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MILITARY PERSONNEL

Active Duty Benefits Reflect Changing Demographics, but Opportunities Exist to Improve

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Abbreviations

DOD	Department of Defense
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United States General Accounting Office
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September 18, 2002

The Honorable Max Cleland
Chairman
The Honorable Tim Hutchinson
Ranking Minority Member
Subcommittee on Personnel
Committee on Armed Services
United States Senate

The Department of Defense (DOD) uses employee benefits—that is, indirect compensation above and beyond a service member's basic pay—as one tool to recruit and retain personnel.[1] Employee benefits are part of DOD's overall military compensation system that also includes basic military pay, special pays, and allowances. (See app. I for a list of specific elements of the military compensation system.) DOD provides employee benefits to more than 1.3 million active duty service members and their nearly 2 million spouses and dependents.

The Subcommittee expressed concerns about whether the current employee benefit package available to active duty service members has kept pace with changes in the demographic composition of the force and whether the benefit package positions DOD to compete with private-sector companies for high-quality personnel. Because of these concerns, the Subcommittee asked us to review the active duty benefit structure. Specifically, our objectives were to determine (1) how DOD has changed benefits in response to demographic changes in the active duty military since the advent of the all-volunteer force in 1973 and (2) how the military's overall benefit package compares with the array of benefits offered by private-sector firms.[2]

[1] The U.S. Bureau of Labor Statistics defines a benefit as "non-wage compensation provided to employees." We use the term to include such benefits as retirement, health care, and educational assistance, as well as certain programs and services that support military members and their families, including child care, spousal employment assistance, and relocation assistance.

[2] For purposes of this review, we obtained data on medium and large employers. The Bureau of Labor Statistics defines "medium and large employers" as those having 100 or more employees.

This report expands on the issues we covered in our April 2002 testimony on active duty benefits.[3]

Results in Brief

DOD has instituted a number of benefits that reflect demographic changes in the active duty force since the draft ended and the military became an all-volunteer force in 1973. Many of these benefits address one of the most significant demographic changes—an increase in service members with family obligations. For each year between 1980 and 2000, at least half of the active duty force consisted of married service members, and active duty service members had about 1.23 million children in 2000. A second major demographic change in the active military has been the growing proportion of service members who are women. In 2000, women comprised about 15 percent of the active duty force, compared with 4 percent in 1974. Up to 10 percent of women in the military become pregnant each year. DOD has responded positively to most demographic changes by incorporating a number of family-friendly benefits; however, opportunities exist to improve current benefits in this area. Although DOD has several planned initiatives to assist military service members' spouses who seek employment, it has not systematically tracked and assessed the effectiveness of the employment assistance services offered at military installations. DOD also has not assessed the feasibility, costs, and benefits of offering extended time off to new parents as a way to increase retention of trained, experienced personnel.

In comparing the types of benefits offered by the military with those offered in the private sector, we did not identify significant gaps in the benefits available to military personnel. We did not make direct comparisons between individual military and private-sector benefits but did determine that all the core benefits offered by most private-sector firms—retirement pay, health care, life insurance, and paid time off—are offered by the military. In fact, military benefits in some cases exceed those offered by the private sector. These include free health care for members, free housing or housing allowances, and discount shopping at

[3] See U.S. General Accounting Office, *Military Personnel: Active Duty Benefits Reflect Changing Demographics, but Continued Focus Is Needed*, GAO-02-557T (Washington, D.C.: Apr. 11, 2002).

commissaries and exchanges. During the 1990s, some service members expressed concerns that their benefits were eroding, particularly their health care and retirement benefits. In response to such concerns, the military benefit package has been enhanced. In recent years, for example, Congress restored retirement benefits that had previously been reduced for some service members and significantly expanded health benefits.[4]

We are recommending that DOD expand measures to systematically track and assess the effectiveness of the employment assistance services provided to spouses at military installations and assess the feasibility, costs, and benefits of offering extended time off for parents to care for their children.

In commenting on a draft of this report, DOD concurred with our recommendation concerning spousal employment assistance. DOD partially concurred with our recommendation concerning extended time off for parents and stated that it has contracted a study to evaluate the feasibility of implementing an extended leave program for active duty military members, including an assessment of extended leave for new parents.

Background

The basic goals of the military's compensation system are to attract, retain, and motivate the number and quality of people needed to maintain national security. In fiscal year 2002, Congress appropriated more than $100 billion in compensation for military personnel.[5] DOD is the single largest employer and trainer of youth and recruited about 196,000 individuals into active duty in 2001. Although a unique institution, the military nevertheless competes with academia and other organizations for qualified people. The military may face increased competition for qualified people over the next few years because of continued increases in the number of high school graduates going on to college and labor shortages projected through at least 2010. The U.S. Department of Education projects that the number of high school graduates will increase by 11 percent by 2010-2011, and enrollment in degree-granting institutions is predicted to increase

[4] Pub. L. 106-65, sec. 641, Oct. 5, 1999; Pub. L. 106-398, sec. 752, Oct. 30, 2000.

[5] Our estimate may understate the total amount appropriated for military compensation because funds for certain benefits are aggregated into higher-level budget categories and therefore are not visible in the budget.

20 percent by 2011. The Bureau of Labor Statistics projects that the civilian labor force will increase by 12 percent by 2010, while total employment will increase by 15 percent.

In May 2002, DOD issued a strategic human capital plan addressing quality-of-life issues and benefits. The plan, entitled *A New Social Compact: A Reciprocal Partnership Between the Department of Defense, Service Members and Families*, emerged in response to a presidential directive requiring the Secretary of Defense to review measures for improving the quality of life for military personnel and to provide recommendations for their implementation. According to DOD officials, the *Social Compact* is needed to ameliorate the demands of the military lifestyle, which includes frequent separations and relocations, and to provide better support to service members and their families. The *Social Compact* focuses on the efforts DOD has or plans to make to improve housing, education, health care, work-life issues, and family and community support for service members and their families. It emphasizes the need to maintain programs and services viewed as benefits by service members.

The Under Secretary of Defense for Personnel and Readiness has oversight of career development, recruitment, and pays and benefits for active duty personnel. Within this office, the Assistant Secretary of Defense for Force Management Policy develops policies, plans, and programs for military personnel management, including quality-of-life issues for service members and their dependents. The Deputy Assistant Secretary of Defense for Military Community and Family Policy is responsible for policies and programs that establish and support programs such as child care, spousal employment assistance, and other family support programs.

DOD's Benefits Reflect Demographic Changes in the Active Force

The active duty force has undergone several demographic changes since the end of the draft and the advent of an all-volunteer force in 1973. It has become older and better educated, it has experienced increases in the representation of minority and female service members, and a greater proportion of its service members are married and have children. Recognizing that a family's satisfaction with military life can influence retention, Congress and DOD have responded by establishing and increasing support services for military families. However, opportunities exist to further improve benefits in this area.

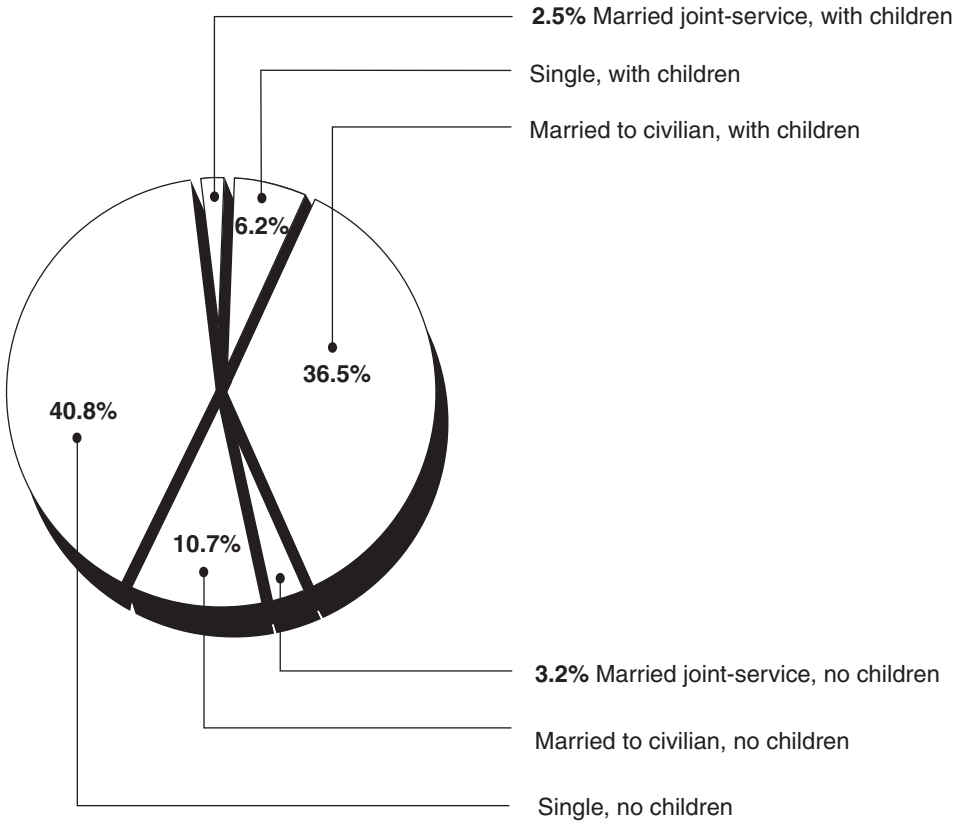
Composition of the Force Has Changed

The percentage of personnel over age 25 increased from about 40 percent of the active duty force in 1974 to nearly 55 percent in 2000. The proportion of enlisted personnel with at least a high school diploma increased from about 80 percent of the enlisted force in 1974 to about 95 percent in 2000. During that time period, the percentage of officers attaining a degree beyond a bachelor's degree increased from 25 percent to 43 percent of all officers. The proportion of minority service members increased from 20 percent to 35 percent of the active duty force between 1974 and 2000, and the proportion of female service members increased from 4 percent to 15 percent.

Although reliable data on married personnel is not available for 1973-77, various DOD studies cite statistics showing that the percentage of married enlisted personnel increased from approximately 40 percent of the force in 1973 to approximately 50 percent in 1977. After dropping slightly from 1977 to 1980, the marriage rate rose again through the mid-1990s. For each year between 1980 and 2000, married service members, including both enlisted personnel and officers, made up at least half of the active duty force. DOD attributes the rate increases to the gradual aging of the active duty force.

Other DOD data also indicates growth in the proportion of service members who have family obligations. The percentage of service members with children increased from 43 percent to 45 percent between 1990 and 2000, while the proportion of single service members with children increased from 4 percent to 6 percent. Figure 1 shows the composition of the active duty force, by family status, in 2000. (See app. II for additional information on demographic changes in the active duty military.)

Figure 1: Composition of Active Duty Force by Family Status (as of Sept. 2000)



Notes:

"Joint-service" refers to marriages where the active duty member is married to another active duty member or to a reservist.

Percentages do not add up to 100 due to rounding.

Source: *Profile of the Military Community: 2000 Demographics Report,* Department of Defense.

Congress and DOD Have Responded Positively to Demographic Changes

Congress and DOD have responded positively to the growth in the proportion of service members with family obligations by authorizing and implementing a number of family-friendly benefits. Research has shown that family satisfaction with military life can influence a service member's decision whether to remain in the military. Consequently, Congress has authorized, and DOD instituted, a number of services to support military families. The Military Family Act of 1985 established a spousal employment assistance program.[6] In 1989, Congress directed DOD to establish a relocation assistance program.[7] In 1992, DOD established guidance for implementing, overseeing, staffing, and funding family support centers at installations to deliver programs such as personal financial management training, employment assistance, relocation assistance, deployment assistance, and child and spouse abuse prevention programs.[8]

Health care benefits for military families have also been enhanced. For example, Congress recently eliminated most copayments for active duty families enrolled in DOD's managed health care program and extended benefits for dependents living with a member of the uniformed services in remote areas.[9] In the area of education, Congress authorized DOD in the National Defense Authorization Act for Fiscal Year 2002 to grant reenlisting service members who possess critical skills the option to transfer a portion of their educational assistance benefits to their spouse and dependents.[10] With respect to child care, DOD has made progress improving the quality, availability, and affordability of military child care. DOD is working to expand capacity to meet a range of child care needs, including initiatives to extend care hours, subsidize the cost of obtaining child care at commercial centers, offer cash incentives to increase the number of family child care providers, and construct additional child development centers on installations.[11] Lastly, DOD has identified a need to reach out to the

[6] Pub. L. 99-145, Title VIII, secs. 801 *et. seq.* at 806, Nov. 8, 1985.

[7] Pub. L. 101-189, sec. 661, Nov. 29, 1989.

[8] DOD Instruction 1342.22, Dec. 30, 1992.

[9] Pub. L. 106-398, secs. 752 and 722, Oct. 30, 2000.

[10] Pub. L. 107-107, sec. 654, Dec. 28, 2001.

[11] In 2000, DOD calculated that it needed 215,000 child care spaces to meet the demand. At that time, DOD offered approximately 170,000 child care spaces—a shortfall of about 45,000 spaces.

two-thirds of military personnel and their families who reside off of installations, to make them aware of their benefits, and to deliver services to them. One approach DOD is taking is to increase its use of the Internet by adding information and transactional features to Web sites.

Opportunities Exist to Further Improve Benefits

Although a number of family-friendly benefits are available to active duty service members, opportunities exist to improve current benefits in this area that could aid in the retention of military personnel. DOD has planned initiatives for expanding its spousal employment assistance program but lacks information on the effectiveness of employment assistance services offered at installations. DOD authorizes 6 weeks of paid leave for new mothers but does not offer extended time off for the care of newborn or adopted children.

Spousal Employment Assistance

DOD has begun to pay increased attention to employment assistance for the military's 700,000 spouses, who must move frequently (on average every 2 years) with their spouses to different parts of the country or the world and face many challenges when trying to find work. Many service members are in dual-income households, with spouses contributing on average about 25 percent of the family's income. In 1999, 48 percent of officers' spouses and 55 percent of enlisted members' spouses were employed in the civilian labor force, while 7 percent of officers' spouses and 8 percent of enlisted members' spouses were unemployed and seeking work.

Many working spouses are underemployed. According to a 2002 DOD study, the spouses of military service members earn an average of 24 to 30 percent less than their civilian counterparts. In part, this wage differential, which increases for those with higher levels of education, is due to local labor market conditions. Some installations are located in remote areas characterized by relatively poor labor market conditions. Military spouses face several other employment challenges, such as frequent relocations that make it difficult to sustain a career and accrue retirement benefits. The families of junior enlisted personnel face particular financial difficulties as the result of housing and transportation costs, the high cost of credit, and child care expenses. The income that spouses earn can help to mitigate some of these problems. DOD believes spouse employment is necessary for many military families to meet basic family expenses.

