About This Project

This chartbook from the Bipartisan Policy Center (BPC) and the American Enterprise Institute (AEI) examines how spending on the all-volunteer force has changed over time. With near-sequestration levels of defense spending likely for the foreseeable future, policymakers face tough budgetary and strategic choices regarding military personnel compensation, force structure, and readiness. We intend for this project to help decision makers and the public better understand the context underpinning this debate.

Points of Contact:
BPC: Alex Gold
AEI: Mackenzie Eaglen
Methodology

Throughout this chartbook, compensation is used as an umbrella term to include cash compensation such as basic pay, in-kind benefits such as health care, and deferred benefits such as retirement pay. All figures are in 2012 dollars and do not include Overseas Contingency Operations (OCO) or personnel funded with OCO, unless otherwise noted. **Pay and pay-like compensation** includes both basic pay for service members and additional types of compensation that often appear in service members’ paychecks, including incentive or hazard pay, housing and subsistence allowances, transportation benefits, and some education benefits not funded by the Department of Defense Education Activity. This category also includes some administrative costs.

**Health care spending** includes Tricare costs for both active duty service members and working-age (under 65) retirees. These figures do not include the cost of care provided by the Veterans Health Administration. **Retirement costs** include contributions to the Military Retirement Fund and the Medicare-Eligible Retiree Health Care Fund and represent current accruals for benefits to be paid during the retirement of current service members.
In real terms, compensation per active duty service member increased by 42 percent from 2001 to 2012.

Composition of Military Compensation per Active Duty Service Member, 2001 and 2012

<table>
<thead>
<tr>
<th>Category</th>
<th>2001</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pay and Pay-Like Compensation</td>
<td>$58K</td>
<td>$76K</td>
</tr>
<tr>
<td>Commissaries, Education, Etc.</td>
<td>$10K</td>
<td>$12K</td>
</tr>
<tr>
<td>Retirement</td>
<td>$12K</td>
<td>$21K</td>
</tr>
<tr>
<td>Health Care</td>
<td>$8K</td>
<td>$7K</td>
</tr>
<tr>
<td>Total:</td>
<td>$88,000</td>
<td>$125,000</td>
</tr>
</tbody>
</table>

Source: BPC and AEI analysis of Department of Defense figures
About 40 percent of service member compensation is in the form of benefits.

Military Compensation per Active Duty Service Member in 2012

- Pay and Pay-Like Compensation: $76,000
- Health Care: $21,000
- Retirement: $21,000
- Commissaries, Education, Etc.: $7,000

Total: $125,000

Note: Pay and pay-like compensation includes some noncash benefits.
Source: BPC and AEI analysis of Department of Defense figures
Retirement and health care benefits propelled rising costs over the last decade.

Source: BPC and AEI analysis of Department of Defense figures
Additional pay-like compensation rose twice as fast as basic pay from 2001 to 2012.

**Note:** Basic pay is a service member's base salary but is only one component of cash compensation. Additional pay-like compensation is often in service members' paychecks and includes housing and subsistence allowances, transportation benefits, and incentive and hazard pay.

**Source:** BPC and AEI analysis of Department of Defense figures
In 2012, military personnel costs represented about one-third of total Pentagon spending.

**Breakdown of DoD Discretionary Spending**

- **Other Defense Department Spending** $348B
- **Personnel Costs** $183B
- **Commissaries, Education, Etc.** $10B
- **Health Care** $31B
- **Retirement** $31B
- **Pay and Pay-Like Compensation** $111B

**Note:** Discretionary Spending is set during the annual appropriations process and accounts for about one-third of the federal budget. Mandatory spending makes up the other two-thirds and is automatically spent in accordance with programmatic rules; examples of primarily mandatory programs include Medicare, Social Security, and Medicaid.

**Source:** BPC and AEI analysis of Department of Defense figures
But that one-third of the defense budget funded almost 30 percent fewer active duty service members than in 1980.

Note: In 1980, expenses for military retiree pension benefits promised to then-current service members were not accounted for anywhere in the federal budget, and only some retiree health care benefits were included in the defense budget. In 2012, pension and Tricare for Life accruals for current service members were included in the Department of Defense (DoD) budget, and substantial additional military retirement costs were accrued outside of the DoD budget.

Does not reflect active duty end strength funded through OCO.

Source: BPC and AEI analysis of Department of Defense figures
**Note:** Includes service members and war costs funded through OCO. Spending figures are outlays.

**Source:** BPC and AEI analysis of Department of Defense figures
This means more money is paying for fewer service members.

Military Personnel Costs Are Up While End Strength Is Down

Note: Includes service members and war costs funded through OCO. Spending figures are outlays.
Source: BPC and AEI analysis of Department of Defense figures
Military personnel costs are not limited to the defense budget. Pension costs outside of the Pentagon’s budget are a majority of pension accruals.

