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BY THE COMPTROLLER GENERAL



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Report To The Congress

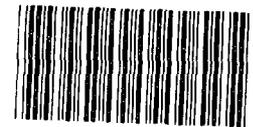
OF THE UNITED STATES

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The Congress Should Act To Establish Military Compensation Principles

For 12 years, the military compensation system has been extensively analyzed by study groups that have proposed various changes. However, the Department of Defense, the military services, and the Office of Management and Budget have not been able to agree on the principles and policies which should guide the setting, adjusting, and monitoring of total military compensation.

This report recommends that a permanent, independent compensation board, free from the pressure of parties having a strong interest in the results, be established to evaluate alternative solutions, propose legislation to the Congress, and continuously monitor the system.



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FPCD-79-11
MAY 9, 1979



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-163770

To the President of the Senate and the
Speaker of the House of Representatives

This report discusses the need for establishing compensation principles to guide the setting, adjusting, and monitoring of total military compensation. It also discusses the alternative principles and methods of implementation proposed by previous study groups. We initiated this review because of our concern about the lack of an overall guiding policy for compensating military personnel and the need to reform the complex and confusing military compensation system.

Copies of this report are being sent to the Director, Office of Management and Budget, and to the Secretary of Defense.

A handwritten signature in black ink, appearing to read "James A. Stacks".

Comptroller General
of the United States

D I G E S T

The Congress, the Department of Defense (DOD), and others have expressed concern about the need to reform the complex and confusing military compensation system which costs about \$40 billion a year.

A major problem is that changes and adjustments in the current system are made on a piecemeal basis. No overall guiding policy or principle for compensating military personnel is established. Service officials cite uncertainty about future military pay and benefit changes as one of several factors affecting retention of experienced military personnel.

Military pay principles should be established as one of the first steps toward reform so that the Congress, service members, and Defense Department managers have a better basis for evaluating changes to total military compensation.

MILITARY PAY PRINCIPLES
HAVE NOT BEEN ESTABLISHED

Pay principles define the policy for compensating employees, form the basis for designing and implementing a compensation system, and help explain the rationale for changing the system to make more efficient use of dollars. For example, Federal civilian pay is governed by the principle of comparability with pay in the private sector for the same level of work (5 U.S.C. 5301).

The process of indexing military pay adjustments to the average increase in Federal general schedule pay was adopted in 1967 as a temporary measure, pending submission of military pay reform legislation by DOD. This legislation to establish and implement pay principles was never submitted to the Congress.

FPCD-79-11

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Over the past 12 years the military compensation system has been extensively analyzed by distinguished study groups, who proposed various solutions. However, DOD, the armed services, and the Office of Management and Budget have not agreed on the best approach because the services want to hold firm on current military compensation, and the Office of Management and Budget wants to change the system to make it more efficient.

Agreements could be reached by an independent board, free of pressure from parties with a strong interest in the results.

The Congress should establish an independent board with a permanent staff and research capability, and direct the board to:

- Evaluate the alternatives and recommend legislation to the Congress specifying which military pay principles should be established as guidelines for total military compensation.
- See that the military pay system is designed to reflect these principles.
- Continuously monitor and recommend changes to the military compensation system consistent with established principles.

Also, the Congress should eliminate the requirement for the quadrennial review of military compensation, once the board is established.

EVALUATION OF ALTERNATIVE PAY PRINCIPLES AND METHODS OF IMPLEMENTATION

The proposals of previous study groups are based on the principles of either comparability or competitiveness. Both principles have the same goal--to attract, retain, and motivate military members of the quality and quantity necessary to maintain the national security at a minimum cost to the Government. Alternative approaches to implement comparability or competitiveness could form the basis for achieving an agreement. To determine

which alternative or combination is best, they should be compared against criteria which represent the major concerns associated with the military compensation system. (See pp. 22 to 35.)

The criteria essential to selecting the best pay principle and method of implementation should be clearly defined and weighted on the basis of importance. The different proposals of past study groups indicate how difficult it is to agree on the definition and weighting of the criteria which the pay principle and method of implementation should satisfy. (See pp. 22 and 23.)

On the basis of its evaluation of the alternative pay principles and methods of implementation proposed by various study groups, GAO believes:

- Comparability approaches provide stability and security to service members but lack flexibility to adjust to changing manpower needs.
- Competitive approaches provide the flexibility to adjust compensation to changing military manpower needs, but they lack the stability to assure members that their pay will remain roughly comparable to pay for Federal civilian and private sector employees.
- A combination of the best qualities of both principles may be necessary to provide stability and flexibility in the military compensation system. (See pp. 15 to 18.)

GAO asked a group composed of military and civilian individuals knowledgeable in compensation and military manpower to evaluate different approaches for implementing the two principles of compensation. The group believed that a comparability approach linking military pay to private sector pay for jobs of a similar nature would provide equitable treatment in the eyes of both members and taxpayers. (See pp. 25 and 26.)

AGENCY COMMENTS AND OUR EVALUATION

Defense officials agreed that the military compensation system should be designed on pay principles; however, they believe that military compensation principles already exist through a combination of comparability and competitiveness and that these principles are working effectively.

The Congress, distinguished commissions, and DOD study groups have, over the past 12 years, identified the need to establish military pay principles. However, military compensation changes continue to be made on a piecemeal basis, without first establishing the long-range policies which should guide these changes. The absence of pay principles has not only contributed to members' uncertainty about future pay and benefits but has adversely affected morale. The services and DOD have helped perpetuate this uncertainty by failing to agree on pay principles.

Defense officials also disagreed with the recommendation that a permanent independent military compensation board be established. They stated that the board could interject itself into DOD's operational chain of command, which would not be in the best interests of national security. GAO believes the best interests of national security are also served by maintaining high morale among service members.

GAO believes that a permanent, independent board, free from the pressure of special interests, will help reduce uncertainty over future pay and benefits and improve morale by submitting legislation, so that the Congress can establish the pay principles which will guide future reforms.

C o n t e n t s

	<u>Page</u>
DIGEST	i
CHAPTER	
1 INTRODUCTION	1
Adjustments to military pay	2
Scope of review	3
2 MILITARY PAY PRINCIPLES HAVE NOT BEEN ESTABLISHED	5
Importance of pay principles	5
Legislation to establish military pay principles has not been submitted	8
Why an agreement has not been reached	10
How this issue can be resolved	11
3 EVALUATION OF ALTERNATIVE PRINCIPLES AND METHODS OF IMPLEMENTATION	15
Comparability approaches	15
Civil Service comparability approaches	16
Age-earnings profile compara- bility approach	18
Private sector relative job difficulty	19
Competitiveness	20
Defense Manpower Commission approach	20
President's Commission on Military Compensation approach	22
Comparison of the alternatives	24
How well do the alternatives satisfy the criteria?	25
4 CONCLUSIONS AND RECOMMENDATIONS	27
Conclusions	27
Agency comments and our evaluation	28
Recommendations	29

		<u>Page</u>
APPENDIX		
I	Criteria for evaluating alternative approaches	31
II	Ranking of alternative approaches based on ability to satisfy the criteria as determined by the respondents	33
III	Average degree of criteria satisfaction for each alternative approach based on survey responses	34
IV	Biographical sketches of survey respondents	35

ABBREVIATIONS

DMC	Defense Manpower Commission
DOD	Department of Defense
GAO	General Accounting Office
GS	General Schedule
OMB	Office of Management and Budget
PATC	National Survey of Professional, Administrative, Technical, and Clerical Pay
PCMC	President's Commission on Military Compensation
QRMC	Quadrennial Review of Military Compensation
RMC	Regular Military Compensation
WG	Whole grade

CHAPTER 1

INTRODUCTION

Military compensation includes three components:

- Regular military compensation (RMC) includes a basic pay based on the military member's grade and length of service; housing and meals (or cash allowances in lieu of these items when not provided by the Government), and the tax advantage related to the nontaxable allowances.
- Bonuses and special pays (differential pays) are employed to supplement base pay and allowances where needed to attract, retain, and motivate military personnel to specific duties and occupations.
- Supplemental benefits include retirement, medical care, social security, and death gratuity.