In the last few years, DOD has taken a number of steps to enhance its spousal employment assistance program, which has been in existence since 1985.[12] DOD held a "spouse employment summit" in 2000 to identify needed actions. DOD is now focusing on establishing partnerships with private-sector employers who can offer jobs with "portable tenure," which enables spouses to relocate and stay with the same employer. Other efforts include expanding employment preference for spouses working in Europe and establishing partnerships with federal agencies to increase private-sector career opportunities. For example, DOD is developing a partnership with the Department of Labor to resolve issues such as the different state residency and licensing requirements for jobs in teaching, nursing, and child care. DOD is seeking Labor's assistance to help spouses who work in these fields overcome employment barriers when they relocate. The Navy and the Marine Corps have also launched a partnership with a civilian employment services firm at two installations. These initiatives are in the early stages of development. As a result, it is too early to gauge their effectiveness in promoting spousal employment.

At installations, DOD offers services to help active duty military spouses find civilian jobs. Services include job searching and career planning, skills assessments, training to facilitate entrance into the workforce, resume writing, interviewing, and networking. Neither DOD nor the services have systematically tracked demand for employment assistance at installations or developed outcome oriented performance measures to help evaluate which of these kinds of services provided by installations contribute most effectively to spousal employment. DOD's *Social Compact* proposed a number of metrics to measure spousal employment and to assess progress made in meeting the goals of the spousal employment assistance program. Some of the proposed measures would track changes in spousal employment, the percentage of federal and DOD jobs filled by military spouses, and the extent to which services and policies are standardized. These proposed measures would enable DOD to collect useful information on spousal employment issues. However, none of them would track the extent that spouses use the program or gauge the effectiveness of the

[12] Congress has urged DOD to provide further employment assistance for military spouses. The National Defense Authorization Act for Fiscal Year 2002 directed the Secretary of Defense to examine existing DOD and other federal government, state, and nongovernmental programs with the objective of improving retention by increasing the employability of military spouses and assisting these spouses in gaining access to financial, educational, and employment opportunities through these programs. Pub. L. 107-107, sec. 571, Dec. 28, 2001.

services offered (such as career counseling, interviewing, and training) in helping spouses find jobs appropriate to their knowledge, skills, and abilities. As a result, DOD cannot determine which services offered through its spousal employment assistance program are most effective in achieving programmatic goals.

Extended Time Off for New Parents

DOD's *Social Compact*, the department's strategic human capital plan for quality-of-life issues, states that retaining personnel is essential to building and sustaining DOD's highly skilled workforce. It further states that lifestyle values of American workers from which the department draws are changing: People want more time for themselves and their families, and they want more time at home. Wise employers are selectively adopting new practices to strengthen their relationship with the workers they want to keep, the *Social Compact* states. In this regard, a benefit that offers the potential for helping the department retain trained, experienced personnel is extended time off for new parents. Up to 10 percent of active duty female service members become pregnant each year, and there were about 75,000 military children under age 1 as of March 2001. While new military mothers and fathers may take time off after the birth of a child, the military does not offer extended time off to new parents. New mothers may take 6 weeks of paid convalescent leave, which is similar to sick leave in the private sector. Both new mothers and new fathers may also use annual leave. The services stated that they do not track information concerning the number of women who separate from active duty service because of parental responsibilities. We previously reported that of the 28,353 women without prior military service who enlisted in fiscal year 1993, 2,074 separated because of pregnancy between the 7th and 48th month of enlistment. Another 706 separated because of parenthood. These separations accounted for more than one-third of the attrition for female enlistees who joined the services in 1993.[13] Replacing trained, experienced personnel who leave is expensive. DOD estimated for fiscal year 1998 that it had spent $35,000 per enlistee by the time enlistees had been recruited and trained for 6 months.[14]

[13] See U.S. General Accounting Office, *Military Attrition: Better Data, Coupled With Policy Changes, Could Help the Services Reduce Early Separations*, GAO/NSIAD-98-213 (Washington, D.C.: Sept. 15, 1998).

[14] This figure includes enlistee's pay and allowances as well as the cost of the services' recruiting and training infrastructure. See GAO/NSIAD-98-213.

The U.S. Coast Guard—which is part of the Department of Transportation in peacetime but operates under the Navy during wartime—has offered extended time off for new parents since the early 1990s.[15] The agency's "care of newborn children" program permits eligible officers and enlisted personnel to separate from active duty for a period of up to 2 years.[16] During the separation period, members do not receive pay and benefits, but they may elect to join the Coast Guard Reserve and receive reserve pay and benefits. Upon completion of their separation period, the members are guaranteed reappointment to active duty at the same grade or rate they held when they left. Although the program was originally aimed at retaining women, other factors such as the emergence of dual-income and single-parent families, as well as other economic and cultural changes, created the need for enhanced family care opportunities for both men and women. Of 244 service members separated under the program as of June 1999, 133 were women and 111 were men. The Coast Guard found that 47 percent of members who had separated under the program had returned to active duty when their separation period ended.

In comparison, private-sector employers with more than 50 employees are required by the Family and Medical Leave Act of 1993[17] to allow their employees to take 12 weeks of unpaid leave to meet family obligations, such as maternity or paternity leave, adoptions, and care for a spouse, child, or parent with serious health conditions. The act, which also covers federal government civilians but not military personnel, does not require private-sector employers to provide paid time off. Paid maternity and paternity leave in the private sector appears to be rare. In 1997, only 2 percent of employees had access to paid family leave programs, according to the Bureau of Labor Statistics. Of the nine private-sector companies we contacted, one allowed employees to take up to 3 years of

[15] The major national defense missions assigned to the Coast Guard include maritime interception, deployed port operations/security and defense, peacetime engagement, and environmental defense operations.

[16] Participation is limited to commissioned officers at the O-3 rank or above who have served on active duty in the Coast Guard for at least 5 years; warrant officers who have completed a 3-year probationary period; and temporary regular officers with at least 3 years of active duty service. Enlisted members at the E-4 rank or above with more than 4 years of Coast Guard active duty service may also participate. Both officer and enlisted members must demonstrate satisfactory performance. Approval is based on the needs of the service and may be denied to personnel who serve in specialties or ratings that have a critical shortage. Members may use the separation program only once in their career.

[17] Pub. L. 103-3, Feb. 5, 1993.

unpaid leave after the birth of a child and to return to a comparable position. Another company gave mothers 12 weeks paid leave with the option to take additional unpaid time off. If she returned within 6 months, the company guaranteed her position; if she returned after 1 year, the company guaranteed employment, but not the same position.

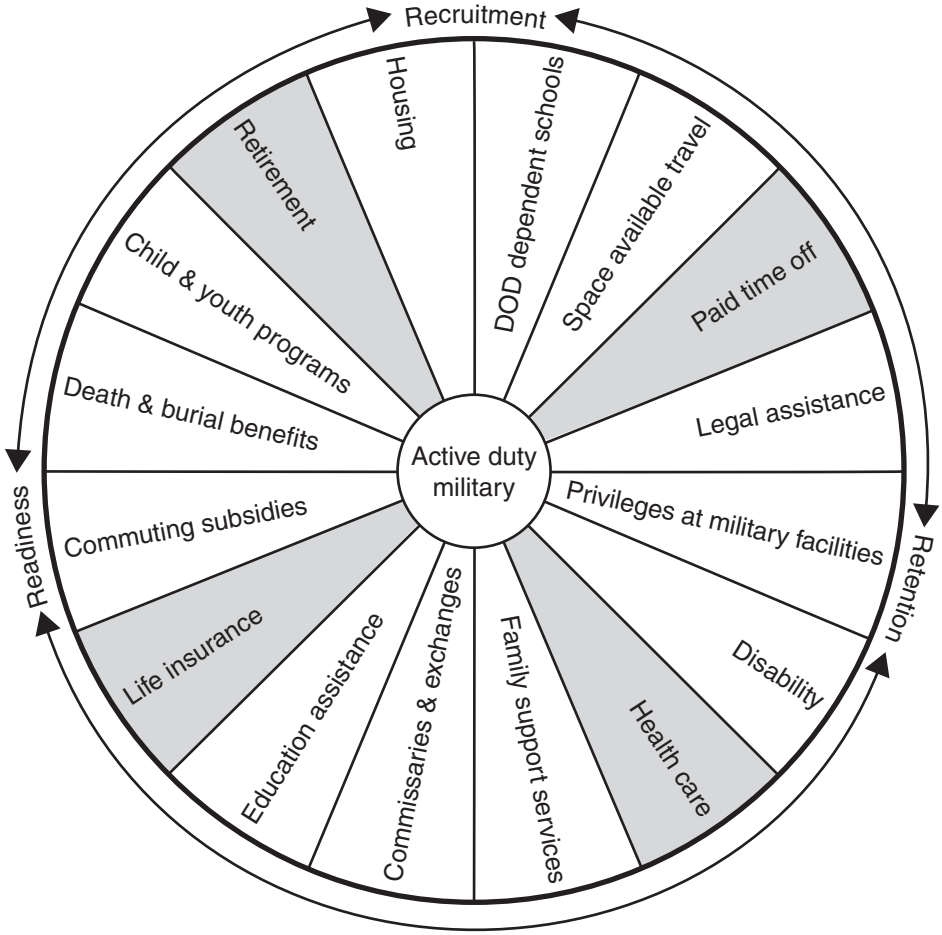
DOD Offers Wide Array of Benefits for Active Duty Service Members

On the basis of our analysis, we found no significant gaps between the types of benefits offered to active duty service members as part of the military's benefit package and those offered by private-sector employers. Most important, DOD offers all four of the core benefits that are offered by most private-sector firms. These benefits are retirement, health care, life insurance, and paid time off. As shown on the following page in figure 2, DOD also offers a wide array of additional benefits. (See app. III for a description of selected military benefits.) Many private-sector firms offer additional employee benefits as well.

On the basis of our prior work on military compensation and DOD's compensation studies, we have noted several difficulties in making direct comparisons between military and private-sector benefits. Such comparisons must account for (1) the demands of military service, such as involuntary relocation, frequent and lengthy separations from family, and liability for combat; (2) certain principles of military compensation that are absent in the private sector, such as the principle that military compensation must work equally well during peace or war; (3) the difficulty in identifying appropriate private-sector industries and jobs to use as benchmarks for the military; (4) difficulties associated with measuring the value of employee benefits; and (5) military personnel practices—such as hiring primarily at the entry level and "up or out" rules—that are uncommon in the private sector.

For these reasons, we did not make direct analytical comparisons between individual benefits offered by the military and those offered by the private sector. For instance, we did not attempt to determine whether the military retirement system is based on certain criteria, more or less lucrative than private-sector pension plans. However, we sought to identify the types of benefits found in the private sector—both traditional and emerging benefits—and used this information to determine whether there are potential gaps in the benefit package offered to active duty service members.

Figure 2: Range of Military Benefits Offered to All Active Duty Personnel



Notes:

The shaded areas of the figure indicate those benefits that are typically considered core benefits in the private sector.

This chart is not a comprehensive listing of all benefits offered to active duty military personnel.

Private-sector employers take a great variety of approaches when designing their benefit package. Even so, three thematic trends have become evident over the last decade or two. Specifically, private-sector companies are (1) offering a growing number and array of benefits—such as long-term care insurance, convenience benefits, and elder care assistance—while also making changes to their traditional core benefits; (2) introducing more flexibility in their benefit packages; and (3) adding benefits to help employees balance work and life responsibilities. (See app. IV for information on trends in specific benefits offered by private-sector firms.) While private-sector firms use pay and benefits packages to attract and retain employees, they are also concerned about controlling costs. Employers increasingly are sharing a growing portion of benefit costs with employees, particularly health care costs, while requiring them to assume more responsibility for managing their benefits. Some employers have reduced certain benefits or ceased to sponsor coverage. We recently testified that the availability of employer-sponsored retiree health benefits eroded during the late 1990s and that rising cost pressures on employers may lead to further erosion of these benefits.[18]

Like the military, the private sector also has reacted to demographic changes in the workforce. Since the 1970s, the American workforce has become more educated, more heterogeneous, and older. The numbers of dual-earner families, working women, and single parents have increased. Employers have reacted by offering benefits aimed at helping employees balance work and life demands. Since the 1980s, employers have begun offering benefits such as dependent care assistance, parental leave, flexible work schedules, and convenience services such as on-site credit unions and cafeterias and health promotion programs. Flexible schedules that allow employees to adjust the beginning and ending of their work day, work more hours per day but shorter weeks, or share a job with another part-time employee are some of the ways that employers help employees to manage their work and family responsibilities. Flexible benefit plans also help employees by allowing them to select additional benefits that may help balance work-life priorities.

[18] See U.S. General Accounting Office, *Retiree Health Insurance: Gaps in Coverage and Availability*, GAO-02-178T (Washington, D.C.: Nov. 1, 2001).

Our work comparing the military's overall benefit package with the array of benefits in the private sector showed that several military benefits have their analogues or counterparts in the private sector. As we noted earlier, the military offers benefits in the four core areas; however, the military may structure its benefits differently. For example, whereas the military retirement system requires 20 years of service to be vested, private-sector firms typically have much shorter vesting periods or no vesting period at all. However, military personnel can begin receiving retirement pay and benefits as soon as they attain 20 years of service and retire from active duty, but private-sector employees typically must wait until at least age 55. The military's health care benefit (TRICARE) is provided to service members and their families through a network of more than 500 military treatment facilities, supplemented by civilian providers.[19] The cost of this care to service members and their dependents is nil or minimal. Active duty service members and their families enrolled in TRICARE Prime do not pay enrollment fees, annual deductibles, or copayments. Family members who use TRICARE Extra pay no enrollment fees but are responsible for annual deductibles and cost shares of 15 percent. Family members who use TRICARE Standard also do not pay enrollment fees. However, they pay a cost share of 20 percent plus the difference between the TRICARE allowable charge and the doctor's charge. Private-sector firms, in contrast, typically offer individual and family health care through private insurers and normally require employees to share the cost burden. According to the Bureau of Labor Statistics, in 1999, medium and large private-sector employers paid the full cost of health coverage for 25 percent of participants with individual coverage and 15 percent of those with family coverage. Of those participants required to contribute to their health coverage, the average monthly cost was approximately $45 for individual coverage and $151 for family coverage. In the core benefit area of life insurance, DOD offers low-cost rates on group life insurance.

Service members pay $20 a month for the maximum $250,000 coverage. In 2001, coverage was extended to members' spouses and eligible children.[20] Finally, in the core benefit area of paid time off, all service members receive 30 days annual leave and may carry over as many as 60 days

[19] DOD requires active duty service members to enroll in TRICARE Prime, a managed care program. Their dependents may choose health care coverage from among three options—(1) TRICARE Prime; (2) TRICARE Extra, a preferred provider option; or (3) TRICARE Standard, a fee-for-service option.

[20] Pub. L. 107-14, sec. 4, June 5, 2001.

accrued leave to the next year. The military offers numerous other forms of paid leave for specific reasons.