Note: The majority of military pension costs are paid for by the Treasury and are not included in the DoD budget. Since fiscal year 1985, the federal government has used accrual accounting to recognize pension expense. This means that pension expense is not accounted for when benefits are paid during retirement, but when they are earned during the career of the service member. Accruals for benefit expense related to current service members are included in the DoD budget. However, benefits for service members who served before fiscal year 1985, as well as adjustments to account for projection errors and policy changes, are accrued in separate transactions that occur outside of the DoD budget.

Source: BPC and AEI analysis of Department of Defense figures
### Expansion of Military Benefits, Including Retirees, 2000 to 2012

<table>
<thead>
<tr>
<th>Year</th>
<th>Major Additions</th>
<th>Primary Recipient</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000–2001</td>
<td>Tricare for Life&lt;br&gt;Eliminated copays for active duty family members enrolled in Tricare Prime&lt;br&gt;Tricare Senior Pharmacy&lt;br&gt;Enhanced Tricare Retiree Dental Program&lt;br&gt;Extension of medical and dental benefits for survivors&lt;br&gt;Entitlement for Medal of Honor recipients&lt;br&gt;Tricare Prime travel entitlement&lt;br&gt;Chiropractic Care Program&lt;br&gt;School physicals&lt;br&gt;Family Supplemental Subsistence Allowance for families on food stamps&lt;br&gt;Survivor Benefit Plan payable to spouses</td>
<td>Retired&lt;br&gt;Active Duty&lt;br&gt;Retired&lt;br&gt;Retired&lt;br&gt;Survivors&lt;br&gt;All Beneficiaries&lt;br&gt;Non–Active Duty Beneficiaries&lt;br&gt;Active Duty&lt;br&gt;All Beneficiaries&lt;br&gt;Survivors</td>
</tr>
<tr>
<td>2002</td>
<td>Tricare Prime Remote for active duty family members&lt;br&gt;Tricare Online for online appointment scheduling&lt;br&gt;Tricare Plus Program</td>
<td>Active Duty&lt;br&gt;All Beneficiaries&lt;br&gt;Non–Active Duty Beneficiaries</td>
</tr>
<tr>
<td>2003</td>
<td>Family Separation Allowance increased by 150 percent</td>
<td>Current Service Members</td>
</tr>
<tr>
<td>2004</td>
<td>Elimination of Non-Availability Statements&lt;br&gt;Transitional Assistance Management Program expanded&lt;br&gt;Congress eliminates Social Security offset for Survivor Benefit Plan</td>
<td>Non–Active Duty Beneficiaries&lt;br&gt;Non–Active Duty Beneficiaries&lt;br&gt;Survivors</td>
</tr>
<tr>
<td>2005</td>
<td>Tricare Reserve Select&lt;br&gt;Tricare Maternity Care options</td>
<td>Reserve &amp; National Guard&lt;br&gt;Non–Active Duty Beneficiaries</td>
</tr>
<tr>
<td>2006</td>
<td>Raised cap on multiplier for regular military retirement</td>
<td>Retired</td>
</tr>
<tr>
<td>2007</td>
<td>Expansion of Tricare Reserve Select&lt;br&gt;Expanded disease management programs</td>
<td>Reserve &amp; National Guard&lt;br&gt;All Beneficiaries</td>
</tr>
<tr>
<td>2008</td>
<td>Early receipt of retirement pay by certain reservists&lt;br&gt;Wounded Warrior benefits&lt;br&gt;Establishment of Pathology Center&lt;br&gt;Guard/Reserve coverage expanded for early eligibility&lt;br&gt;Full reimbursement for goods damaged in military moves</td>
<td>Retired&lt;br&gt;Current Service Members&lt;br&gt;All Beneficiaries&lt;br&gt;Reserve &amp; National Guard&lt;br&gt;Current Service Members</td>
</tr>
<tr>
<td>2009</td>
<td>Active Duty Dental Program&lt;br&gt;Increase of Extended Care Health Options government liability to $36,000 for certain services&lt;br&gt;Elimination of copays for preventative service for Tricare Standard</td>
<td>Active Duty&lt;br&gt;Current Service Members&lt;br&gt;Retired</td>
</tr>
<tr>
<td>2010</td>
<td>Tricare Overseas Program begins health care delivery&lt;br&gt;Tricare Retired Reserve&lt;br&gt;Transitional Assistance Management Program offered to active duty joining select reserve</td>
<td>Active Duty&lt;br&gt;Retired&lt;br&gt;Active Duty</td>
</tr>
<tr>
<td>2011</td>
<td>Tricare Young Adult</td>
<td>All Beneficiaries</td>
</tr>
</tbody>
</table>

**Note:** This is a representative list only.

**Source:** BPC and AEI compilation of recent benefits
The Bottom Line

While the real cost of military compensation per active duty service member rose by 42 percent from 2001 to 2012, the active duty force grew by less than 1 percent. The Pentagon will increasingly need to take great care in balancing all the priorities of military strength. Unless modernization of compensation and benefits comes soon, the only way to meet the spending caps set in the Budget Control Act of 2011 will be to continue to shrink the armed forces or cut other essential portions of the defense budget. The costs of inaction will harm future service members and their families by depriving them of the world’s best training, equipment, and leadership.