The estimated Department of Defense (DOD) military compensation costs for fiscal year 1978 were: 1/

<u>Pay element</u>	Total (<u>note a</u>) (millions)
Basic pay	\$17,390
Quarters, cash, and in kind	4,970
Subsistence, cash, and in kind	1,930
Special pays	520
Other allowances	550
Incentive pay	280
Separation payments	320
Supplemental benefits	<u>13,490</u>
Total	<u>\$39,450</u>

a/Does not include tax advantage estimated at about \$1,500 million because basic allowance for quarters (BAQ) and basic allowance for subsistence (BAS) are not subject to Federal income tax.

1/"Report of the President's Commission on Military Compensation," April 1978, p. 9.

ADJUSTMENTS TO MILITARY PAY

Annual increases in basic pay are a relatively recent development. There were no increases in basic pay from 1922 to 1940, but from 1946 to 1963 there were five increases in military pay. Annual military pay raises began in 1963. Adjustments were made through the legislative process when it was perceived that military pay had fallen behind Federal civilian pay.

Public Law 89-132, August 21, 1965, required the President to direct a complete review of the principles and concepts of the military compensation system, and submit a detailed report to the Congress summarizing the results and any recommendations proposing changes in the statutory pay system and other elements of the compensation structure.

The first review was to start no later than January 1, 1967, and, thereafter, studies would be conducted not less than once every 4 years.

In an April 1967 message to the Congress, the President affirmed his commitment to achieving Federal (civilian and military) pay comparability with private industry pay. Accordingly, he proposed a 4.5-percent increase for Federal civilian employees in October 1967, to be followed by a two-stage increase in 1968 and 1969. These follow-on increases were designed to close the pay comparability gap between Federal civilian and private sector employees.

In the same message, the President stated that "As civilian pay goes up, so should the pay of the Armed Services." He therefore recommended an equivalent 4.5-percent increase in military pay for 1967. However, the President did not recommend follow-on increases as he had for Federal civilian employees, but stated that when the study of the First Quadrennial Review of Military Compensation (then in progress at DOD) was completed, he would recommend further reforms in the military pay system.

To insure that military pay would be annually adjusted should the President or Congress fail to act on the First Quadrennial Review's recommendations, the Congress amended title 37 United States Code (U.S.C.) 203 (the so-called Rivers' Amendment) to index future military pay increases to future Federal civilian salary increases. This index has remained in effect, with several changes, until today.

Since 1967, two more quadrennial reviews have been performed, and two ad hoc commissions have also completed extensive studies of military compensation.

The Defense Manpower Commission (DMC) was created by the Congress on November 16, 1973, and charged with conducting a broad study of defense manpower. The Congress was concerned over the increasing cost of defense manpower. The Commission issued its report in April 1976.

The President's Commission on Military Compensation (PCMC), formed in June 1977, was charged with conducting an analysis of the military compensation system, to see if and how it should be improved. The Commission issued its report in April 1978, and its recommendations are being studied by Defense.

SCOPE OF REVIEW

The purpose of this report is to provide the Congress with

- an explanation of the importance of pay principles and why none have been established for military compensation,
- an explanation of how an agreement can be reached,
- a summary of alternative military pay principles and methods of implementation and our evaluation,
- the views of individuals knowledgeable in compensation and military manpower on the alternative principles and methods of implementation, and
- our overall conclusions and recommendations.

During our review, we evaluated alternative approaches for setting and adjusting military compensation, particularly the approach recently recommended by PCMC.

PCMC's recommendations on (1) continuing the base pay and allowances system and (2) changing the retirement system have been addressed in our previous reports. 1/

1/"Military Compensation Should Be Changed To Salary System," (FPCD-77-20, Aug. 1, 1977), and "The 20-Year Military Retirement System Needs Reform," (FPCD-77-81, Mar. 13, 1978).

We interviewed former PCMC staff members to determine what analysis was performed as a basis for the Commission's recommendations, and compensation officials of DOD and the military services to determine their views towards the proposed alternatives.

We also obtained the views of a group of individuals knowledgeable in compensation in private sector organizations; several former, high-ranking DOD officials and retired officers experienced in the military manpower area on alternative pay principles, methods of implementation, and on what actions are necessary to resolve this issue.

CHAPTER 2

MILITARY PAY PRINCIPLES

HAVE NOT BEEN ESTABLISHED

One of the most pressing problems faced by the Department of Defense today is the military member's uncertainty over the future of military pay and benefits. One of the primary causes of this uncertainty is the lack of pay principles which clearly present the objective of military compensation.

In 1965, the Congress demonstrated its concern for establishing and implementing military compensation principles by directing the President to review the military compensation system and recommend reforms.

Although the recommendations of this DOD study (the First Quadrennial Review) were agreed to by the armed services, DOD, and the Bureau of Budget (now Office of Management and Budget), no legislation embodying these recommendations was submitted to the Congress.

Since then, two additional quadrennial reviews and two temporary commissions have analyzed the military compensation system and have recommended comprehensive reforms which included establishing and implementing pay principles. Except for the special and incentive pay recommendations of the Second Quadrennial Review, legislative proposals based on these recommendations have not been submitted because the services, DOD, and OMB have been unable to agree on which military pay principle and method of implementation is best.

IMPORTANCE OF PAY PRINCIPLES

The determination of pay principles and a method of implementation are among the first decisions an organization should make in developing and maintaining its compensation system.

Pay principles express an organization's intentions regarding how much it will pay its employees. For example, Federal civilian pay is governed by the legislated principle of comparability with pay in the private sector for the same levels of work (5 U.S.C. 5301). Private sector firms often base wages on the compensation paid by labor-market competitors.

Pay principles also make it easier to explain the rationale for compensation changes. This is important because perceptions of how pay is determined and adjusted affect pay satisfaction and employee performance. The lack of work-force acceptance of a compensation system can cause costly and unwanted labor turnover, and have an adverse effect on employee morale and productivity.

An organization must also select a method of implementing its pay principles. The process used to adjust Federal civilian pay, as outlined in law, employs a survey of private sector jobs and wages as a basis for Federal civilian pay adjustments. Thus, the private sector is the standard for setting and adjusting Federal civilian pay. A pay standard is usually employed as the method of implementing the comparability principle. Alternative methods of implementation use other criteria, in addition to pay standards, as a basis for setting and adjusting compensation. This report will refer to the differing methods of implementation as approaches to eliminate any confusion over the use of the term "pay standard."

