlisted personnel receive cash compensation that is higher than that received by about 90 percent of civilians of the same age and education level (which surpasses DoD's goal that cash compensation meet or exceed the 70th percentile of civilian earnings). Moreover, the difference between military and civilian compensation is greater than that comparison suggests because military compensation includes noncash benefits, such as health care, that civilians must purchase using their cash compensation. And after leaving the service, military members may be eligible for deferred benefits from the Department of Veterans Affairs, such as the GI Bill, health care, and compensation for medical conditions incurred during their service.

1. Testimony of David E. Mosher, Director of National Security Analysis, Congressional Budget Office, before the Senate Armed Services Committee's Subcommittee on Personnel, *Approaches to Reducing the Department of Defense's Compensation Costs* (July 26, 2023), www.cbo.gov/publication/59375.

2. See, for example, Congressional Budget Office, *Approaches to Changing Military Compensation* (January 2020), www.cbo.gov/publication/55648.

3. *Ibid.*

One way to make the military compensation package more attractive may be to make it easier to compare with compensation in the private sector (as discussed in CBO's response to the previous question). Another solution may be to change the relative mix of cash, noncash, and deferred compensation to make the overall package more attractive to potential recruits and service members contemplating reenlistment.

Service members receive a larger share of their overall compensation in the form of noncash and deferred benefits than do most people employed in the private sector. And evidence suggests that many service members greatly underestimate the full value of those deferred benefits. In addition, because cash can give people more control over their spending choices, current and prospective service members may value cash compensation more than noncash compensation. Increasing the share of military compensation that cash pay represents could improve efforts to attract and retain military personnel—particularly younger people. (Research has shown that senior military personnel tend to value deferred compensation in the form of retiree benefits more than their younger colleagues do.)

CBO recently examined several ways that DoD could change the structure of military compensation to reduce or slow the growth of spending while still attracting and retaining a high-quality force.⁴ Some changes could also help DoD fill needed positions and make the compen-

sation package more appealing. One approach would emphasize cash bonuses instead of other elements of compensation—including increases in basic pay—to give DoD more flexibility to respond to recruiting challenges and to increase enrollment in undersubscribed career fields, such as aircraft maintenance or cybersecurity. A second approach would introduce a salary system in which military personnel would pay for housing, food, and health care for their families, like civilians do. Such a system would give policymakers, service members, and—perhaps most importantly—potential recruits a more complete view of the amount of cash pay that military personnel can earn.

Under one scenario in a new salary system, cash pay could be higher for junior enlisted service members who are single, particularly young members living in barracks. Raising their cash pay would encourage those members to stay in the military longer, in part because it would compensate them for the hardship of residing in barracks (one of the least attractive aspects of military life, according to surveys). Some service members might be worse off, however, and transitioning to a new salary system would be complicated. DoD's most recent comprehensive review of military compensation examined some of the advantages and disadvantages of a salary system but did not recommend implementing such a system.⁵

4. Congressional Budget Office, *Approaches to Changing Military Compensation* (January 2020), www.cbo.gov/publication/55648.

5. Department of Defense, *Report of the Thirteenth Quadrennial Review of Military Compensation, Volume I: Main Report* (December 2020), www.tinyurl.com/28jammjb20 (PDF).