

# Listen Up!



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## **Military Update from Tom Philpott**

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**NEW 'QRMC' STUDY WILL EYE CONVERTING MILITARY TO SALARY SYSTEM**  
by Tom Philpott.

By year's end the Department of Defense expects to launch its 13th Quadrennial Review of Military Compensation (QRMC), which will assess the pros and cons of converting service members from traditional basic pay and tax-free allowances to a single, civilian-like salary system.

That's a slower pace of study than Congress wanted last December when it ordered the department to prepare a plan to begin to transition to a salary system no later than Jan. 1, 2018, and in the interim to provide "an initial assessment and progress report" on the effort by March 1 this year.

The under-staffed department delivered that initial report April 17, as a two-page letter to Sen. John McCain (R-Ariz.) and Rep. Max Thornberry, chairmen of the Senate and House armed services committees. The letter advised that assessing the ramifications of moving to military salaries is an enormous task, and "necessarily and most appropriately" performed by the next QRMC. The department takes "very seriously" that order from Congress, wrote senior defense executive A. M. Kurta. However, he explained, transitioning to a salary system "would be a change of historic proportions" requiring "significant additional study [of] second and third order effects, the potential risk to readiness, if any, and the effects on DoD's ability to recruit and retain" a volunteer force.

By law, the president every four years must direct a QRMC to review principles and concepts of military compensation. Lawmakers agreed that the work of the Military Compensation and Retirement Modernization Commission in 2015-16, which resulted in enactments of a new Blended Retirement System to take effect in 2018, satisfied the legal requirement for conducting the 12th QRMC. The next QRMC will be chartered by President Trump, perhaps in the next several months, said Jeri Busch, the department's director of military compensation policy, in an interview Wednesday. A QRMC draft charter is being prepared. A director and staff could be named and begin its review by December. "For something like this," she said, "the work might take two years or more."

Meanwhile, the Trump administration soon will unveil its first defense budget request, for fiscal 2018. That will reveal whether Defense Secretary James Mattis and the White House accept the last administration's playbook on capping pay raises a half percentage point below private sector wage growth for a while longer to free up more budget dollars for training and other readiness needs. Busch said she couldn't discuss what the pay raise request will be for Jan. 1, 2018, until the budget is unveiled. A 2018 raise to match private sector wage growth would be 2.4 percent. Last year Obama sought a 1.6 percent increase. But Congress interrupted a string of pay caps instead.

The Congressional Research Service in April released for interested members of Congress a report on military compensation. It described how lawmakers, in the decade following the September 11 attacks, used various pay increases to improve recruiting, retention and overall force quality in wartime. But more recently, to deal with tighter defense budgets, Congress accepted the view of military leaders that compensation growth needed to slow so they could "rebalance" defense spending more toward weapon modernization, training and readiness accounts.

From 2014 through 2016, basic pay raises were capped a half percentage point below private sector wage growth as measured by the government's Employment Cost Index. Congress voted to trim annual adjustments in Basic Allowance for Housing for five years so that, by 2019, service members living off base will be pay five percent of their average rental costs out of pocket. Congress and the department also committed to cutting the \$1.3 billion annual subsidy for commissary stores. The goal is to slice the subsidy at least by half through more business-like operations while still preserving shopper savings. Commissaries reforms are underway. Busch indicated the department will not seek repeal of the statute dampening housing allowance adjustments. But whether it will push for full pay raises or something less will be known soon.

The department's view of pay overall, said Busch, is that there is no gap currently in comparing military pay with private sector wages or salaries, though bonuses and special pays continue to be needed to keep high-demand skills. "We do believe, as of today, that we still have a very robust compensation package that compares very favorably to the private sector," said Busch. "As of today it meets our needs in helping us recruit and retain the talent we need."

The 9th QRMC, which issued its report fifteen years ago, embraced the notion that if Regular Military Compensation (RMC) matched or exceeded the 70th percentile of wages in the private sector for workers of the same age and educational background of military folks, then military pay is deemed adequate. RMC is defined as a member's basic pay plus average tax-free allowances for their pay grade, plus a calculated value of the tax advantage on allowances. Busch said RMC remains the foundation for judging adequacy of compensation, with the understanding special and incentive pays also are needed to retain different skills.

"RMC is what we [use] to make those comparisons between the military and the private sector," Busch said. The Congressional Research Service noted that by 2012, when the 11th QRMC reported, RMC had grown past the 70th percentile benchmark set a decade earlier. Officer pay was at the 83rd percentile of college-educated private sector salaries; enlisted pay had reached the 90th percentile compared with their civilian peers. That finding made military leaders comfortable in asking Congress for a series of annual pay raise caps to rebalance defense spending toward other needs.

Is the 70th percentile standard still relevant and useful? "We think we need to review and validate whether that's the right benchmark," said Busch. "After more than 15 years of war, does that need to be in a different place?" The department has the think tank Rand Corp. studying the issue, she said. Busch reinforced another point that congressional analysts also underscored in their April review of military pay issues: that the nature of service makes pay comparisons to the private sector imperfect. The "conditions of military service are frequently much more arduous than those of civilian employment, even in peacetime, for families as well as military personnel themselves," the Congressional Research Service report explained. This factor "is sometimes cited as a rationale for military compensation being at a higher level than it otherwise might be.

"On the other hand," said the report, "the military services all mention travel and adventure in exotic places as a positive reason for enlistment and a military career, so it may be misleading to automatically assume this is always a liability."

Stay tuned to this important issue.

## Never Stop Serving!