An example of the controversy which can occur when pay principles are not clearly defined is the recent debate over whether military pay and benefits have been eroded. One of the reasons for this debate is the piecemeal approach used to change pay and benefits over the last decade without first establishing principles and guidelines as a basis for changes. Although these changes do not generally represent reductions to the average member's total military compensation, many members view them as reductions in compensation. One of the reasons for this perception is that DOD does not effectively communicate the rationale for these changes. 1/ Communication is difficult without pay principles to serve as benchmarks for total military compensation. Many military compensation studies 2/ over the last 30 years have

1/"Need to Better Inform Military Personnel of Compensation Changes" (FPCD-78-27, July 12, 1978).

2/Hook Commission (1948); Cordiner Committee (1957); Gorham Committee and Randall Panel (1962); Folsom Panel (1965); First, Second and Third Quadrennial Reviews of Military Compensation (QRMC) 1967, 1971, 1977); and the President's Commission on Military Compensation (1978). In addition, compensation was a major issue for both the Gates Commission (1969) and the Defense Manpower Commission (1976).

pointed out that a comprehensive and systematic approach, rather than a piecemeal approach, is needed to ensure equity for members and to manage manpower costs.

In 1965, the Special Panel on Federal Salaries (Folsom Panel) highlighted this problem stating that:

"* * * Agencies and Congress are subject to pressure for piecemeal changes which often have the tendency to depart from a rational and consistent salary structure."

The panel recommended that pay adjustments be based on the findings of a comprehensive and impartial review of the compensation system at regular intervals.

In 1976, service officials criticized the piecemeal approach to pay and benefits saying it resulted in a loss of confidence in DOD and service leadership, consideration of unionization, and low morale. The officials stated that a strong leadership commitment was needed to alleviate these problems.

The Chairman of the Joint Chiefs of Staff told the Senate Armed Services Committee in February 1977 that there should be a moratorium on changes to military pay and benefits, so that the recommendations of various study groups could be reviewed, and a detailed plan for implementing necessary changes could be submitted to Congress. It was believed that a clear and understandable picture of the total military compensation package would clear up the uncertainty over compensation changes.

Recently, service officials have cited the uncertainty about future pay and benefits as a major cause of record high pilot losses.

In October 1977, the Chairman of the Senate Armed Services Manpower and Personnel Subcommittee showed congressional concern for piecemeal adjustments to military compensation, stating:

"The services feel like they're being piecemealed to death. They feel like nobody is looking at the whole picture and they're right."

The Chairman suggested that changes in military compensation be considered as a package to alleviate this problem.

Military compensation principles would provide a statement of the Government's commitment to compensating military members against which future changes to the compensation system could be evaluated. Establishing and implementing these pay principles are essential first steps in addressing future reforms of the military compensation system, and should alleviate the problems created by the piecemeal approach.

LEGISLATION TO ESTABLISH MILITARY PAY
PRINCIPLES HAS NOT BEEN SUBMITTED

The quadrennial review process described in 37 U.S.C. 1008(b) requires that the President direct a complete review of the principles and concepts of military compensation, and report the results and any recommendations proposing changes to the Congress. This requirement resulted from congressional concern for having to annually adjust military pay through the legislative process, and a recommendation of the Special Panel on Federal Salaries (Folsom Panel) in 1965, to establish a Federal Salary Review Commission to conduct an impartial review at 4-year intervals of the structure and interrelationship of all Government pay systems. The Congress intended to use the recommendations of the quadrennial reviews to reform the military compensation system and to ensure that military pay increases would keep pace with Federal civilian, and private sector increases. However, the law does not require the quadrennial review staff to submit legislation embodying their recommendations. This requirement is assigned to DOD, which is responsible for submitting military compensation legislation subject to the approval of the Office of Management and Budget (OMB).

The First Quadrennial Review reported its recommendations to the Congress in 1967. Although these recommendations were approved by the services, the Secretary of Defense, and the Bureau of the Budget (now OMB), no legislation was submitted because the report was issued during a change in administrations. The outgoing administration left the decision to the incoming administration which chose to reevaluate the recommendations. However, the new administration's Defense officials decided not to submit legislation implementing the First Quadrennial Review's recommendations to the Congress.

The Second Quadrennial Review evaluated the comprehensive review of the principles and concepts of military compensation performed by the First Quadrennial Review and determined that no new comprehensive work was needed. Instead, they focused on selected special and incentive pays

which were of increasing importance as the all-volunteer force was being implemented. They issued their report in 1971, and legislation was proposed and later enacted in the areas of enlistment and reenlistment bonuses, physicians' bonus, and flight pay (aviation career incentive pay). No legislation was submitted to establish and implement military pay principles.

The Third Quadrennial Review, started in 1975, did not issue a final report to the Congress. The lack of agreement among the services, DOD, and OMB resulted in the establishment of the President's Commission on Military Compensation. The theory was that an independent group of citizens from the private sector could review the work of the quadrennial review and other studies, and come up with a solution that was less influenced by the interests of the affected agencies. The Third Quadrennial Review's staff studies and draft final report were referred to PCMC for their evaluation.

The Defense Manpower Commission (DMC) also reviewed the military compensation system and proposed military pay principles and methods of implementation. Neither the PCMC nor the DMC recommendations have been submitted by DOD in legislation to the Congress.

The DMC reported its findings and recommendations to the Congress in April 1976. Immediately thereafter, the House Committee on Appropriations requested DOD to evaluate the DMC recommendations and, where appropriate, to submit draft legislation for implementing the recommendations. DOD deferred taking a position on most of the military compensation conclusions and recommendations until the PCMC report was issued.

The PCMC was formed in June 1977 and charged to do a complete analysis of the military compensation system to see if and how it should be improved. Implicit in this charge was the expectation that this Commission's report would not become another in a long series of unheeded studies. The PCMC report issued in April 1978 was considered by DOD as the completion of the Third Quadrennial Review. The Commission's recommendations were referred to DOD who is charged with submitting legislation based on these recommendations. Presently, DOD is evaluating these recommendations.

The inability of the services, DOD, and OMB to agree on the best approach, with the exception of the First

Quadrennial Review, is the main reason no legislation has been submitted to establish and implement military pay principles.

Why an agreement has not been reached

To understand why an agreement has not been reached it is necessary to compare the circumstances that existed prior to 1967 with those present today.

Prior to 1967 military pay for the majority of members was relatively low, compared to private sector pay, and was only adjusted through lengthy debate during the legislative process. In addition, military manpower costs were not a pressing concern.

The First Quadrennial Review's recommendation for establishing a pay comparability linkage between the military and civil service provided the services an opportunity to ensure that the long-depressed, military pay levels would be increased to those of Federal civil servants and private sector employees. The goal of achieving comparable pay rates was sufficiently important that the services were willing to compromise on other recommendations which they did not completely support. Thus, the services agreed with the First Quadrennial Review's recommendations.

The Bureau of the Budget (now OMB) and DOD also agreed with the study group's recommendations, because they were responsive to the President's guidance to ensure military members are compensated on a scale comparable to civil servants and private sector employees, and to ensure that the services attract, retain, and motivate the quality and quantity of members necessary to maintain national security.

The inability of DOD, the services, and OMB to reach a mutual agreement since 1967 results from several factors. Firstly, the enactment of the Public Law 90-207 on December 16, 1967, ensured that military pay would increase whenever Federal general schedule pay increased. Although this index was intended to be temporary, it remains in effect today and has increased military compensation so that DOD believes it is now roughly comparable with civil service and private sector pay. Secondly, the move to an all-volunteer force resulted in large increases in the compensation paid to junior-grade service personnel in 1971.