In some areas, the military offers benefits that would not normally be available to civilians working for private-sector firms. For example, service members and their dependents may obtain discount prices by shopping at military commissaries (grocery stores) and exchanges (department stores). They also have privileges to use an extensive array of community facilities to include, among others, fitness centers, swimming pools, officer and enlisted clubs, libraries, community centers, hobby shops, and golf courses. Some private-sector firms offer amenities such as fitness centers and company stores to their employees, but few, if any, can match the breadth of facilities and programs available on a military installation. It also would be rare to find private-sector firms offering, as the military does, free housing or housing allowances to all of their employees.

Military benefits, overall, have been enhanced in recent years. During the 1990s, some service members expressed concerns that their pay was falling behind that in the private sector and that their benefits were eroding, particularly their health care and retirement benefits. Such perceptions were cited as one cause of the retention problems the military was experiencing at that time. Congress subsequently enacted legislation to increase military pay and enhance benefits. These efforts were aimed at improving the financial well-being and quality of life of service members and at addressing recruiting and retention problems. For example, Congress approved across-the-board pay raises of 4.8 percent for fiscal year 2000 and 3.7 percent for fiscal year 2001, along with targeted pay raises to mid-level officers and enlisted personnel.[21] For fiscal year 2002, Congress approved pay raises ranging between 5 and 10 percent, depending on pay grade and years of service.[22] Major enhancements to benefits included the restoration of retirement benefits that had been cut

[21] Pub. L. 106-65, sec. 601, Oct. 5, 1999; Pub. L. 106-398, sec. 601, Oct. 30, 2000.

[22] Pub. L. 107-107 in sec. 601 sets forth pay tables that reflect the pay increases effective Jan. 1, 2002.

for military service members who entered military service on or after August 1, 1986,[23] and increases in the basic housing allowance to reduce out-of-pocket housing expenses for service members not living in military housing.[24]

Conclusions

Many military spouses want to work, and many families need dual incomes to meet basic expenses. However, frequent relocations associated with the military lifestyle can hinder spousal employment and decrease satisfaction with military life. The ability to assess the effectiveness of the employment assistance service offered at military installations is one critical step in developing this program. Doing so could enable DOD to better target resources and tailor services to meet the employment assistance needs of military spouses.

As competition with the private sector for qualified personnel increases, DOD must continue to explore and evaluate benefits that address changing workforce demographics, help meet mission needs, and positively impact recruitment and retention efforts. The majority of female service members are in their childbearing years, and up to 10 percent of servicewomen annually become pregnant while on active duty. In addition, the emergence of dual-income and single-parent families has created a need for enhanced family care opportunities and flexibility for both men and women. The lack of extended time off for parents following the birth or adoption of a child could be negatively impacting retention. Moreover, replacing trained, experienced personnel who leave is expensive. Because DOD does not track the number of service members who separate due to parental responsibilities, the magnitude of this issue is unknown.

Recommendations for Executive Action

We recommend that the Secretary of Defense direct the Under Secretary of Defense for Personnel and Readiness to

- develop measures for tracking and assessing the effectiveness of installation-level services offered through DOD's spousal employment assistance program and

[23] Pub. L. 106-65, sec. 641, Oct. 5, 1999.

[24] Pub. L. 106-398, sec. 605, Oct. 30, 2000.

- assess the feasibility, costs, and benefits of offering extended time off to parents of newborn or adopted children as one way to increase retention of trained, experienced personnel.

Agency Comments and Our Evaluation

In written comments on a draft of this report, DOD concurred with our recommendation on tracking and assessing the effectiveness of installation-level services offered through DOD's spousal employment assistance program. DOD partially concurred with our recommendation to assess the feasibility, costs, and benefits of offering extended time off to parents of newborn or adopted children. DOD stated that it has contracted a study to evaluate the feasibility of implementing an extended leave program for active duty military members. The study will review leave programs at private-sector organizations and other government agencies, including the U.S. Coast Guard. According to DOD, the study will include an assessment of extended leave for new parents, as well as other reasons for leaves of absence. The study is scheduled for completion by September 30, 2002. We obtained and reviewed a project description for the DOD study as well as a status report dated August 2002. These documents indicate that DOD plans to address the feasibility, costs, and benefits of extended maternity leave. The scope of the study, however, is limited to active duty officers and does not appear to address parental leave for new fathers. Our recommendation was intended to apply to all active duty personnel, including enlisted personnel and new fathers. If DOD conducts a follow-up study that addresses these groups, then we believe it could satisfy the intent of our recommendation.

DOD also provided technical comments that we incorporated as appropriate. DOD's comments are reprinted in appendix V.

Scope and Methodology

To identify demographic changes in the active duty force after 1973, we obtained and analyzed relevant sections of two DOD reports, *2000 Population Representation in the Military Services* and *Profile of the Military Community: 2000 Demographics Report*, as well as additional data from the Defense Manpower Data Center. We also obtained and analyzed demographic data on the U.S. civilian labor force from the Bureau of Labor Statistics. To identify the employee benefits available to active duty service members, we reviewed DOD financial management regulations, service budget documents, military compensation background papers, DOD and service Web sites, and other department documents.

We also reviewed DOD studies on compensation, human capital, and quality of life; research on military families and benefits, and our prior studies on military benefits and personnel issues. We interviewed officials at the Office of the Secretary of Defense, the Army, the Navy, the Air Force, and the Marine Corps, and other department officials. Based on our analysis of demographic changes in the military, we focused particular attention on family-friendly benefits, such as spousal employment assistance and child care.

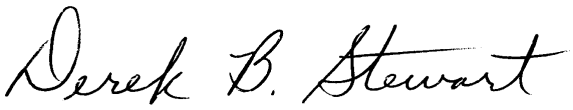
To gather information on private-sector benefits, we conducted a broad literature search of private-sector benefit practices and trends and used survey results of medium and large employers from the U.S. Bureau of Labor Statistics and several human resources consulting firms. Sources included the following publications from the Bureau of Labor Statistics: *Monthly Labor Review*, *Compensation and Working Conditions*, and *Employee Benefits in Medium and Large Establishments*. Although the studies we reviewed covered different time periods, surveyed different employer populations, and asked different questions—thereby resulting in conflicting data on the prevalence of benefits—their findings generally concurred on trends related to specific benefits. We also interviewed representatives from nine companies that have been recognized as innovative or effective in strategically managing their human capital. The nine companies are Federal Express Corp.; IBM Corp.; Marriott International, Inc.; Merck and Co., Inc.; Motorola, Inc.; Sears, Roebuck and Company; Southwest Airlines Co.; Weyerhaeuser Co.; and Xerox Corp., Documents Solution Group. We previously reported on the key principles that underlie these companies' human capital strategies and practices.[25] We did not make direct analytical comparisons between individual benefits offered by the military and those offered by the private sector to assess whether military benefits are more or less lucrative than those offered by private-sector employers. However, we identified the types of benefits found in the private sector—including core benefits and emerging benefits—and used this information to determine whether there were gaps in the benefit package offered to active duty service members.

[25] See U.S. General Accounting Office, *Human Capital: Key Principles From Nine Private Sector Organizations*, GAO/GGD-00-28 (Washington, D.C.: Jan. 31, 2000).

We conducted our review from March to July 2002 in accordance with generally accepted government auditing standards. We obtained comments on a draft of this report from DOD and incorporated its comments where appropriate.

We are sending copies of this report to the Secretary of Defense. We will also make copies available to appropriate congressional committees and to other interested parties on request. In addition, the report will be available at no charge at the GAO Web site at http://www.gao.gov.

If you or your staff has any questions regarding this report, please call me at (202) 512-5140. Key contributors to this report are listed in appendix VI.



Derek B. Stewart
Director, Defense Capabilities and Management

Active Duty Pay, Allowances, and Benefits

This appendix lists active duty pays, allowances, and benefits that we identified during our review. We compiled this list from Department of Defense (DOD) financial management regulations, service budget documents, military compensation background papers, DOD and service Web sites, directives, and other department documents.

Table 1: Components of the Military Compensation System

Pay/allowance/benefit	Major components	Subcomponents
Basic pay		
Housing	• Basic allowance for housing, domestic	• Partial-domestic • Substandard family housing • With dependents • Without dependents
	• Basic allowance for housing, overseas	• With dependents • Without dependents
	• Government housing	
Subsistence	• Basic allowance for subsistence	• Augmentation for separate meals • Authorized to mess separately • Leave rations • Partial • Rations-in-kind not available
	• Subsistence-in-kind	• Subsistence in messes • Food service regionalization • Special rations • Operational rations • Augmentation rations • Sale of meals
	• Family subsistence supplemental allowance	
Continental United States cost of living allowance		
Incentive pay, hazardous duty, and aviation career pay	• Chemical munitions • Dangerous viruses (or bacteria) lab duty pay • Demolition pay • Flight deck duty pay • Experimental stress duty pay	
	• Flying duty pay	• Aviation career, officers • Aviator continuation pay • Career enlisted flyer pay • Crew members, enlisted • Crew nonrated • Noncrew member

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Pay/allowance/benefit	Major components	Subcomponents
	• High-altitude low-opening pay • Parachute jumping pay • Special warfare officer pay (extended active duty)	
	• Submarine duty pay	• Continuous monthly submarine duty pay • Incentive pay for operational submarine duty
	• Surface warfare officer continuation pay • Toxic fuels (or propellants) duty pay • Toxic pesticides duty pay	
Special pay	• Biomedical science • Civil engineer corps accession bonus	
	• Dental officers	• Accession bonus • Additional special pay • Board-certified pay • Multiyear retention bonus • Variable special pay
	• Diving duty pay • Enlistment bonus • Foreign language proficiency pay • Hardship duty pay • High-deployment per-diem allowance • Hostile fire pay/imminent danger pay • Judge advocate continuation pay	
	• Medical officers	• Additional special pay • Board-certified pay for nonphysician health care providers • Board-certified pay • Diplomate pay for psychologists • Incentive special pay • Medical officer retention bonus • Multiyear special pay • Variable special pay
	• Optometrists	• Monthly special pay
	• Nuclear accession bonus • Nuclear officer incentive pay	
	• Nurse corps officers	• Incentive special pay for certified registered nurse anesthetists • Registered nurse accession bonus
	• Pharmacy medical	
	• Reenlistment bonus	• Regular • Selective
	• Responsibility pay • Scientific/engineering bonus	

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Pay/allowance/benefit	Major components	Subcomponents
	• Sea and foreign duty	• Duty at certain places • Overseas extension pay • Sea duty
	• Special duty assignment pay	
	• Veterinarians	• Monthly special pay • Diplomate pay
Relocation	• Dependent travel allowance • Dislocation and departure allowances • Personal money allowance • Storage of personally owned vehicle	
	• Reimbursement for pet quarantine fees	
	• Family separation allowance	• Afloat • On permanent change of station, no government quarters • On permanent change of station, dependents not authorized • On temporary duty
	• Permanent change of station travel allowances	• Accession travel • In-place consecutive overseas tours and overseas tour extension incentive program • Nontemporary storage • Operational travel • Rotational travel • Separation travel • Temporary lodging facilities • Training travel • Travel of organized units
	• Station allowances, overseas	• Cost-of-living, bachelor • Cost-of-living, regular • Interim housing allowance • Moving-in housing • Temporary lodging
Temporary duty travel allowances	• Actual expense allowance • Miscellaneous reimbursable expenses (taxi fares, tolls, etc.) • Monetary allowance in lieu of transportation • Reimbursement for cost of transportation • Subsistence allowance	
Uniform or clothing allowances	• Cash clothing replacement	• Basic • Special • Standard
	• Extra clothing	• Civilian clothing allowances for officers and enlisted personnel clothing allowances • Supplementary • Temporary duty civilian

(Continued From Previous Page)

Pay/allowance/benefit	Major components	Subcomponents
	• Initial clothing	• Special initial clothing • Standard initial clothing
	• Miscellaneous clothing provision	• Lost or damaged clothing
Children and youth programs	• Child development system	• Child development center • Family child care • Resource and referral programs • School-age care programs
	• Youth programs	
Death and burial benefits	• Burial benefits • Burial costs • Continued health benefits for surviving family members • Continued privileges at commissaries, exchanges, and other installation facilities for families • Continued government housing or housing allowance for families • Death gratuity payments • Dependency and indemnity compensation • Federal income tax exemption • Funeral honors • Montgomery GI Bill death benefit • Payment for unused leave • Survivor and dependent education	
Dependent education	• DOD dependent schools • DOD domestic dependent elementary and secondary schools	
Disability benefits	• Disability retired pay • Disability severance pay • Veterans Affairs disability compensation • Veterans Affairs disability pension	
Discount shopping	• Commissaries • Military exchanges	
Education assistance	• Adult continuing education • Army and Navy college funds • Basic skills education	
	• Commissioning programs	• Direct commissioning • Officer Candidate School/Officer Training School • Reserve Officer Training Corps • Service academies
	• Education savings plan • Montgomery GI Bill • Navy College Assistance/Student Headstart • Student loan repayment • Technical/vocational programs • Tuition assistance	

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Pay/allowance/benefit	Major components	Subcomponents
Family support services	• Chaplains • Counseling • Crisis assistance • Deployment and mobilization assistance • Exceptional Family Member Program • Family advocacy programs • Family life education • Information and referral services • Parenting programs • Personal finance management • Relocation Assistance Program • Sexual Assault Victim Intervention Program • Spouse Employment Assistance Program • Transition Assistance Program	
Health care	• TRICARE	• Prime • Extra • Standard • Dental plan • Prescription plan • Special needs dependents
	• Continued health care benefit program for separating service members	
Life insurance	• Service Members' Group Life Insurance • Supplemental Survivor Benefit Plan • Survivor Benefit Plan • Veterans' Group Life Insurance	
Miscellaneous	• Adoption expenses/reimbursement • Commuting subsidies • Legal assistance • Long-term care insurance • Space available travel • Transition assistance • Veterans Affairs guaranteed home loan program • Veterans Affairs, other	

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Pay/allowance/benefit	Major components	Subcomponents
Paid time off	• Absence over leave or liberty • Administrative absence • Advance leave • Annual leave • Convalescent leave • Educational leave of absence • Emergency leave • Environmental and morale leave programs • Excess leave • Graduation leave • Leave awaiting orders as a result of disability proceedings • Leave in conjunction with permanent change of station • Leave in conjunction with temporary duty • Leave travel in connection with consecutive overseas assignments • Liberty pass • Proceed time • Public holidays • Reenlistment leave • Rest and recuperation absence for qualified enlisted service members extending duty at designated locations overseas • Rest and recuperation program • Sick-in-quarters • Special leave accrual for service members assigned to hostile fire or imminent danger areas, certain deployable ships, mobile units, or other duty • Special liberty pass	
Privileges at military facilities	• Auto, crafts, and hobby shops • Consolidated package stores • Family, youth, and community centers • Laundry and dry-cleaning services • Libraries • Movie theaters • Morale, welfare, and recreation deployment support • Officer, noncommissioned officer, and enlisted clubs • Open messes • Recreation and fitness facilities and services • Transient quarters	