These two factors removed the biggest incentive the services had for reaching an agreement on pay principles-- that of ensuring increases in long-depressed military pay

rates. The services are satisfied that the current index to civil service pay will ensure such increases; thus, they have focused their attention on maintaining the current level and structure of military pay and benefits.

The large increase in military manpower costs since 1967 has increased the pressure on DOD and OMB to make more efficient use of budget dollars. This pressure makes it difficult for these parties to agree on pay principles which provide sufficient flexibility to allocate military manpower dollars in a cost effective manner.

We asked a group of individuals knowledgeable in compensation and military manpower (see app. IV) why an agreement cannot be reached on the best approach to setting and adjusting military compensation. The reasons most often cited were:

- Different views on the degree of uniqueness of military service ("X factor") and its effect on determining pay levels. 1/
- Different definitions and perceptions of equitable pay.
- Different views on how to determine the cost effectiveness of the alternative approaches.

All three reasons relate to the fact that there is no specific or concrete measurement available to quantify in dollar terms the "X factor" for unique conditions of military service. This affects both perceptions of equitable pay, and judgments on cost effectiveness.

It does not appear that DOD, the services, and OMB will be able to resolve their differing views because of the competing pressures to (1) hold firm on current military compensation and (2) change the system to make it more efficient.

How this issue can be resolved

We believe an independent board, free from the heavy influence and pressure of parties having a strong interest in the results, with a permanent staff and research capability, should be responsible for

1/See app. I, point 3 for discussion of "X factor."

- evaluating the alternatives, and recommending to the President and the Congress which military pay principles should be established;
- ensuring that the pay principles are appropriately implemented; and
- continuously monitoring and making recommendations for changing the military compensation system consistent with the established principles.

This board differs from previous ad hoc commissions, such as PCMC, in that it would have (1) permanent staff and research capability to develop an institutional memory, and (2) the authority to submit its recommendations and draft legislation to the Congress without the consensus of the services, DOD, and OMB.

In 1976, the Defense Manpower Commission recommended that such a permanent, full-time, independent compensation board be established. They recommended that this board undertake continuous review of the military compensation system, and make recommendations for changing the system consistent with the pay principles.

The DOD disagreed with the DMC recommendation. They stated that having a "headless fourth branch" of Government interject itself into the operational chain of command would not be in the best interests of national security. We recognize the problems of coordinating the activities of the board with the Department and the services, however, the failure of DOD and service leadership to reach agreement on pay principles after 12 years of extensive analysis leads us to believe that a permanent, independent organization is necessary to resolve this issue.

An important function of the board would be to monitor the military compensation system and recommend changes for action by the President and the Congress. A compensation system needs periodic evaluation to ensure that it is meeting the organization's needs. This requires close monitoring by experienced personnel who can determine problems and recommend corrective action. Currently the quadrennial review process is used to perform this function. However, this process has been largely unsuccessful in obtaining concurrence within DOD and the services for many of its recommendations to reform the system.

One problem with the quadrennial review process is that the staff is often comprised of military members on

loan from their respective services who are not sufficiently independent to analyze the system. In addition, the quadrennial review and other special study groups lack institutional memory. Almost no one is left after the review to maintain a knowledge of detailed information on the areas studied, and to work towards obtaining agreement on and implementation of the recommendations. A permanent, full-time, independent board would not encounter these problems, and would be better able to monitor the compensation system. Another important function of the board would be to evaluate total military compensation when recommending changes in the system. If the board is established, the quadrennial review may not be necessary.

The recent charge that military benefits have been eroded resulted from the perception of service officials and members that the over 60 piecemeal changes since 1972 to the more than 50 different military pay elements have adversely affected the financial status of military members. The continuous review and proposed recommendations of various study groups have added to this perception.

The adoption of military pay principles only for RMC would not alleviate this problem, because military benefits represent a very large portion of total military compensation. For this reason, the Third Quadrennial Review proposed that military compensation be set and adjusted on the basis of total compensation, including RMC; leave; holidays; medical absence; life insurance; the non-military part of health care; and retirement and survivor benefits.

In our report entitled, "Need For a Comparability Policy For Both Pay and Benefits of Federal Civilian Employees" (FPCD-75-62, July 1, 1975) we recommended that a total compensation process be adopted for Federal civilian employees. This approach was also evaluated and proposed by the President's Panel on Federal Compensation in December 1975, and is currently being developed and tested by the Office of Personnel Management (formerly Civil Service Commission).

A major reason for adopting this approach is that benefits are a growing and important part of both Federal and non-Federal employees compensation. Data from the Bureau of Labor Statistics showed that in 1974 Federal benefit expenditures were 31 percent of total compensation, while the private sector's were 25 percent. Benefits represent an even larger portion of total military compensation than civilian compensation. The Third Quadrennial Review cited these reasons for their recommendation to adopt a total compensation approach.

If the total compensation process is implemented for Federal civilian employees, the current method of indexing military pay (RMC) increases to the average increase in General Schedule pay may require changes. We believe that a total compensation approach to setting and adjusting military compensation would make the value and cost of military compensation more apparent to the members, managers, taxpayers, and the Congress. The approach would also simplify the evaluation of the complex military compensation system.

CHAPTER 3

EVALUATION OF ALTERNATIVE PRINCIPLES

AND METHODS OF IMPLEMENTATION

The proposals of previous study groups are based on either the principle of comparability or the principle of competitiveness. Both principles have the same goal, to attract, retain, and motivate the quality and quantity of military members necessary to maintain the desired level of national security at a minimum cost to the Government. Strong executive and Congressional leadership is necessary to ensure that a decision is reached on which principle and method of implementation best achieves this goal.

There are several alternative approaches for implementing comparability or competitiveness which could form the basis for achieving an agreement on this issue. It may be necessary to combine the best features of several alternatives to develop one approach that provides both stability in members' pay levels and flexibility to address changing manpower needs.

To determine which alternative or combination of alternatives is best, they must be compared against criteria which represent the major concerns associated with adoption of an approach to setting and adjusting military compensation.

The results of a comparison will depend on how the criteria are defined, and the relative importance assigned to each one. The different recommendations of past study groups demonstrate how difficult it is to agree on the definition and weighting of the criteria which a pay principle and method of implementation should satisfy. The criteria we used to evaluate the alternatives are in appendix I. The definitions for these criteria are subject to different interpretations, and we do not suggest that they are the best definitions.

COMPARABILITY APPROACHES

Comparability approaches use wage surveys of other workers as a guide to setting and adjusting pay. A 1972 study conducted by a private firm showed that approximately 98 percent of the private sector firms contacted were using wage survey information on their competitors' pay levels as an aid in determining compensation. Proposed comparability

approaches for the military have been based on wage surveys of both public and private sector employees. Comparability approaches can differ based on the method used to link military pay levels to those of the reference group used in the wage survey. Linkages can be based on work-level or age-earnings comparisons.

In general, the use of the comparability principle for the military has been defended on that basis. That it is:

- Widely used in the private sector as a guide for setting and adjusting pay, and is used as a basis for adjusting Federal civilian pay levels.
- Generally viewed by employees as an equitable approach, since it reflects labor market conditions, and provides approximately equal pay for approximately equal work.

Several study groups have criticized the comparability principle because:

- It tends to overpay some members and underpay others.
- It does not consider other factors which affect pay, such as manpower requirements; unemployment statistics; and ability of an organization to pay.
- It is inflexible in that it cannot respond to the other factors mentioned above.

Civil Service comparability approaches

Two methods of implementing the comparability principle based on Federal civilian compensation have been proposed by the first and third quadrennial reviews:

- A Civil Service whole-grade approach linking selected military pay grades to selected Civil Service pay grades by applying Civil Service Classification Standards to military jobs.
- A Civil Service relative positioning approach which permits a military pay grade to be placed between two Civil Service pay grades using a job evaluation approach.

The primary advantage of these approaches is that military members are accustomed to viewing military pay as a

function of Civil Service pay because RMC adjustments have been indexed, in some form, to the average percentage increase in General Schedule salaries since 1967. Thus, the members generally understand the current adjustment process. These approaches are also viewed as maintaining equity for employees by using adjustments based on changes in the prevailing wages in the labor market. Since the current Civil Service pay adjustment system is based on extensive data collected by the Bureau of Labor Statistics, the implementation and maintenance of military pay levels based on comparability with civil service should not be a problem.

Recently we reemphasized our position that comparability provides a sound conceptual basis for setting pay in the Federal sector, yet pointed out some problems in the current process which need to be resolved. 1/

Two of our criticisms were that (1) the current wage survey is too restrictive because it does not include State and local government employees who represent about 14 percent of the total civilian work force and (2) the current comparability process does not include benefits, as well as pay in the comparison. The Office of Personnel Management is currently attempting to resolve these problems, which are usually cited as criticisms, of using comparability with the Civil Service as a basis for military compensation.

Critics of these approaches also point out that Civil Service pay levels based on the National Survey of Professional, Administrative, Technical, and Clerical Pay (PATC survey) of the private sector may not be representative of pay for skills in the military services. The current survey represents only 25 percent of the General Schedule work force, and less than 12 percent of the military work force.

Another criticism of comparability with the Civil Service is that it does not address the unique working conditions in the military. However, there have been implementation plans that attempt to recognize these factors in establishing linkages between Civil Service and military pay grades. The new factor evaluation system (FES) being implemented by the Office of Personnel Management can consider working conditions. Additionally, some private sector job evaluation approaches also accommodate working conditions.

1/"Federal Compensation Comparability: Need for Congressional Action," (FPCD-78-60, July 21, 1978).

While we believe enactment of our previous recommendations would improve the credibility of the Federal civilian pay-setting process, several questions must be answered if this approach is to be used to set and adjust military compensation:

- Would this improved Federal pay-setting process provide sufficient coverage of military occupations?
- Does this approach provide sufficient flexibility to respond to changing military manpower requirements?

Age-earnings profile comparability approach

Age-earnings profiles express earnings as a function of certain demographic variables of the employee, such as age, sex, and education. Their use is based on the reasoning that since the amount of pay necessary to attract and retain military members is a function of civilian earnings opportunities, then a comparison of military pay to pay of comparably educated civilians of the same age is a good measure of comparability.

Age-earnings profiles provide a good guide to comparability with the population. Analyses performed by PCMC and Rand show that the current military payline (RMC) generally falls between the high and low quartiles established by age-earnings profiles.

The current population survey of the Census Bureau provides a readily available data base from which to construct age-earnings profiles. Thus, no new data collection would be necessary to set and adjust pay under the age-earnings profile approach. Also, since the current population survey looks at the whole population, wage movements in the economy would be reflected in the data.

Although age-earnings profiles have been used as guides to comparability, they are rarely used as a basis for pay levels. This is because they do not consider many other criteria which enter into an organization's decision on how to set and adjust pay. Age-earnings profiles do not consider the work a person performs. Thus, pay levels are not based on work levels or the principle of equal pay for equal work. Age-earnings profiles do not consider the changing force requirements of the military which may require adjusting the incentives offered by the compensation system.

We believe the shortcomings of this approach require that its use should be limited to providing the members and the public with a periodic view of how military compensation compares with the rest of the population.

Private sector relative job difficulty

The private sector relative job difficulty approach links military pay levels to private sector wages using a point factor evaluation system which numerically rates the characteristics of jobs, such as knowledge, accountability, and working conditions. Under this approach, military jobs would be paid some fixed percentage of the average private sector pay at the appropriate job difficulty level. PCMC evaluated this alternative.

One advantage of this approach is that it would base military pay levels on a larger representation of military jobs than the current PATC survey. The DMC stated that this factor makes the private sector approach conceptually better than comparability with the Civil Service.

A second advantage is that this approach can account for unique aspects of military service. The third quadrennial review demonstrated this by using a point factor evaluation method, which has the potential to consider working conditions, in determining comparable pay rates. This factor is important since many members and managers consider these unique aspects as the reason military pay should differ from the pay of other employees.

A third defense of this approach is that it would be very flexible to economic changes since it tracks private industry compensation practices. Knowledge that pay is linked directly to job difficulty and is similar to private sector pay should make the system acceptable to military members.

Another advantage of this approach is that it provides a measurement technique and a definition for equal work by measuring levels of job difficulty.

One disadvantage of this approach is that it does not consider changing military manpower needs in adjusting pay levels.

Another criticism is the time and money required for developing and implementing this approach. The current PATC survey used to adjust General Schedule wages costs approximately \$2 million annually. The DMC pointed out that

developing an appropriate survey for the military would probably require several years. The cost and time needed to develop the necessary information could vary depending on whether the private sector job difficulty analysis is obtained from a private firm or whether the Government modifies the factor evaluation system for application to military positions. It may also be possible to piggy-back a military survey on the PATC survey.

We believe this approach is one of the better alternatives based on its ability to (1) represent a large portion of the military work force, (2) account for unique aspects of military service, and (3) track changes in private sector wages. However, several potential problems must be resolved before it can be adopted for military compensation.

--How much will it cost, and how long will it take to develop and implement the approach?

--Can the approach be modified to react to changing military manpower needs?

COMPETITIVENESS

Competitive approaches are based on the principle that compensation should be adequate to attract and retain the desired quantity and quality of personnel, but should not be more than necessary for this purpose.

Both DMC and PCMC proposed that military compensation be based on competitiveness; however, they suggested different methods of implementing this principle.

A major advantage of these approaches is that they permit other factors, in addition to comparability, to be considered in setting and adjusting military pay.

The primary criticism of these approaches is that competitively determined pay levels would be unstable, lack credibility with service members, be viewed as capricious and discriminatory, and increase administrative complexity and cost.

Defense Manpower Commission approach

The DMC competitive approach resulted from the Commission's dissatisfaction with the principle of comparability and how it had been implemented for Federal civilian employees. DMC believed an alternative was needed which would allow greater flexibility to consider other factors,

in addition to pay comparisons, in determining how pay levels should be set and adjusted. The DMC approach would be based on a broad, long-run comparability of Federal compensation to compensation in alternative employment, taking into account differences in working conditions, and most importantly considering manpower supply and demand statistics. Thus, DMC's competitive approach would make use of comparability measures as guides to judgment, yet would consider other factors, particularly manpower shortages or averages in determining how to set and adjust military pay levels.

In order to implement the competitiveness principle, the DMC proposed that a permanent, full-time, independent Federal Compensation Board be established. The Board's purpose would be to undertake continuing review and to make recommendations concerning the entire range of compensation-related issues.