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Pay/allowance/benefit	Major components	Subcomponents
Retirement/savings benefits	• Armed forces retirement home • Continued privileges at military installations after retirement	
	• Retirement	• High-3 plan • Redux/career status bonus choice • Final basic pay
	• Uniformed services savings deposit program • Thrift savings plan • Travel of family members to place of retirement • Travel, shipment, and storage of household goods for retirees • TRICARE for retirees and their family members • Veterans benefits for retirees	

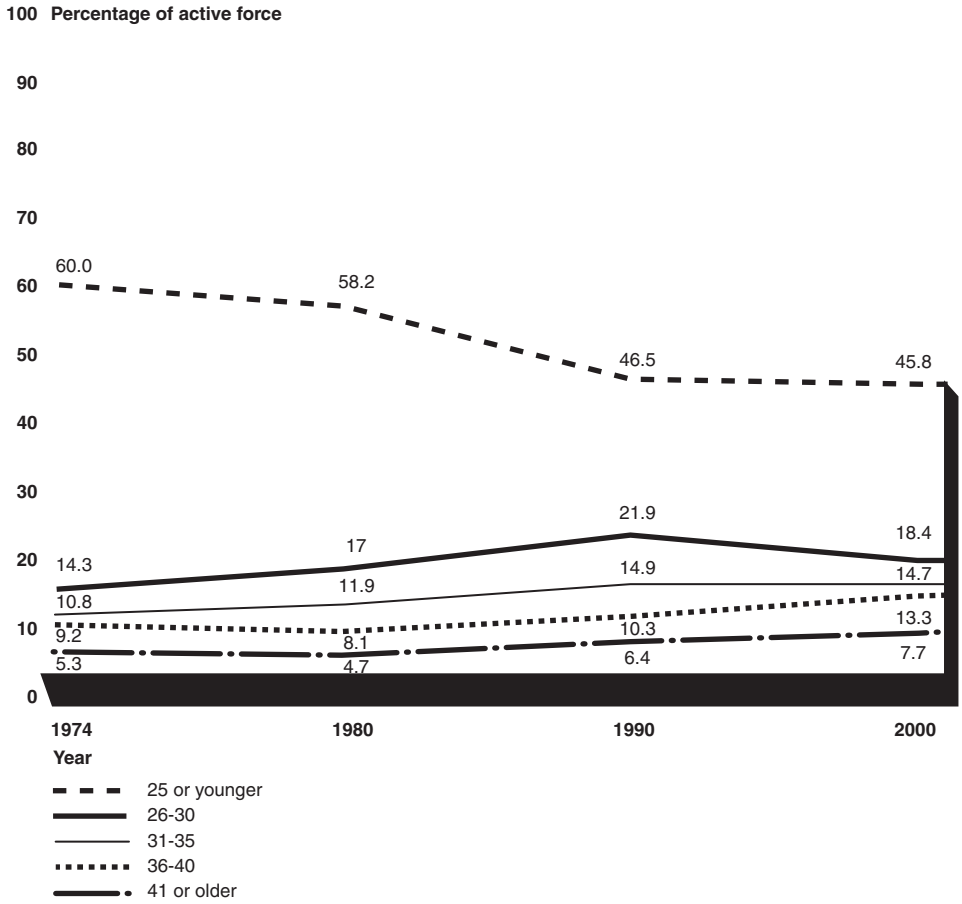
Source: GAO analysis.

Demographic Trends in the Active Duty Military

This appendix shows demographic changes that have occurred in the active duty military since 1973, when the draft ended and the military became an all-volunteer force. The appendix also shows selected demographic changes that have occurred in the U.S. civilian labor force. In cases where data was not available going back to 1974, we went back as far as possible.

The active duty force has undergone several demographic changes since the military became an all-volunteer force in 1973. It has become older and better educated, and it has seen increases in the representation of minority and female service members (see figs. 3-5).

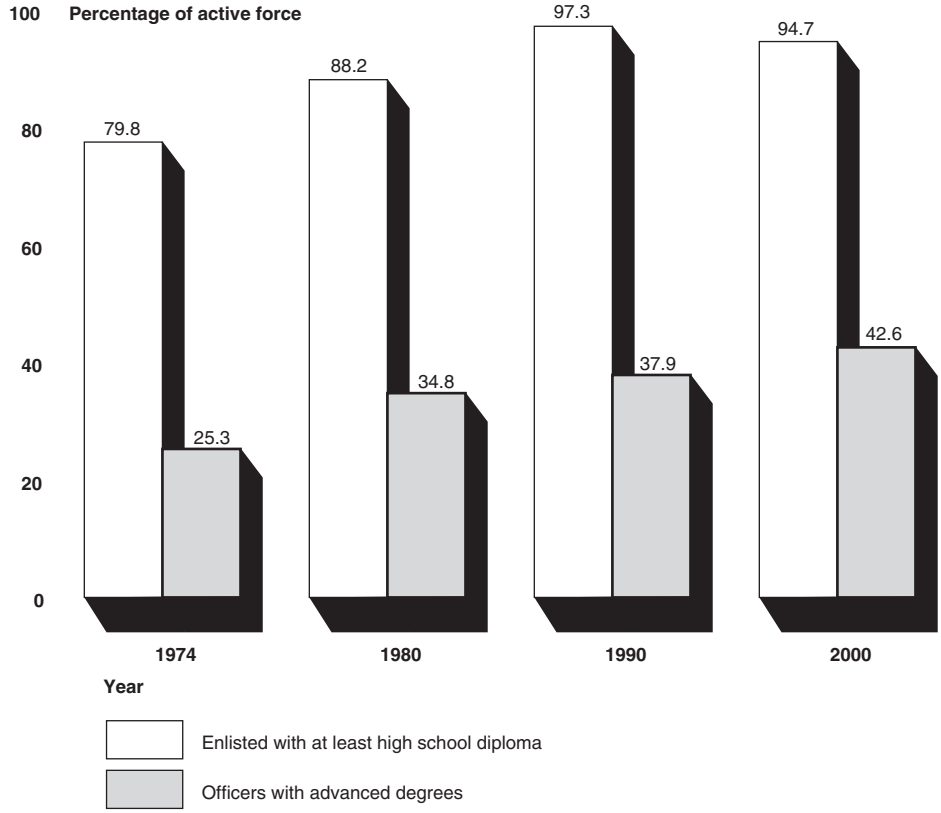
Figure 3: Composition of the Active Duty Force by Age Group (1974-2000)



Note: Percentages may not add to 100 due to data coded as "unknown."

Source: GAO analysis of DOD data.

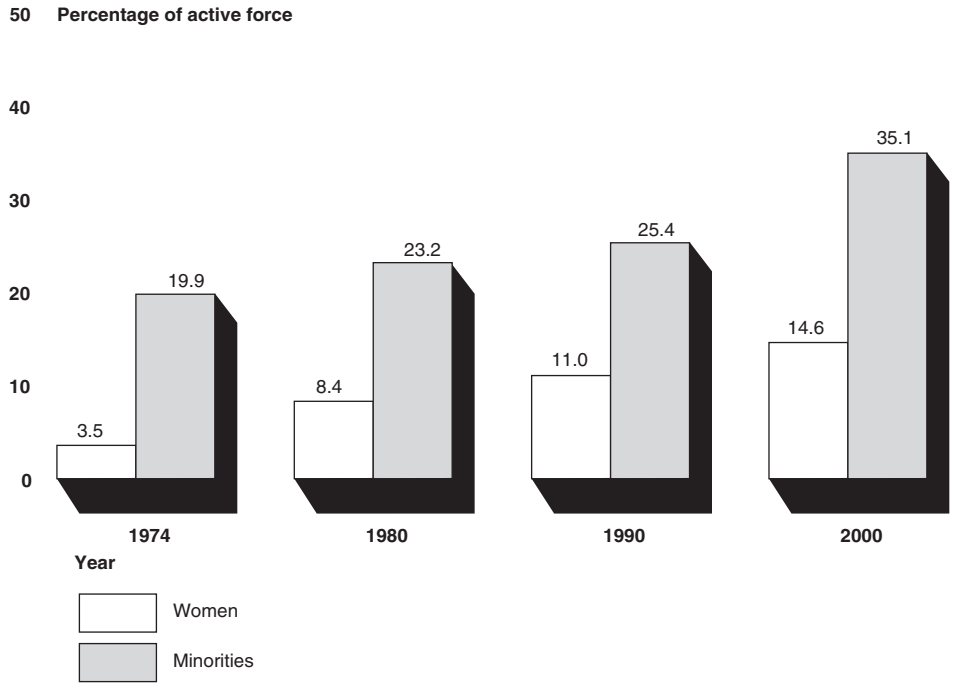
Figure 4: Education Levels of the Active Duty Force (1974-2000)



Note: Data excludes warrant officers.

Source: GAO analysis of DOD data.

Figure 5: Minority and Female Representation in the Active Duty Force (1974-2000)

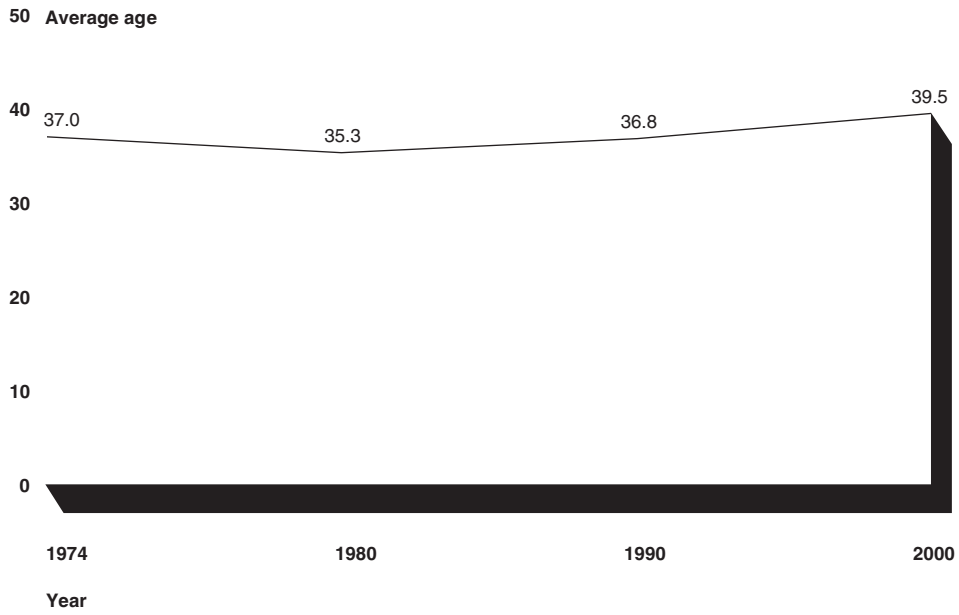


Note: Minority groups include African-American, Hispanic, Native American/Alaskan Native, and Asian-American/Pacific Islander.

Source: GAO analysis of DOD data.

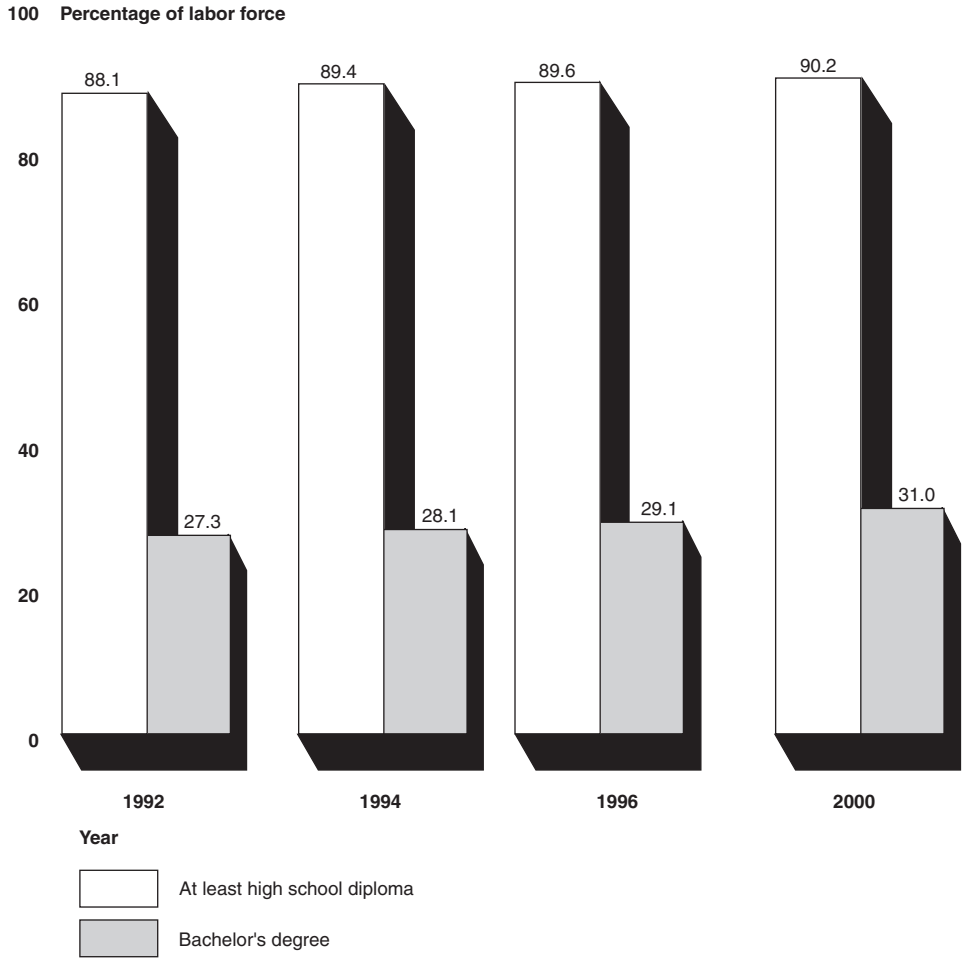
Some of the demographic changes in the active duty military generally reflect trends in the U.S. civilian labor force during this time period (see figs. 6-8).

Figure 6: Median Age of Employed U.S. Civilians (1974-2000)



Source: GAO analysis of Bureau of Labor Statistics data.

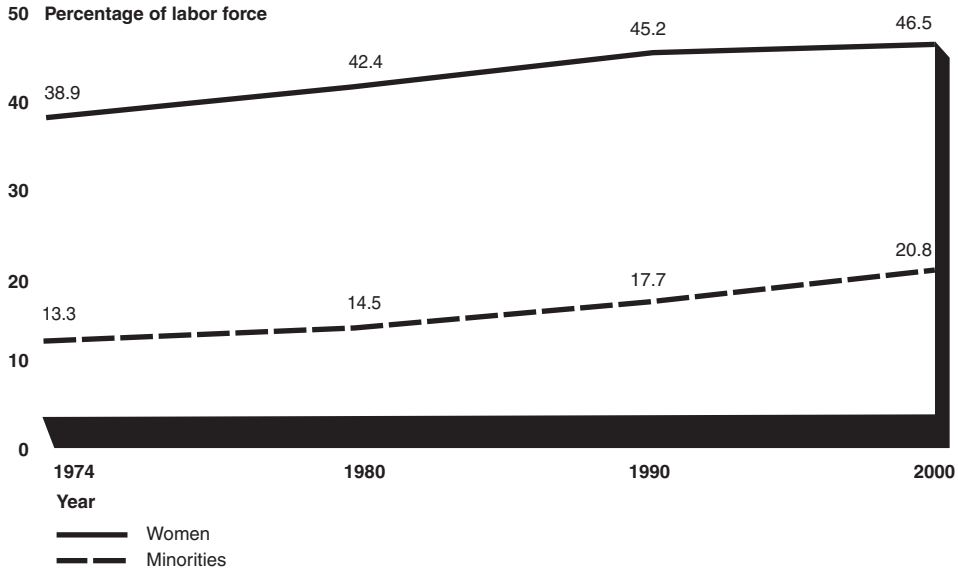
Figure 7: Education Level of U.S. Civilian Labor Force (1992-2000)



Note: The Bureau of Labor Statistics did not track this data prior to 1992.

Source: GAO analysis of Bureau of Labor Statistics data.

Figure 8: Minority and Female Representation in the U.S. Civilian Labor Force (1974-2000)

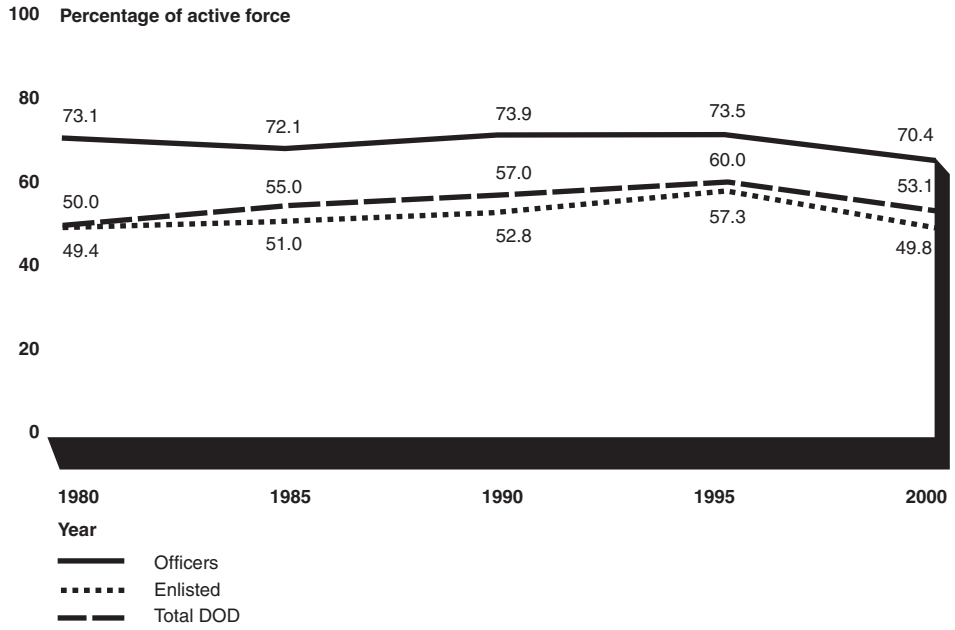


Note: Data for minorities includes workers who are black or of Hispanic origin.

Source: GAO analysis of Bureau of Labor Statistics data.

Although reliable data on married military personnel is not available for 1973-77, various DOD studies cite statistics showing that the percentage of married enlisted personnel increased from approximately 40 percent of the force in 1973 to approximately 50 percent in 1977. After dropping slightly from 1977 to 1980, the enlisted marriage rate rose again through the mid-1990s. The overall marriage rate—including both enlisted personnel and officers—has remained at 50 percent or higher since 1980 (see fig. 9).

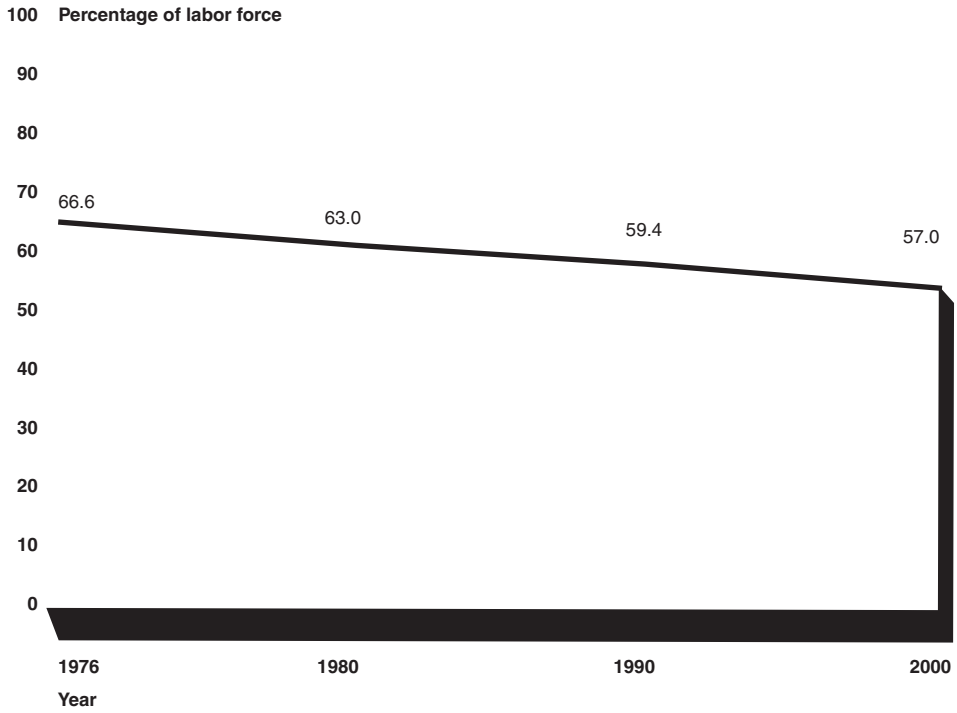
Figure 9: Marriage Rates in the Active Duty Military (1980-2000)



Source: DOD.

In the U.S. civilian labor force, the proportion of married workers decreased between 1974 and 2000 (see fig. 10).

Figure 10: Marriage Rates in the U.S. Civilian Labor Force (1976-2000)



Source: GAO analysis of Bureau of Labor Statistics data.

Selected Employee Benefits for Active Duty Service Members

This appendix summarizes selected benefits that the federal government provides to active duty service members and their dependents. DOD lacks an authoritative listing of its employee benefits. To compile this list, we drew from several sources, including DOD and service directives, background papers, studies, and Web sites.

Child and Youth Programs

Child Development System

Members with children or custodial rights can obtain child care through a variety of DOD-sponsored programs tailored for children ages 6 weeks to 12 years. These programs include accredited, centralized on-installation care; on- or off-installation in-home care by certified providers (usually military spouses) as well as extended hour, ill-child, and hourly care; before- and after-school programs and holidays and summer vacation care for school-age children; and resource and referral programs. The government subsidizes many care options. The military services may offer discounts of up to 20 percent to service members who have more than one child enrolled in centralized on-installation care.

Exceptional Family Member Program

The Exceptional Family Member Program is a mandatory enrollment program for active duty members with family members who have exceptional medical needs or learning disabilities that require special medical treatment, education, or counseling. The primary goal of the program is to assist service members in providing for the special needs of their exceptional family members before, during, and after relocation required by the change of duty assignment. Although support varies by installation, typical programs help families access and use various medical and social services and educational programs, obtain information and referrals, coordinate assignments, and confirm the availability of required services when reassigned. In January 2001, DOD launched an Internet site, the Special Needs Network, to help members and their families research assignments and connect with care coordinators and service providers.

Youth Programs

Youth programs provide service members' children ages 12 to 18 with social, recreation, and athletic programs at more than 470 youth facilities at 280 geographic locations worldwide. Military youth may participate in 4-H, Boys and Girls Clubs activities, and team sports, as well as activities such as parties, support groups, and community services offered through teen centers. In addition, a youth sponsorship program, supplemented by a military teen Web site—Military Teens on the Move—helps military youth acclimate to frequent relocations. DOD recently expanded its youth program to focus on school-age care, at-risk behaviors, and prevention programs.

Death and Burial Benefits

Burial Benefits

The Department of Veterans Affairs will provide a casket, a government headstone or marker, and a burial flag at no cost to a deceased service member or veteran. In addition, service members and veterans who have completed service requirements are eligible for burial in a Department of Veterans Affairs national cemetery. Reserve component members entitled to retired pay as a result of 20 years of creditable service are also eligible, as are spouses and minor children of eligible veterans and service members. The National Defense Authorization Act for Fiscal Year 2002 authorizes a travel allowance for family members to attend burial ceremonies for deceased members who die while on duty.[26]

Burial Costs

DOD reimburses up to $4,850 for a member's burial expenses, depending on the type of arrangements. DOD also provides travel for next of kin. In addition, the Department of Veterans Affairs will pay a burial allowance of up to $2,000 if the veteran's death is service-connected. In some cases, it also will pay the cost of transporting the remains of a service-disabled veteran to the national cemetery with available gravesites that is nearest the home of the deceased. In certain instances, the Department of Veterans

[26] Pub. L. 107-107, sec. 638, Dec. 28, 2001.

Affairs will pay a $300 plot allowance when a veteran is buried in a cemetery that is not under U.S. jurisdiction.

Continued Health Benefits for Surviving Family Members

Surviving family members of a deceased active duty service member remain eligible for health care benefits under TRICARE at active duty dependent rates for a 3-year period following the service member's death.[27] According to DOD, they may choose to enroll or remain enrolled in TRICARE Prime, where available, with no enrollment fees and no cost-shares or deductibles. At the end of the 3-year period, their TRICARE eligibility continues at the retiree dependent rates.

Continued Military Privileges for Surviving Family Members

The unmarried surviving spouse and qualified dependents of a deceased member are eligible for unlimited shopping privileges at military commissaries and exchanges. Survivors of a service member who dies while on active duty are provided rent-free government housing for 180 days after the death of the service member or a tax-free housing allowance for that portion of the 180-day period when they are not in government housing. The amount of the allowance is based on the member's grade at the time of death.

Death Gratuity Payments

Survivors of a service member who dies while in active service and retirees who die within 120 days of retirement as a result of a service-connected injury or illness receive an immediate cash payment of $6,000. This payment is to assist in meeting financial needs before survivor benefits, if any, become available.

Dependency and Indemnity Compensation

The Department of Veterans Affairs provides a monthly nontaxable payment to the unremarried surviving spouse of a service member who dies from a service-connected disability. Payment also may be provided to a member's unmarried children under age 18, to children between ages 18 and 23 if attending a Veterans Affairs-approved school, to disabled children, and to the parents of a deceased service member if they meet certain income requirements. The surviving spouse of a service member who died after January 1, 1993, receives $935 a month, plus $234 for each dependent

[27] 10 U.S.C. secs. 1079(g) and 1086(c)(2)(B).

child. The monthly payment for parents of deceased veterans varies with their income.

Funeral Honors

DOD provides an honor guard detail for the burial of an eligible veteran, folding and presentation of the American flag to the next of kin, and playing of "Taps" during the burial of current and former active duty and Selected Reserve members.

Montgomery GI Bill Death Benefit

The Department of Veterans Affairs will pay a designated survivor a special Montgomery GI Bill[28] cash death benefit in the event of the service-connected death of an individual while he or she is on active duty or within 1 year after his or her discharge or release. The deceased must either have been entitled to educational assistance under the Montgomery GI Bill program or have been a program participant who would have been entitled, except for the high school diploma or length-of-service requirement.

Survivor and Dependent Education

Surviving spouses and children are eligible for up to 45 months of education benefits to be used for associate, bachelor, or graduate degrees; courses leading to a certificate or diploma from business, technical, or vocational schools; and apprenticeships. Payments to a spouse end 10 years from the date the individual is found eligible or from the date of the death of the veteran. Spouses who have passed the period of eligibility may be eligible for education loans. During the first 2 years after the end of their eligibility period, eligible spouses may borrow up to $2,500 per academic year to continue a full-time course leading to a college degree or to a professional or vocational objective that requires at least 6 months to complete. Children are eligible to receive education benefits between their 18th and 26th birthdays. Monthly payments of $670 for full-time attendance at educational institutions and lesser amounts for part-time attendance are available. Loans are based on financial need.

[28] See Veterans' Educational Assistance Act of 1984, Pub. L. 98-525, Oct. 19, 1984.

Tax Benefits

When a member of the Armed Forces dies while in a combat zone in active service, or as a result of wounds, disease, or injury while so serving, special tax forgiveness rules apply. Additionally, special favorable tax rules apply when an individual dies as a result of wounds or injury that was incurred outside the United States in a terroristic or military action.[29] Generally, benefits received from the Department of Veterans Affairs by a survivor of a deceased member are exempt from levy by the United States or any agency thereof with respect to indebtedness the deceased may have had to the United States.[30]

Unused Leave

Survivors of a deceased member are entitled to payment for the deceased's unused accrued leave, if any. The amount of the payment is based on the member's basic pay at the time of death.

Disability

Veterans Disability Compensation

The Department of Veterans Affairs offers tax-free monthly payments to a member who has a service-connected disability. The amount of the payment varies based on the extent of disability, the veteran's marital status, and the number of dependents. In 2002, monthly payments ranged from $103 to $2,163 plus allowances for spouse and children where applicable.

Veterans Disability Pension

The Department of Veterans Affairs offers monthly payments to eligible wartime veterans with limited income, a permanent disability, and an inability to work. Payments vary according to the veteran's income, number of family members, and capacity for self-care. If a veteran is receiving any income, an equivalent offset is subtracted from this payment. The annual basic pension for a single veteran in 2002 was $9,556. A veteran with one dependent received $12,516. For each additional dependent, the pension increased by $1,603.

[29] 26 U.S.C. sec. 692.

[30] 38 U.S.C. sec. 5301.

DOD Disability Retirement Pay

A service member may qualify for disability retirement pay if the member has a permanent and stable disability that is not the result of intentional misconduct or willful neglect and the member has at least 20 years of service. If the member does not have 20 years of service, the member may still qualify for disability retirement if the disability is at least 30 percent and meets certain other criteria.[31]

DOD Disability Severance Pay

Members with less than 20 years of active service who are separated from active duty because of service-connected minor disabilities are eligible to receive a lump-sum payment. This lump-sum payment is directed at members who are less than 30 percent disabled and physically unable to perform the military duties of their respective office or grade. Payments are based on 2 months' basic pay for each year of active service, not to exceed 12 years' basic pay.[32]

Discount Shopping

Commissaries

Active duty service members, their dependents, and retirees can purchase discounted grocery items at more than 280 commissaries worldwide. Because commissaries sell food and household items free of local sales tax and at cost, plus a 5-percent surcharge to help defray operational expenses, customers can save more than 30 percent on their purchases compared to commercial supermarkets. According to DOD, a family of four can save about $2,400 annually by shopping at a commissary.