The third quadrennial review criticized the competitive compensation approach stating that it was based on arbitrary management decisions over which the member would have no control, could result in annually shifting multiple pay tables which would further complicate the military pay system, and could adversely affect attraction and retention.

DOD also criticized the establishment of an independent Federal Compensation Board because it would usurp the Secretary of Defense's control over military manpower resources.

The DMC approach has been defended because it allows other factors in addition to comparability to be considered in setting and adjusting military pay. The vast majority of organizations do not rely exclusively on external labor market wage surveys in establishing their wage structures, but use them only as a guide in setting pay levels within a wage structure. A 1972 survey of private sector firms showed that wage surveys do not provide enough information on all relevant variables, so that they can be relied on exclusively to set individual job rates.

The DMC approach's ability to consider other factors in addition to direct comparability with another group of employees is an important quality that should be included in the pay adjustment process. We believe Federal pay practices should provide the framework in which employees at different skill levels, occupations, and geographic areas can be reasonably compensated. Unless these factors are

recognized, the Government could be placed in a non-competitive or overly competitive position with other employers for recruiting and retaining competent employees. We also believe these factors should apply to Federal civilian compensation, as well as military. However, several questions concerning this approach must be resolved.

--Can the competitive approach be made acceptable to the military member?

--What specific guidelines should the Federal Compensation Board follow in implementing and monitoring a competitive military compensation system?

President's Commission on Military Compensation approach

The PCMC recommended a competitive approach to create a more flexible and efficient military compensation system with the following characteristics

--no formal comparability standard for setting pay levels,

--more discretionary authority for the Secretary of Defense to propose differential allocations of annual pay raises, and

--expanded discretionary use of differential pay (special and incentive pays) to prevent or alleviate manning shortages.

PCMC concluded that there was no need to reset military compensation based on a standard for two reasons:

--Current RMC falls within a reasonable range of the pay of employees performing similar levels of work in the private sector.

--Pay adjustments must be made with regard to manning problems rather than a standard.

PCMC believed their proposed system would provide the Secretary of Defense and the President with flexibility in recommending a more efficient allocation of scarce resources. The Commission believed the current pay adjustment process lacked the flexibility to adjust to manpower needs, and resulted in overpaying and underpaying military personnel.

The PCMC pay adjustment process would begin with the RMC levels in effect at the time the recommendations were implemented. The annual total cash pay raise amount would be determined each year by the average civil service percentage increase. The Secretary of Defense would be permitted to propose a split of the total pay raise amount by pay grade, occupation, service, or by other appropriate class of personnel based upon the necessary staffing levels of each class.

PCMC believed its proposed changes in special and incentive pays would work in concert with the changes proposed in the pay adjustment process. Compensation changes designed to solve chronic shortage problems, such as a lack of physicians, would be gradually accomplished through differential allocation of annual pay raises. Short-term manning problems, those expected to endure for only a few years, would be solved with special and incentive pays.

PCMC believed that differential pays should be discretionary. There is currently some flexibility in the use of differential pay for enlistment and reenlistment bonuses; however, there is no discretionary pay targeted on officer shortage problems. The Commission recommended transition to a comprehensive differential pay system for officers that consolidates existing special and incentive pays into one discretionary bonus system. PCMC believed that making a pay, such as Aviation Career Incentive Pay, discretionary would permit adjusting it on the basis of aviator supply demand, thus making more efficient use of compensation dollars.

The primary advantage of the Commission's approach is that it would give the Secretary of Defense greater flexibility to deal with short-term staffing problems and chronic shortages occurring in some occupations, while maintaining the index to general schedule pay increases. Another advantage is that it would help address the "X-factor" or unique elements of military life in its selective targeting of the most important force management problems. For example, the proposed system would enable managers to more rapidly assign larger amounts of money to those personnel who are increasingly exposed to personal risks.

A primary disadvantage of this approach is its administrative complexity and cost. PCMC did not estimate the administrative costs of implementing and managing this system or the cost impact of attraction and retention losses which may occur as a result of uncertainty or dissatisfaction with a flexible adjustment and differential pay system.

The services believe the administrative costs and attraction and retention losses will be significant problems.

Two other criticisms are that (1) it would be difficult to explain the system to service members and (2) the implementation and maintenance of the system would require management tools not currently used.

The services are concerned that this approach would cause uncertainty among members over the levels of pay. The absence of an explicit pay standard leaves doubt as to the security of future compensation and will continue the charges that service members are overpaid or underpaid. Also the services fear that a single bonus system could have a negative effect on the morale and commitment of personnel who are no longer guaranteed special and incentive pay, while serving in certain types of duty.

Another criticism of this approach is its potential for creating separate, multiple paylines. The Canadian Armed Forces encountered significant problems when they attempted to use multiple paylines for enlisted personnel. The major problem was that the career personnel's view that this system was inequitable adversely affected morale. On the basis of on their limited evaluation of this example, PCMC did not believe the Canadian problems with multiple paylines were necessarily transferable to the United States.

As stated earlier, we believe a compensation system should have the flexibility to adjust pay according to factors, in addition to comparability with other employees. The PCMC approach satisfies this need. However, the PCMC approach leaves some important questions unanswered.

--What guidelines should be followed to assure members that pay adjustments will maintain rough comparability with the Federal Civil Service and private sector, yet permit flexible allocations to address manpower problems?

--How can the administrative complexity of this approach be minimized?

COMPARISON OF THE ALTERNATIVES

We asked a group of individuals knowledgeable in making compensation decisions in private sector organizations, and several former high-ranking DOD officials and retired officers experienced in the military manpower area, to compare the alternative approaches discussed earlier in this

chapter against a list of criteria. Each of the 17 responding individuals provided their views on (1) how well each alternative approach satisfied each criterion and (2) which approach they thought was best overall. (See app. II.)

The majority of the respondents selected alternatives based on the comparability principle as the following breakdown shows:

<u>Principle</u>	<u>Number selecting</u>
Comparability:	
private sector relative job difficulty	4
civil service relative positioning (GS officers, WG enlisted)	2
career adjusted age-earnings	2
Civil Service whole grade	1
Civil Service relative positioning (GS officer, GS/WG enlisted)	<u>1</u>
Total comparability	<u>10</u>
Competitiveness	4
Other	1
Incomplete responses	<u>2</u>
Total responses	<u>17</u>

How well do the alternatives satisfy the criteria?

We requested the group of individuals to identify which of the criteria we selected (see app. I) were most important and to rate how well each alternative satisfied the criteria. On the basis of these ratings, we computed the total score given each alternative for its ability to satisfy the criteria. Our analysis reemphasized the importance of clearly defining and weighting the criteria before comparing the alternative approaches. For example, competitiveness was selected by the respondents as one of the best approaches; but when it was evaluated on how well it satisfied the criteria, it ranked fifth.

The private sector relative job difficulty approach received the highest rating from our respondents for best satisfying the criteria. (See apps. II and III.) This approach received relatively high marks on its ability to satisfy all the criteria with the possible exception of manageability. This approach received higher marks than almost all other approaches on its flexibility to adjust to changes in the economy and military manpower needs. The

respondents also believed that a comparability approach linking military pay to private sector pay for jobs of similar difficulty would provide equitable treatment in the eyes of both members and taxpayers.