Military Exchanges

Active duty service members, their dependents, and retirees may purchase a variety of goods and services at 1,522 military exchanges worldwide. Exchanges are similar to department stores, selling apparel, footwear, household appliances, jewelry, cosmetics, food, and other merchandise.

[31] 10 U.S.C. sec. 1201.

[32] 10 U.S.C. sec. 1212. See also *Military Compensation Background Papers*, Fifth Edition, Sept. 1996, DOD Office of the Secretary of Defense, Chapter III.C.2.

Some exchanges offer gas stations, florist shops, optical shops, fast food restaurants, and liquor stores.

Education Assistance

Education Savings Plan

The National Defense Authorization Act for Fiscal Year 2002 authorized service secretaries to establish an education savings plan.[33] Service members who sign up for at least another 6 years of active duty in a critical skill area may receive a bonus of $5,000 to $30,000 in U.S. savings bonds. Generally, service members who have completed fewer than 3 years of service and who commit to at least 6 years of additional service are eligible to receive savings bonds worth $5,000; service members who have completed between 3 and 9 years of service and make the requisite service commitment are eligible to receive savings bonds worth $15,000; and service members who have completed 9 years of service are eligible to receive savings bonds worth $30,000 after committing to the required additional service.

Montgomery GI Bill

The Montgomery GI Bill[34] provides educational assistance to active duty members and veterans who enter active duty after June 30, 1985. Members may use the assistance for degree and certificate programs, as well as for on-the-job training and correspondence courses.[35]

Eligible individuals upon first becoming members of the Armed Forces or first entering on active duty contribute $1,200 through basic pay reductions of $100 per month during their first 12 months of service unless they make an election not to receive educational assistance under the program.[36]

[33] Pub. L. 107-107, sec. 622, Dec. 28, 2002.

[34] Veterans' Educational Assistance Act of 1984, Pub. L. 98-525, Oct. 19, 1984.

[35] 38 U.S.C. sec. 3002.

[36] 38 U.S.C. sec. 3011.

Members who choose not to participate in the program must formally decline enrollment and, with some exceptions, cannot enroll in the program at a later time. Veterans must receive an honorable discharge to continue to participate. Educational benefits are available while on active duty after meeting active duty service requirements and generally for up to 10 years after a veteran's discharge from active duty.[37] The amount of payment of educational assistance varies depending on the obligated period of active duty upon which the entitlement is based.[38]

The National Defense Authorization Act for Fiscal Year 2002 authorizes the service Secretaries to allow a service member with critical skills or in a military specialty requiring critical military skills who has served a minimum of 6 years and who agrees to serve for at least 4 additional years to transfer up to 18 months of unused basic Montgomery GI Bill educational benefits to his or her spouse or children. A service member's spouse may use transferred benefits after the member completes the 6 years of service in the Armed Forces. A member's child who is at least 18 years old or has a high school diploma may use transferred benefits after the parent completes 10 years of service in the Armed Forces. [39]

Voluntary Education

An active duty member who voluntarily enrolls for education or training in an educational institution during off-duty time may receive tuition assistance. While the services can pay all or a portion of tuition costs or expenses, service members may use a portion of their Montgomery GI Bill benefits to pay for the remaining tuition. Commissioned officers are not eligible for this benefit unless they agree to remain on active duty for a period of 2 years after the completion of the training or education paid for.[40]

[37] 38 U.S.C. sec. 3031.

[38] 38 U.S.C. sec. 3015.

[39] Pub. L.107-107, sec. 654, Dec. 28, 2001.

[40] 10 U.S.C. sec. 2007.

Family Support Services

Deployment and Mobilization Support

Deployment and mobilization support programs help service members and their families prepare for and cope with the challenges associated with mobilization, remote assignments, and deployments. Programs address a range of issues that may arise prior to, during, and upon return from deployments. Programs may include briefings on available support services; free telephone, video electronic mail, and teleconferencing calls; and benefits such as a free oil change for the family's personal vehicle. Upon return from deployment, commanders may elect to provide workshops to help members and their families readjust to life together.

Family Advocacy Programs

Family Advocacy Programs assist members and their families with problems resulting from spouse and child abuse, child neglect, and child sexual molestation. These programs offer prevention, intervention, and treatment resources at no cost to military family members.

Parenting Programs

Parenting programs help military families address specific problems, teach and build skills, enhance family self-sufficiency, and prevent child abuse. These voluntary programs include parent education classes as well as parent support groups. Two core parenting classes are the New Parent Support Program and the Healthy Parenting Initiative. Aimed at first-time parents, the New Parent Support Program offers home visits by nurses who can answer parents' questions about infant care. The Healthy Parenting Initiative provides resources to deal with stressors such as frequent deployments, intermittent single parenting, and separation from extended family support networks.

Personal Financial Management Program

The Personal Financial Management Program provides financial education, training, and counseling to members and their families in the areas of personal finance, budgeting, debt management, and retirement planning.

Relocation Assistance Program

The Relocation Assistance Program helps active duty service members and their families prepare for moves and adjust to life at new installations. The program provides pre-move destination information, relocation counseling, and settling-in services. Members located overseas may also obtain intercultural training. Typical programs address information on the shipment and storage of household goods, financial planning, permanent change of station entitlements, and child care. A special Web site provides information about more than 300 military installations. The services may offer additional seminars and programs tailored to members' needs. Such programs include information seminars for spouses and new military families and the loan of household items for use prior to the arrival of personal household goods.

Spouse Employment Assistance Program

The Spouse Employment Assistance Program provides information and referral services to military spouses to facilitate their employment in the civilian labor market. These services address various aspects of the job search and career planning process, the acquisition of skills that will facilitate entrance into the workforce, and the development of portable careers. Military spouses also may receive preferential consideration for competitive service positions in DOD located outside the United States and preference for hiring in positions in nonappropriated fund activities. Additionally, spouses of members may receive preference in hiring for any position in DOD above grade GS-7 if the spouse is among persons determined to be best qualified for the position and if the position is located in the same geographical area as the permanent duty station of the member.[41]

Transition Assistance Program

The Transition Assistance Program provides services to departing military members to help them adjust to civilian life and obtain jobs. Services include employment assistance, leave, and relocation assistance for personnel overseas. Members and their families are eligible to use these services for up to 180 days after separation. In 2001, DOD launched a Web site that offers courses on conducting job searches, writing resumes, and using the Internet to find jobs.

[41] Pub. L. 99-145, sec. 806, Nov. 8, 1985.

Health Care

Continued Health Care Benefit Program

Members leaving the military before retirement can purchase health care benefits to cover medical bills incurred by them and their families while between jobs. The Continued Health Care Benefit Program mirrors TRICARE Standard medical coverage. Members who enroll in the program within 60 days after separation from active duty or loss of eligibility for military health care can purchase coverage for up to 18 months for themselves and dependents and up to 36 months for others such as unmarried former spouses.

Dental

Active duty service members are entitled to dental care in more than 400 military dental treatment facilities on a space available basis. If care is unavailable either because the member is remotely located or because unavailable specialty care is needed, civilian dentists may provide care. Family members may enroll in the TRICARE Dental Program, which requires monthly premiums and copayments. For example, basic restorative services, such as fillings, are covered at 80 percent, and the family member is responsible for the remaining 20 percent of costs. It allows up to $1,200 per year for general dentistry and a lifetime orthodontic maximum of $1,500 for each enrollee. The dental program covers a wide range of diagnostic, preventive, and restorative services, including dental x-rays, exams, cleaning, fluoride applications, fillings, root canals, and crowns.

TRICARE

DOD provides health care to active duty members and their dependents through TRICARE, a managed care program. Care is provided in more than 500 military treatment facilities worldwide, supplemented by civilian providers. TRICARE offers beneficiaries three health care options: Prime, Standard, and Extra. Active duty personnel are required to enroll in TRICARE Prime. This program offers care in military treatment facilities and does not require enrollment fees or copayments from active duty beneficiaries for care or drugs obtained from military treatment facilities.

Dependents may choose to enroll in TRICARE Prime where available or may elect to receive care under TRICARE Extra, a preferred provider option, or under TRICARE Standard, a fee-for-service option. Beneficiaries obtaining care under Extra and Standard are subject to deductibles and a cost share of 15 or 20 percent, depending on the program enrolled. They may also be subject to a $3 charge for generic drugs and a $9 charge for brand name drugs purchased from the national mail order pharmacy or at retail network pharmacies. The charge for nonnetwork pharmacies is the greater of $9 or 20 percent of total cost. The National Defense Authorization Act for Fiscal Year 2002[42] requires the Secretary of Defense to establish a program to provide extended benefits to eligible dependents which may include benefits for dependents who are mentally retarded, have a serious physical disability, or have an extraordinary physical or psychological condition. These extended benefits may include comprehensive health care services and case management services.

Housing

Military members are eligible to receive one of three types of housing, depending on their rank, marital status, and whether they reside on- or off-installations. Military personnel who have one or more family members living with them are eligible to apply for and occupy military family housing located on installations. Single junior-enlisted members are required to live in barracks where they may share a room with a communal bathroom and telephone down the hall. Military members living off of installations are entitled to a basic housing allowance in order to be able to afford housing in the local civilian housing market. This allowance is determined by the member's pay grade and dependency status as well as the cost of suitable civilian housing for the member's income level in the geographic area. Members stationed overseas who are not furnished government housing are eligible for an overseas housing allowance based on dependency status.

[42] Pub. L. 107-107, Title VII, Dec. 28, 2001.

Life Insurance

Service Members' Group Life Insurance

Service members' Group Life Insurance is a government-sponsored program that provides insurance coverage to members of the Armed Forces. Under the program, active duty members and others automatically are insured for $250,000. Members may elect less coverage or no coverage. The premium rate, as set by the Secretary of Veterans Affairs, is $20 a month for the maximum $250,000 coverage. Monthly premiums for less than the maximum coverage are $0.80 per $10,000. Beginning in November 2001, coverage was extended to members' spouses and children.[43] Service members may purchase up to $100,000 coverage for spouses, but no more coverage than is held by the service member. Premiums for spouse coverage vary based on actuarial principles. Coverage for eligible dependents is free and automatic.

Survivor Benefit Plan

The Survivor Benefit Plan provides members who reach retirement eligibility an opportunity to leave a portion of their retired pay to their survivors. The plan complements social security survivor benefits with a monthly annuity payment to eligible spouses and dependents. Payments equal 55 percent of what the members' retired pay would have been had they been retired. When survivors reach the age of 62, payments drop to 35 percent of retired pay. Payments are offset by Dependency and Indemnity Compensation and are adjusted annually for cost-of-living increases. Under the National Defense Authorization Act for Fiscal Year 2002, surviving spouses of some active duty service members are also authorized to receive Survivor Benefit Plan benefits.[44]

Veterans' Group Life Insurance

Veterans' Group Life Insurance provides a maximum of $250,000 renewable 5-year coverage for members released from active duty. Service members' Group Life Insurance may be converted to this plan. Conversion is available to members who have full-time Service members' Group Life Insurance coverage as well as those with part-time coverage under certain

[43] Pub. L. 107-14, sec. 4, June 5, 2001.

[44] Pub. L. 107-107, sec. 642, Dec. 28, 2001.

conditions that render them uninsurable at standard premium rates. Members of the Individual Ready Reserve and Inactive National Guard may also enroll. Coverage is limited to the maximum amount of Service members' Group Life Insurance held while the service member was on active duty or in the Reserves. Veterans' Group Life Insurance premiums range from $11 to $84 per month per $100,000 in coverage, varying with the service member's age.

Miscellaneous

DOD Dependent Schools

Children of active duty service members can obtain free elementary through high school education at schools located on installations in the United States and overseas. DOD Dependent Schools educate more than 76,000 military children in 154 schools in 13 countries. Seventy Domestic Dependent Elementary and Secondary Schools at 17 installations located in seven states, Guam, and Puerto Rico educate more than 34,000 military children.

Legal Assistance

Service members and their families can receive free legal advice and assistance from judge advocates or civilian attorneys for many personal, noncriminal matters. These matters include personal tax questions; adoption assistance; child and spouse support; wills, estates, and trusts; debts and bankruptcy; notary public services; leases; and advice on Soldier and Sailors' Civil Relief Act[45] protection.

Department of Veterans Affairs Guaranteed Home Loan Program

Members may obtain guaranteed home loans from the Department of Veterans Affairs in order to purchase homes, make home improvements, and refinance home loans. These loans require no down payments, limit closing costs, provide for assumable mortgages, and allow prepayment without penalty. The Department of Veterans Affairs guarantees 25 percent of home loans up to $50,750; 40 percent of home loans up to $36,000; and 50 percent of home loans up to $45,000, subject to the amount of the entitlement that the veteran has available. An active duty veteran who buys

[45] 50 U.S.C. App. 530.

a home pays a funding fee ranging from 1.25 to 3 percent of the loan amount depending on the amount of the down payment and whether the member has other Veterans Affairs loans.

Privileges at Military Facilities (Morale, Welfare, and Recreation)

Service members and their families have access at installations to morale, welfare, and recreation programs that are aimed at meeting their physical, social, and cultural needs. These programs include fitness centers, golf courses, movie theaters or free movies, automotive skills development, crafts and hobby programs, guest quarters, swimming pools, enlisted clubs, game rooms and arcades, coffeehouses, intramural sports, bowling centers, libraries, chapels, rifle and pistol ranges, outdoor recreation, and exchanges, commissaries, and discounts on special events and off-installation recreation areas.

Transportation Incentive Program

Active duty service members may be eligible to receive reimbursements of up to $100 per month for transportation expenses associated with using public transportation and van pools when commuting to and from work.

Space Available Travel

Space Available Travel permits military members and their families to travel free or for a small fee on military transportation, space permitting. Family members may use this benefit to accompany an active duty service member on immediate family emergencies and on house-hunting trips related to a pending permanent change of station move.

Paid Time Off

Annual leave

Members accrue leave at the rate of 2-1/2 days per month of active service. Members may not accumulate more than 60 days of leave as of the end of the fiscal year except when they enter a duty type or situation during which it is unlikely that leave may be used.

Convalescent Leave

Service members who are determined unfit for duty by their commanding officer or hospital command receive leave for a period of up to 30 days per

hospitalization. Following pregnancy, service members normally receive 42 days (6 weeks) leave per a doctor's instructions.