The Civil Service relative positioning approach was the second most highly rated approach because of its acceptability to military members, pay equity, and ease of implementation and maintenance. A comparability approach based on civil service pay levels would probably be acceptable to military members because their pay adjustments have been indexed to the average general schedule adjustments since 1967. They are familiar with the approach and the security it provides them, that their pay will rise along with civil service pay. Also, there have been detailed studies of the implementation and maintenance of this approach.

Some respondents argued against this approach stating that it would be costly, lacked credibility because of the questionable civil service adjustment process, and did not recognize the unique aspects of military service.

The competitive approach received relatively poor scores for its acceptability and applicability to the military member. Some service officials also have criticized the PCMC competitive approach because they believe its added flexibility would create uncertainty among military members as to how their pay would be adjusted. They have also pointed out that basing pay adjustments on internal supply and demand conditions may unfairly deprive some members of part of a pay raise in order to satisfy personnel requirements in other occupations. An individual who believes his pay is determined by an unfair process will probably be dissatisfied with his pay. As we have previously reported, there is a correlation between a member's pay dissatisfaction and a desire to leave the service. 1/

Some respondents believed the competitive approach would be costly, difficult to legislate and explain, and fail to protect military members from being underpaid.

1/"Need to Improve Military Members' Perceptions of Their Compensation," (FPCD-75-172, Oct. 10, 1975).

CHAPTER 4

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

In 1965, the Congress recognized the need for pay principles to guide future adjustments to military compensation, and requested the President to recommend reforms to establish and implement these principles. Since then, three quadrennial reviews and several eminent commissions have extensively studied the military compensation system and recommended major changes, including the adoption of military pay principles. However, legislation to enact these proposals has not been submitted by DOD because they cannot agree with the services and OMB on the best approach.

On the basis of our evaluation, we conclude that:

- Military pay principles provide a clear statement of the Government's policy for compensating military personnel, and are an essential first step in addressing military compensation system reforms.
- The lack of a clearly defined policy for setting and adjusting military compensation has contributed to the perception that military pay and benefits have been eroded, and made it difficult to understand changes to the system.
- DOD, the services, and OMB are subjected to competing pressures which make any future agreement between them on military pay principles unlikely.
- A permanent, independent compensation board would be better able to reach an agreement on military pay principles.
- Establishment of the board may eliminate the need for the quadrennial review of military compensation.
- The criteria essential to selecting the best pay principle and method of implementation should be clearly defined and weighted based on importance.

We also believe that:

- Comparability approaches provide stability and security to service members, but lack flexibility to adjust to changing manpower needs.

- Competitive approaches provide the flexibility necessary to adjust compensation to changing military manpower needs; however, they lack a clearly defined level of stability to assure members that their pay will remain roughly comparable to pay for Federal civilians and private sector employees.
- A combination of the best qualities of both comparability and competitiveness may be necessary to satisfy the need for stability and flexibility in the military compensation system.

Our analysis of responses from a group of individuals knowledgeable in compensation and military manpower showed they favored using the comparability principle as the basis for military compensation, and the private sector relative job difficulty approach as the best method of implementing this principle.

AGENCY COMMENTS AND OUR EVALUATION

DOD officials agreed that the military compensation system should be designed on pay principles; however, they believe that the military compensation principles already exist through a combination of comparability and competitiveness. Comparability is achieved by linking military pay adjustments to the increases granted general schedule employees. The competitiveness principle is used to allocate special and incentive pays to alleviate personnel shortages and recognize certain types of duties for military members. These principles are followed by DOD in changing the military compensation system.

Over the past 12 years, the Congress, distinguished commissions, and DOD study groups have identified the need to establish comprehensive pay principles and policies to ensure equity for service members and taxpayers, and to manage manpower costs. However, compensation system changes continue to be made on a piecemeal basis without first establishing the long-range policies which should guide these changes. The absence of pay principles has contributed to members' uncertainty about future pay and benefits, and adversely affected morale. The services and DOD have helped perpetuate this uncertainty by failing to agree on principles.

The pay-adjustment process was established as a temporary measure pending submission of legislation to establish military pay principles and other reforms. This process only assures that military pay-adjustments will be indexed

to the average general schedule and adjustments, and does not apply the comparability principle to military pay levels. Further, since legislation was never submitted, the Congress has not formally approved any pay principles to guide the adjustment process.

Special and incentive pays have been enacted on a piecemeal basis without using the competitiveness principle to allocate these pays to areas experiencing personnel shortages. Analysis performed by the President's Commission on Military Compensation showed that the majority of special pay funds are fixed in law and cannot be adjusted to counteract anticipated or actual personnel shortages. In fiscal year 1978, less than 1 percent of total compensation expenditures were for discretionary bonus payments. We do not believe this small amount of funds indicates that DOD is applying the competitive principle in its compensation system.

DOD disagreed that an independent compensation board be established. DOD officials stated that it would be counterproductive and not in the best interest of national security to have a "headless fourth branch" of the Government interject itself into DOD's operational chain of command.

We realized that coordinating the activities of the Board with DOD and the services may be difficult; however, we believe a permanent independent organization is necessary to ensure that the pay reforms requested in 1967 are submitted in legislation so the Congress can decide what pay principles should be established and implemented for military compensation.

The best interests of national security are served by maintaining high morale among service members. A permanent, independent board free from the pressure of special interests will help reduce uncertainty and improve morale by submitting legislation so that the Congress can establish the pay principles which will guide future reforms.

RECOMMENDATIONS

We recommend that the Congress establish a permanent independent military compensation board and direct the board to

- evaluate the alternatives, and recommend in legislation to the Congress which military pay principles should be established,

--see that pay principles are appropriately implemented, and

--continuously monitor and make recommendations for changing the military compensation system consistent with established principles.

We further recommend that the Congress eliminate the requirement for the quadrennial review of military compensation once the board is established.

CRITERIA FOR EVALUATINGALTERNATIVE APPROACHES

1. Efficiency: Military compensation should be no higher or lower than is necessary to fulfill the objective of attracting, retaining, and motivating a sufficient quantity and quality of military personnel to maintain the desired level of national security.

2. Equity: Equity theory says that pay satisfaction is the result of an individual comparing his job inputs (such as effort and experience) and outputs (such as pay and other factors) to the job inputs and outputs of fellow workers, and those performing similar work in other organizations. Military compensation should provide pay based on performance to achieve both internal and external equity. Equity is also a function of the individual's perception of how pay is determined.

Most Federal civilian employees are compensated under the principle of approximately equal pay for approximately equal work under the same conditions. Differences in pay should result where working conditions are recognizably different from the comparison base.

3. Applicability to the Military: Compensation approaches must be evaluated in the light of their applicability to the military. Military service differs from civilian employment in many respects, including subjection to the military disciplinary system and the requirement for relocation as the needs of the service dictates. On the other hand, military service has positive aspects. Examples are training and education programs, many of which provide vocational, technical, and professional training applicable to both military and civilian employment.

A military pay approach should be evaluated on how well it considers both the positive and negative aspects of military service.

4. Acceptability to the Military Member: In order for a pay approach to be acceptable to the military member it must be easily understandable, provide pay commensurate with others performing similar work, and be adjusted regularly to reflect changing economic conditions and improvements in productivity.

5. Acceptability to the Military Manager: The military manager is primarily concerned with having a pay system which allows him to attract and retain the necessary personnel, to keep the personnel satisfied with their level of compensation and enhance productivity, and to prevent unwanted and costly turnover.