Educational Leave of Absence

Eligible members may use up to 2 years of leave to pursue an educational program. Although members continue to receive basic pay for their applicable pay grades and to accrue leave, they do not receive housing or other allowances.

Graduation Leave

Graduates of the military academies may be granted leave of not more than 60 days to be used within 3 months of graduation and before reporting for permanent duty. This leave does not count against the officer's annual leave.

Public Holidays

Except when prevented by military operations, members observe U.S. public holidays as established by federal statutes.

Sick-in Quarters

Members may be excused from duty for treatment or medically directed self-treatment in homes, barracks, or other nonhospital facilities. This leave does not count against annual leave.

Retirement and Savings

Retirement

Military members presently are covered by one of three separate retirement systems, depending on when they joined the military. All three systems require no contribution from the service member, allow retirement after 20 years of service, and have no vesting before 20 years. Benefits received are based on years of service and salary. Service members who joined the military before September 8, 1980, are covered under the Final Pay plan. This plan bases retired pay on final basic pay multiplied by 2.5 percent per year of service less any excess over

75 percent of pay upon which the computation is based.[46] Service members who joined the military after September 7, 1980, and before August 1, 1986, receive retirement benefits under the High-3 plan. High-3 gives members (1) 50 percent of their average basic pay for the highest 3 earning years before retiring at 20 years of service and (2) an additional 2.5 percent for each year beyond 20 years of service, to a maximum of 75 percent for 30 years of service. Members who joined the Armed Forces after July 31, 1986, may choose between the High-3 Plan and a revised retirement plan enacted under the Military Retirement Reform Act of 1986[47] (sometimes referred to as Redux) upon reaching their 15th year of service. Under Redux, a member who elects to receive a bonus and signs a written agreement to remain on active duty until the member has completed 20 years of active duty service will receive a $30,000 lump-sum bonus, and must remain in the Redux plan.

Thrift Savings Plan (Uniformed Services Plan)

Service members may contribute up to 7 percent of their basic pay in the Thrift Savings Plan, a retirement savings and investment program that offers participants the same type of savings and tax benefits that many private corporations offer their employees under “401(k)” plans. The retirement income that service members receive from their accounts depends on the amount contributed during working years and the earnings on these contributions. Service members may contribute a portion of their monthly base pay up to the 2002 Internal Revenue Service limit of $11,000 to any or all of five funds. Service members enrolled in the plan may also contribute any amount of incentive pay or special pay, including bonuses. Service members serving in critical military specialties, as designated by service Secretaries, and who agree to serve on active duty for 6 years are eligible to receive matching contributions of up to 4 percent of basic pay. The government matches each of the first 3 percent and half of the next 2 percent.

[46] 10 U.S.C. secs. 1402 and 1406.

[47] Pub. L. 99-348, July 1, 1986; 10 U.S.C. sec. 1410.

Trends in Selected Private-Sector Employee Benefits

This appendix summarizes trends in selected employee benefits offered by medium and large U.S. employers to their full-time employees.[48] To compile this list, we drew from several sources, including the U.S. Bureau of Labor Statistics' *Monthly Labor Review* (1989-1991 and 1999-2001), *Compensation and Working Conditions* (1996-1998 and 2000), and *Employee Benefits in Medium and Large Private Establishments* (1995 and 1997); surveys conducted by human resources consulting firms;[49] and our interviews with representatives from nine companies that have been recognized as innovative or effective in strategically managing their human capital. Although the studies we reviewed covered different time periods, surveyed different employer populations, and asked different questions—thereby resulting in conflicting data on the prevalence of benefits—their findings generally concur on trends related to specific employee benefits.

Accidental Death and Dismemberment

Accidental death and dismemberment coverage provides benefits in addition to existing group life insurance if a covered worker dies or is injured as a result of an accident. Coverage is almost always a component of group life insurance. However, employees who have the option to choose their benefits through a flexible benefits program may be able to receive accidental death and dismemberment coverage without life insurance. Accidental death and dismemberment benefit payments usually equal 100 percent of a worker's basic life insurance. Plans also may pay partial benefits for the accidental loss of an eye, a leg, or an arm. In 1999, 57 percent of employees in medium and large U.S. companies had accidental death and dismemberment coverage compared with 69 percent in 1993.

[48] The U.S. Bureau of Labor Statistics defines medium and large private companies as those with 100 or more employees.

[49] Deloitte & Touche, *Deloitte & Touche and Pension & Investments 2001 Annual 401(k) Benchmarking Survey* (New York: Deloitte & Touche, 2001); Employee Benefit Research Institute, *EBRI Databook on Employee Benefits* (Washington, D.C.: EBRI, 1997); Hay Group, *The Hay Report: Compensation and Benefits Strategies for 2001 and Beyond* (Philadelphia, Pa.: Hay Group, Inc., 2001); Hewitt Associates, *Survey Findings: Design and Administration of Educational Reimbursement Plans* (Lincolnshire, Ill.: Hewitt Associates LLC, 1999); Hewitt Associates, *Survey Highlights: Managing Time Off 2000/2001* (Lincolnshire, Ill.: Hewitt Associates LLC, 2001); William M. Mercer and Bright Horizons Family Solutions, *Work/Life Initiatives 2000 Survey Report* (New York: William M. Mercer, Incorporated, 2001); and William M. Mercer, *Spotlight on Benefits: A 2001 Study of Benefit Plans* (Louisville, Ky.: William M. Mercer, Incorporated, 2001).

Child Care Assistance

Employers sponsor a variety of programs to assist employees with child care responsibilities. The range of corporate-sponsored child care has continued to grow since the 1980s and now includes on- and off-site child care, emergency, sick, and backup child care services when regular child care is unavailable; care for mildly ill children or when schools are closed due to holidays; referral services; and dependent care flexible spending accounts, among other programs. A survey conducted by a human resources consulting company found that, in 2000, dependent care flexible-spending accounts were the most prevalent form of child care assistance, followed by employer-sponsored child care resource and referral services. Five of the nine companies we contacted offered employees flexible spending accounts for dependent care. In 1999, 10 percent of employees at medium and large companies had access to employer-sponsored or -funded child care either on-site or off-site. Few companies—mainly very large corporations—offer before and after school care, care during holidays and vacations, or care for mildly ill children.

Convenience Benefits

Convenience benefits are services and products provided at the workplace in order to allow employees to perform errands conveniently and efficiently, thus helping them better balance their work and home responsibilities. Some convenience benefits have existed for some time, while others have been implemented only recently. Examples include health promotion programs, on-site credit unions, dry cleaning services, cafeterias, take-home meals, minor automotive servicing, and commuting assistance.[50] The prevalence of these services varies by type. For example, in 2000, 25 percent of employers subsidized employees' parking and mass transit costs through commuter assistance programs, according to a human resources consulting firm. In comparison, 66 percent of employers provided on-site credit unions, and 76 percent provided health promotion programs in 2000.

[50] Other convenience benefits include entertainment and tickets, on-site banking and postal services, company stores, travel planning, photo developing, free or subsidized meals at work, preferred parking for pregnant employees, florists, shoe repair, prescription drug deliveries, barbers, personal shopping, pet care, car inspections, casual dress days, and personal use of company computers and the Internet.

Elder Care Assistance

An emerging benefit, elder care assistance, consists of time off—paid or unpaid leave—to care for an elderly dependent, employer-paid or sponsored adult day care, and resource and referral information. The percentage of employers offering elder care assistance has increased since the 1990s in part due to the aging workforce and the passage of the Family and Medical Leave Act of 1993,[51] which requires employers to provide up to 12 weeks of unpaid, job-protected leave to eligible employees so they may care for a parent who is seriously ill. In 1993, 31 percent of employees were eligible for some form of elder care benefits, compared with 3 percent in 1989. A human resources consulting firm found that 43 percent of surveyed companies offered elder care resource and referral programs in 2000, up from 27 percent in 1998. The Family and Medical Leave Act of 1993 applied to all nine companies we contacted; however, none offered paid time off to care for family members.

Employee Assistance Programs

Employee assistance programs provide information and referrals to help employees cope with alcohol and substance abuse, family problems, stress, and psychiatric problems. An increasing number of programs also provide information and counseling services related to financial planning, legal assistance, pre-marriage and marriage counseling, college planning, and spouse job placement assistance for relocation. Four of the nine companies we contacted offered employee assistance programs that included counseling and referral services. According to the Bureau of Labor Statistics, 54 percent of employees had access to employee assistance programs in 1999.

Flexible Benefits

Flexible benefits, also called cafeteria plans, allow employees to tailor their benefit packages to their specific needs. Companies use flexible benefits as one approach to meet the needs of their increasingly diverse workforces, while containing costs. Flexible benefits allow employees to choose among plans within a given benefit area or to design individual benefit packages by selecting specific benefits from among several types. Employees may choose from a variety of health care and life insurance options, various levels of sickness and accident insurance, long-term disability insurance, additional vacation and sick leave days, dependent care, adoption

[51] Pub. L. 103-3, Feb. 5, 1993.

assistance, and legal assistance benefits. According to the Bureau of Labor Statistics, the percentage of employees in medium and large companies with access to flexible benefits increased from 5 percent in 1988 to 13 percent in 1999.

Flexible Spending Accounts

Some companies permit employees to allocate funds for dependent care expenses, health care deductibles, coinsurance, and other costs not covered by health care plans through flexible spending accounts. These accounts provide employees with a pretax savings account into which employees deposit a defined amount of money each pay period. According to the Bureau of Labor Statistics, the percentage of employees in medium and large companies eligible for flexible spending accounts increased from 12 percent in 1988 to 21 percent in 1999. Eight of the nine companies we contacted offered flexible spending accounts to offset child or health care expenses.

Flexible Work Arrangements

Flexible work arrangements give employees greater flexibility in choosing the times that they begin and end their workdays and weekly schedules. Common types of flexible schedules include job sharing, telecommuting, flexible work hours, compensatory time arrangements, and gliding schedules that require a specific number of hours of work each day but permit employees to vary their arrival and departure times. According to the Bureau of Labor Statistics, in 1997 approximately 28 percent of full-time employees had flexible work schedules—almost double the percentage in 1985. A survey by a human resources consulting firm showed increases in the prevalence of various flexible work options between 1998 and 2000. The survey showed, for instance, that the percentage of employers offering compressed work weeks increased from 42 to 50 percent, telecommuting on a regular basis increased from 30 to 44 percent, and flextime increased from 36 to 45 percent.

Life Insurance

Life insurance provides designated beneficiaries with cash payments on the death of a family member or other individual. Group life insurance coverage for employees is a standard part of most employee benefit packages. Plan coverage is most commonly one to two times base salary, up to certain dollar limits. The percentage of full-time employees in medium and large companies that participated in employee-sponsored life insurance plans decreased from 94 percent in 1989 to 70 percent in 1999. A 2001 survey by a human resources consulting firm found that 94 percent of the organizations surveyed offered employer-paid life insurance for their employees. All nine of the companies we surveyed offered life insurance to their employees. At some companies, employees have the option of purchasing supplemental life insurance that provides additional coverage. Employees usually pay the entire cost of the supplemental insurance premiums.

Although few employers pay for life insurance for spouses or dependents, some employers offer voluntary life insurance for these groups. Generally, employees pay the full cost of this benefit, purchasing a minimum of $10,000 for spouse coverage and between $5,000 and $10,000 for each dependent child. In 2000, 72 percent of employers surveyed by a major human resources consulting firm offered this benefit, compared with 64 percent in 1996. Eight of the nine companies we contacted extend life insurance coverage to their employees' spouses and dependents.

Living benefits are increasingly popular. They provide a portion of life insurance benefits to employees who have terminal or long-term illnesses. When offered, this benefit is commonly a standard component of group life insurance policies rather than an optional benefit rider. According to a major human resources consulting firm, the prevalence of this benefit increased from 40 percent in 1998 to 46 percent in 2000.

Long-Term Care Insurance

Employer-sponsored long-term care insurance is an emerging but still relatively rare benefit that provides coverage for employees, their spouses, and less frequently for parents and grandparents. Long-term care insurance policies pay for all or part of long-term custodial and maintenance care provided for a period generally longer than 30 days to individuals with functional impairments that inhibit total independent living. Services are provided by nursing homes and assisted living facilities, as well as through home health care, hospice, and respite care. Although less common, some policies may cover physical, speech, occupational, and respiratory therapies. Employers may offer this coverage to employees on a voluntary basis, requiring employees to pay the entire premium, but at group rates. Premiums vary by age, with older employees paying more than younger employees. Policy costs can increase if employees select optional inflation protection that automatically increases future benefits based on a schedule. According to an insurance association, the number of employers offering long-term care insurance as an employee benefit increased from 135 in 1990 to about 3,200 in 1999. However, a 1999 study estimated that only 6 to 9 percent of eligible employees took advantage of employer-provided group long-term care insurance where it was available.[52] In 2002, federal employees, active duty service members, selected Reserve members, retirees, and qualified family members became eligible to obtain long-term care insurance through the federal government.

Health Insurance

Employers typically offer several types of health care insurance plans. The three most common types of plans are health maintenance organizations, fee-for-service, and preferred provider organizations. According to the Bureau of Labor Statistics, 76 percent of full-time employees in medium and large firms were covered by their employer's medical care plan in 1997. Of these employees, 33 percent were enrolled in health maintenance organizations, up from 17 percent in 1991; 40 percent were enrolled in preferred provider organizations, compared with 16 percent in 1991; and 27 percent were enrolled in fee-for-service plans in 1997, compared with 67 percent in 1991.

Traditionally, employers have subsidized health insurance heavily. However, employees increasingly are paying a greater portion of premiums or copayments and deductibles. According to the Bureau of Labor

[52] GAO-01-563T.

Statistics, 75 percent of all full-time employees participating in medical plans in 1999 were required to contribute toward the cost of individual coverage, compared with 51 percent in 1991. Eighty-one percent of all employees were required to contribute to the cost of family coverage in 1999, compared with 69 percent in 1991. The average monthly employee contribution for single coverage in 1999 was $48, compared with about $27 in 1991; the average monthly employee contribution for family coverage was about $170 in 1999, compared with $97 in 1991.

Almost all health plans provide coverage for outpatient prescription drugs and require the insured to pay copayments. Today, most plans allow employees to obtain long-term supplies of maintenance prescription drugs at reduced cost. Two common delivery methods for prescription drugs are mail order services for long-term supplies of maintenance drugs and a prescription drug card for use at retail pharmacies. Because the cost of prescription drugs has increased annually by 10 to 15 percent for several years, employers are moving toward multiple-tier copay structures where participants pay more for brand name drugs than generics, and more for drugs not on the plan's formulary.