6. Acceptability to the Taxpayers: From the taxpayers' viewpoint an acceptable pay approach should make maximum use of the tax dollars. To accomplish this the pay approach should attract and retain the quality and quantity of personnel necessary to maintain national security at the least possible cost.

7. Manageability of Implementation: This aspect of a pay approach deals primarily with the complexity and cost of implementing a new system. Manageability is a function of the amount and quality of data that is readily available to implement the approach.

8. Manageability of Maintenance: Maintenance of the pay system is typically called an adjustment mechanism. The ease and cost of maintenance also depends on the amount and quality of data available. The adjustment mechanism should be flexible enough to adjust to changing economic and manpower conditions, and it should be understandable by members, managers, and taxpayers.

9. Demonstrated Use: Compensation approaches for the military should also be measured by their demonstrated utility. If an approach has been successful or unsuccessful in previous application, this information should be a factor in the evaluation.

10. Flexibility to Economic Change: A pay approach should be flexible enough to accommodate changes in the Nation's economy, such as inflation and unemployment.

11. Flexibility to Military Manpower Needs: A pay approach should be flexible enough to allow military managers to accomplish their manpower goals, and adjust to changing manpower needs.

RANKING OF ALTERNATIVE APPROACHES
BASED ON ABILITY TO SATISFY THE CRITERIA
AS DETERMINED BY THE RESPONDENTS

<u>Approach</u>	Average weighted total points (<u>note a</u>)
1. Private sector relative job difficulty	273.6
2. Civil Service relative positioning (GS officers, GS/WG enlisted)	248.6
3. Civil Service relative positioning (GS officers, WG enlisted)	238.0
4. Civil Service whole grade	230.4
5. Competitiveness	225.6
6. Civil Service relative positioning (GS officers and enlisted)	215.0
7. Career adjusted age-earnings	198.0
8. Median age-earnings	166.2

a/This was determined by first computing the total points each respondent assigned to each alternative approach by multiplying the weight (0-100) assigned each criterion based on its relative importance times the rating (1-5) of how well each alternative satisfies each criterion. (See app. III.) Next, the total points assigned each alternative approach by each respondent were averaged to determine the average weighted total points assigned each alternative for all respondents.

AVERAGE DEGREE OF CRITERIA SATISFACTION FOR EACH ALTERNATIVE APPROACH
 BASED ON SURVEY RESPONSES

CRITERIA	ALTERNATIVE APPROACHES								
	MEDIAN AGE EARNINGS PROFILES	CAREER ADJUSTED AGE EARNINGS PROFILES	CIVIL SERVICE GS WHOLE GRADE	CS RELATIVE POSITIONING GENERAL SCHEDULE OF FICERS & ENLISTED	CS RELATIVE POSITIONING GS OFFICERS	WG GS ENLISTED	GS RELATIVE POSITIONING GS OFFICERS	WG ENLISTED	PRIVATE SECTOR RELATIVE DIFFICULTY
EFFICIENCY	23	26	26	26	26	25	33	34	
EQUITY	20	26	32	31	35	31	36	29	
APPLICABILITY TO THE MILITARY	21	28	27	27	31	29	33	25	
ACCEPTABILITY MEMBERS	20	28	28	28	31	29	33	23	
ACCEPTABILITY MANAGERS	22	25	29	30	33	31	33	32	
ACCEPTABILITY TAXPAYERS	23	25	27	29	33	33	35	33	
MANAGEABILITY IMPLEMENTATION	29	29	33	33	35	33	27	21	
MANAGEABILITY MAINTENANCE	29	29	37	36	35	36	30	23	
DEMONSTRATED USE (See GAO note)	14	20	32	26	26	29	30	28	
FLEXIBILITY ECONOMIC CHANGE	21	23	26	26	26	27	39	36	
FLEXIBILITY CHANGING MANPOWER NEEDS	20	21	23	23	25	25	37	36	
OTHERS (SPECIFY)									

RATING SCALE

- 1 FAILS TO SATISFY ANY ASPECT OF THE CRITERION
- 2 PARTIALLY SATISFIES SOME, OR LESS IMPORTANT ASPECTS OF THE CRITERION
- 3 SATISFIES THE CRITERION TO A MODERATE EXTENT
- 4 SATISFIES MAJOR ASPECTS OF THE CRITERION
- 5 PROVIDES EXCELLENT SOLUTION TO THE PROBLEMS REPRESENTED BY THE CRITERION
- 6 NO OPINION

^{a/} DEMONSTRATED USE WAS NOT CONSIDERED IN COMPUTING TOTAL POINTS DUE TO LACK OF SUFFICIENT RESPONSES

BIOGRAPHICAL SKETCHES OF SURVEY RESPONDENTS 1/

General Conrad Allman	U.S. Air Force (Retired), Commander, Air Force Recruiting Service; Chief, Policy Division, Directorate of Personnel Plans; and planned the Air Force transition to the All-Volunteer Force.
Richard A. Beaumont	Former Deputy Under Secretary of the Navy for Manpower and Member of the Military Compensation Policy Board of the First Quadrennial Review of Military Compensation; current President, Organization Research Counselors, Inc.
Lt. General Leo E. Benade	U.S. Army (Retired), former Principle Deputy Assistant Secretary of Defense (Military Personnel Policy); currently Senior Vice President and General Counsel, United Way of America.
Karl R. Bendetsen	Former Under Secretary of the Army; Vice Chairman, Defense Manpower Commission; and held various positions with rank equivalent to that of ambassador; current Chairman of the Board, Champion International Corporation.
Merrill J. Collett	President, Executive Management Service, Inc.
Dr. John J. Corson	Former Professor of Economics, and International Relations; and former management consultant with McKinsey & Co.

1/One survey respondent asked that his name not be included in this appendix.

APPENDIX IV

APPENDIX IV

James A. Engel, Jr.	Vice President, Executive Compensation Service, American Management Associations, Inc.
Admiral Clarence A. Hill, Jr.	Operational, combat, and staff experience in the Fleet, Department of Navy; and Secretary of Defense levels.
Rear Admiral Lester E. Hubbell	U.S. Navy (Retired); former Director, First Quadrennial Review of Military Compensation; and Commissioner on the Defense Manpower Commission.
Morris Janowitz	Scholar on the military; currently Chairman, Department of Sociology, University of Chicago.
General William W. Momyer	U.S. Air Force (Retired); formerly commanded Tactical Air Command, Seventh Air Force, Air Training Command; and served as Deputy Commander for Air Operations, Military Assistance Command, Vietnam.
Thomas D. Morris	Former Assistant Secretary of Defense (Manpower); Chairman, First Quadrennial Review of Military Compensation; and Assistant Comptroller General of the United States; currently Inspector General, Department of Health, Education, and Welfare.
Jerome M. Rosow	Chairman, President's Advisory Committee on Federal Pay; and President, Work in America Institute, Inc.
Harold Stieglitz	Vice President, Management Research, The Conference Board.
Dr. Curtis W. Tarr	Former Director, United States Selective Service; Assistant Secretary of the Air Force (Manpower and Reserve Affairs); Chairman, Defense Manpower Commission; currently Vice President, Deere & Co.

David P. Taylor

Former Assistant Secretary of Defense, Manpower and Reserve Affairs, and Assistant Secretary of the Air Force, Manpower and Reserve Affairs.

Admiral Elmo R. Zumwalt

Former Chief of Naval Operations; Commander, U.S. Naval Forces, Vietnam; and current President, American Medical Buildings.

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