Some employers offer limited dental and vision coverage in connection with their health insurance plans, the cost of which employees may or may not share. Most dental plans cover preventative and restorative services such as routine exams, x-rays, fillings, root canal therapy, and periodontics within a calendar-year maximum benefit. Some employers offer voluntary dental coverage plans. Although these plans provide coverage at less costly group rates, employees pay the entire premium. According to the Bureau of Labor Statistics, in 1999, 43 percent of employees participated in dental care plans, compared with 57 percent in 1995 and 62 percent in 1993. Fee-for-service plans were the most likely to offer dental care, with 85 percent doing so in 1995. In contrast, only 8 percent of health maintenance organizations offered dental coverage in 1995. Vision care benefits provide a variety of services to plan participants that may not be covered by regular health insurance plans. These services include eye examinations, eyeglasses, and contact lenses. Since the late 1980s, the provision of vision care benefits has been declining gradually. According to the Bureau of Labor Statistics, 25 percent of employees at medium and large companies participated in vision benefits in 1999, compared with 35 percent in 1988.

Paid Time Off

Employers offer paid time off benefits consisting of vacation days, sick leave, personal leave, funeral leave, and leave to meet court and military obligations as part of a standard benefits package. While most companies continue to maintain separate leave categories, an increasing number are combining sick days and vacation days into a single plan called a paid time off bank. A human resources consulting firm found that 18 percent of companies responding to a survey had paid time off banks in 2000, compared with 6 percent in 1997.

Among employers who maintain separate leave plans, the amount of paid time off has remained relatively stable since the 1980s. Employers offer an average of 9 paid holidays annually. The number of paid vacation days varies with employee tenure, ranging from about 10 days for employees with 1 year of service up to 22 days for employees with 30 years of service. According to the Bureau of Labor Statistics, in 1997, 23 percent of all employees may carry over a specified amount of unused vacation leave annually; 49 percent must use their leave within the year earned; 13 percent may cash in unused vacation time; and 10 percent may carry over and cash in unused leave.[53]

Sick leave policies vary greatly. Some employers provide a fixed number of sick days annually, while others do not limit the number of allowed days. Some of the nine companies we contacted provided a fixed number of sick days annually, ranging from 5 to 12 days, and others incorporated sick days into paid time off banks. According to the Bureau of Labor Statistics, 53 percent of all employees were covered by sick leave plans in 1999.

Few employers offer paid family leave to new biological or adoptive parents. Rather, most permit employees to take 12 weeks of unpaid maternity or paternity leave and adoptive and foster care leave in accordance with the Family and Medical Leave Act of 1993.[54] According to the Bureau of Labor Statistics, unpaid family leave covered 93 percent of full-time employees at medium and large companies in 1997, compared with 84 percent in 1995. Paid maternity and paternity leave in the private sector appears to be rare. In 1997, only 2 percent of companies offered paid leave, according to the Bureau of Labor Statistics. Of the nine companies

[53] Data was not available from 5 percent of medium and large companies in 1997 concerning their paid leave policies.

[54] Pub. L. 103-3, Feb. 5, 1993.

we contacted, one allowed employees to take up to 3 years unpaid leave after the birth of a child and to return to a comparable position. Another company gave mothers 12 weeks paid leave with the option to take additional unpaid time off. If she returns within 6 months, the company guarantees her position; if she returns after 1 year, the company guarantees employment, but not the same position.

Personal Financial Employee Education

Personal financial employee education initially was a benefit reserved for executive-level employees, but at some companies it has gradually been made available to all employees. Employers offer personal financial employee education as a way to increase participation in 401(k) plans, increase employee contribution levels, comply with Employee Retirement Income Security Act of 1974[55] regulations, and decrease potential liability for losses. According to a March 2001 human resources consulting firm report, 76 percent of surveyed employees received some type of financial planning services at work. The top financial planning services offered included retirement planning, insurance advice, and investment and tax planning.

Relocation Assistance

Some employers reimburse employee expenses associated with relocation and increasingly are offering relocation assistance to entry-level employees. As a result, employers are developing tiered relocation programs for new and current hires that offer a specific range of benefits based on salary, grade level, or category, such as renter versus homeowner and long- versus short-term assignments. Most of the companies we contacted offered some form of relocation assistance to employees. Three of these companies limited assistance by job or operational and specific career development requirements for the company. For example, one of these has a robust relocation assistance program for employees who relocate frequently. One company covers all relocation expenses under a standard and graduated package. Other companies provide relocation assistance in limited circumstances based on an employee's job level. For instance, front-line employees may receive a flat lump sum reimbursement, while more senior managers receive additional money or services.

[55] Pub. L. 93-406, Sept. 2, 1974.

Standard features of relocation assistance packages include shipment or storage of household goods, temporary living expenses, and house-hunting trips. Some employers are providing predecision orientation trips in addition to house-hunting trips, and also may offer housing differential assistance programs to renters and homeowners to assist with extreme discrepancies in housing costs in certain high-cost areas. A 2001 survey by a relocation consulting firm found that 94 percent of companies with relocation programs reimbursed closing costs on new home purchases. Some employers also offer mortgage assistance through national lenders that provide competitive interest rates. According to the survey, 53 percent of polled companies identified spouse employment issues as a reason employees were reluctant to relocate. As a result, some corporations include spousal assistance in their relocation program.

Retiree Health Benefits

Since World War II, many employers who voluntarily sponsor health insurance as an employee benefit have offered health benefits to their retirees as well. We reported in May 2001 that employer-sponsored retiree health benefits have been declining gradually since at least 1997.[56] According to a human resources consulting firm, fewer than one-third of large employers offered health benefits to most retirees in 2000—a drop of 8 percentage points since 1997. Many employers that continue to offer coverage have reduced the terms of coverage by tightening eligibility requirements, increasing the share of premiums retirees pay for health benefits, or increasing copayments and deductibles, thereby contributing to a gradual erosion of benefits.

Retirement Plans

Employers typically offer a defined benefit plan, a defined contribution plan, or a combination of these plans. Defined benefit plans provide a fixed pension benefit at retirement. In contrast, defined contribution plans specify employer and employee contributions but do not guarantee future benefits. Although the basic provisions of employer-sponsored defined benefit plans have been relatively stable for the past two decades, defined contribution plans have supplemented or supplanted defined benefit plans. According to the Bureau of Labor Statistics, 50 percent of full-time employees were enrolled in defined benefit plans in 1997, compared with

[56] U.S. General Accounting Office, *Retiree Health Benefits: Employer-Sponsored Benefits May be Vulnerable to Further Erosion*, GAO-01-374 (Washington, D.C.: May 1, 2001).

59 percent in 1991, and 57 percent were enrolled in defined contribution plans in 1997, compared with 48 percent in 1991. All nine of the companies that we contacted offered some form of retirement plan. All the companies offered a 401(k) plan, and three offered a company stock purchase plan.

Recent trends in 401(k) plans include higher matching contributions, faster vesting and eligibility, and more investment options. Eligibility ranges from immediate to 1 year and is growing shorter as the workforce becomes more mobile. According to the Profit Sharing/401(k) Council of America, 37 percent of employees in surveyed companies were immediately eligible to participate in 401(k) plans in 2000, and they could select from an average of 12 investment funds. Many companies offer to match employee contributions. However, employer matches vary considerably, ranging from 25 percent to 100 percent of employee pay contributions in 2000. According to the Profit Sharing/401(k) Council of America, the most popular type of fixed match is $0.50 per $1.00 up to the first 6 percent of pay contributed. Some employers weight the match more heavily toward the first 2 percent or 3 percent of pay contributed by employees. A survey conducted by a human resources consulting firm found that almost one-third of polled companies offer immediate vesting of employer matching contributions. Others offer vesting for matching contributions over a period of 3 to 5 years. At the nine companies we contacted, allowable contributions to 401(k) plans ranged from 1 percent to 50 percent of pretax base pay. Nearly all of these companies provided matching contributions ranging from $0.50 to $1.00 for every dollar contributed by employees. In most cases, the plans offered immediate vesting.

Employers are beginning to offer a "hybrid" plan that combines elements of defined benefit and defined contribution plans. We reported in 2000 that about 19 percent of 1999 Fortune 1000 firms had begun sponsoring cash balance plans, an emerging type of defined benefit plan that resembles a defined contribution plan.[57] Cash balance plans allow workers to accrue higher pension benefits earlier in their careers than they would under most traditional defined benefit plans. Cash balance plans also allow more mobile workers to secure and retain higher benefits, even when they change jobs, than they would under most defined benefit plans.

[57] U.S. General Accounting Office, *Cash Balance Plans: Implications for Retirement Income*, GAO/HEHS-00-207 (Washington, D.C.: Sept. 29, 2000).

Short- and Long-Term Disability

Short-term disability benefits protect employees against lost income resulting from nonwork-related illnesses or accidents. These benefits include paid sick leave plans that replace earnings for a fixed number of days per year, as well as sickness and accident plans that replace a portion of earnings for a fixed period of time, generally 6 to 12 months. The majority of participants have their benefits paid by their employer through funded plans, usually self-insured or insured by carriers. The two most common ways to provide benefit payments are either as a percentage of employee earnings or as a flat dollar amount. According to the Bureau of Labor Statistics, 49 percent of employees at medium and large companies participated in short-term disability plans in 1999, compared with 55 percent in 1997. According to one consulting firm, short-term disability plans pay covered employees their full salaries for the first month of disability and then a short-term disability benefit ranging from 60 to 70 percent of their salaries for up to 3 months of disability.

Long-term disability benefits, which begin after short-term disability benefits expire, provide a percentage of pay for disabilities that prevent an employee from performing any occupation that the person is reasonably suited to do by training, education, or experience. According to the Bureau of Labor Statistics, 36 percent of employees at medium and large firms participated in long-term disability plans in 1999, compared with 43 percent in 1997. Over the past few years there has been little change in cost-sharing for long-term disability insurance or the level of coverage. Most benefit plans continue to provide 60 percent of pay. According to a study by a human resources consulting firm, in 2000, the average monthly premium was $0.47 per $100 coverage.

Survivor Income Insurance

Survivor income insurance plans provide monthly benefits to a deceased employee's survivors. While life insurance usually provides a lump-sum benefit, a survivor income plan generally pays a monthly benefit. Benefits may be a fixed monthly amount or a percentage of the deceased employee's salary. Benefits are usually paid for a limited period, such as 24 months. Some plans continue payment until a surviving spouse marries or reaches age 65 or until dependent children reach a certain age. According to the Bureau of Labor Statistics, 5 percent of employees participated in survivor income insurance plans in 1999; this percentage remained unchanged from 1994.

Tuition Assistance

Tuition assistance benefits reimburse employees for job-related courses, courses related to future jobs within the company, degree-related courses, and—less commonly—for nonjob-related courses. Employers may reimburse eligible employees for both degree programs and on a course-by-course basis. Many employers limit eligibility to full-time salaried employees and require employees to fulfill a minimum service period of 6 months to 1 year prior to becoming eligible for this benefit. Although most employers who offer this benefit pay a portion of educational expenses, such as tuition and book costs, most impose limits on reimbursement amounts through maximum reimbursement levels or limits on the number of courses per term or per year. Reimbursement varies by company and may be based on obtaining certain grades, completion of courses, and the employee's agreement to remain with the company for a specified period of time. Eight of the nine companies we contacted offered some form of tuition assistance. They limited assistance to tuition costs and books with total reimbursement ranging from $1,000 to $5,250, or three courses per semester. One company required employees to maintain a grade of "C" or better. Three of the nine companies required employees to remain with the company for a certain time period, generally up to 3 years. According to the Bureau of Labor Statistics, 55 percent of employees had access to this benefit for work-related courses and 17 percent were eligible for nonwork-related educational assistance in 1999, compared with 65 percent and 18 percent, respectively, in 1995. However, few employers provide educational assistance for employees' dependents. Only one of the nine companies we contacted offered merit-based scholarships for employees' dependents, but even these were extremely limited in number.

Comments from the Department of Defense

ASSISTANT SECRETARY OF DEFENSE
4000 DEFENSE PENTAGON
WASHINGTON, DC 20301-4000

AUG 22 2002

FORCE MANAGEMENT POLICY

Mr. Derek B. Stewart
Director, Military and Civilian Personnel Issues
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Stewart:

This is the Department of Defense (DoD) response to the GAO draft report GAO-02-935, "Military Personnel: Active Duty Benefits Reflect Changing Demographics, but Opportunities Exist to Improve," dated July 29, 2002 (GAO Code 350202).

The GAO was asked to review the active duty benefit structure. Specifically, the objectives were to determine: 1) how DoD has changed benefits in response to demographic changes in the active duty military since the advent of the all-volunteer force in 1973 and, 2) how the military's overall benefit package compares with the array of benefits offered by private sector firms. I am encouraged by your findings noting that DoD's benefits have kept pace with demographic changes in the active duty force and there are no significant gaps in the benefits offered by the military in comparison to those available in the private sector. At the attachment, I've addressed the two recommendations you identified as areas with opportunities in which we can improve. Also, under separate cover, my staff is routing several technical corrections for your consideration.

On behalf of the DoD, I want to take this opportunity to commend GAO for its efforts in conducting this comprehensive study of military benefits. Certainly, the men and women of the Armed Forces who serve this Nation deserve the best support that we can provide them. And, in that regard, I appreciate the work GAO has done to ensure that they receive no less.

Sincerely,

Charles S. Abell

Attachment:
As stated

GAO-02-935/GAO CODE 350202

"MILITARY PERSONNEL: ACTIVE DUTY BENEFITS REFLECT CHANGING DEMOGRAPHICS, BUT OPPORTUNITIES EXIST TO IMPROVE"

DEPARTMENT OF DEFENSE COMMENTS TO THE RECOMMENDATIONS

RECOMMENDATION 1: The GAO recommended that the Secretary of Defense direct the Under Secretary for Personnel and Readiness to develop measures for tracking and assessing the effectiveness of installation-level services offered through DoD's spousal employment assistance program. (Page 25/Draft Report)

DoD RESPONSE: Concur. The DoD Spouse Employment Working Group is aggressively pursuing a variety of initiatives to improve spousal employment opportunities, such as providing job search training and resolving issues with differing state residency licensing requirements for teaching, nursing, etc. The capacity to gather pertinent information on spousal employment exists within the network of installation-level Family Support Centers. The office of the Deputy Assistant Secretary for Military Community and Family Policy will track and assess this data on a recurring basis.

RECOMMENDATION 2: The GAO recommended that the Secretary of Defense direct the Under Secretary of Defense for Personnel and Readiness to assess the feasibility, costs, and benefits of offering extended time off to parents of newborn or adopted children as one way to increase retention of trained, experienced personnel. (Page 25/Draft Report)

DoD RESPONSE: Partially Concur. The Department has contracted a study to evaluate the feasibility of implementing an extended leave program that will be offered to active duty military members. This is a comprehensive review of programs being currently offered in civilian organizations and other government agencies to include the U.S. Coast Guard. An assessment of extended leave for new parents, as well as other reasons for leaves of absence, will be examined. This study is scheduled for completion by September 30, 2002.

GAO Contact and Staff Acknowledgments

GAO Contact

Brenda S. Farrell (202) 512-3604

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