



Economic Policy Program

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ISSUE BRIEF:

Rapid Growth in U.S. Military Personnel Costs Driven by Pay and Benefit Increases

Per-capita Growth Faster Than 40 Percent since 2001
Could Place Strain on Readiness

JULY 2014

Mounting fiscal challenges have forced policymakers to confront difficult budgetary choices. One of the most important concerns is spending on our national security: whether to cut the defense budget and, if so, by how much. In fiscal years (FYs) 2013 and 2014, sequestration and other budget cuts have reduced defense spending by \$166 billion relative to what was projected in 2011; in FY 2015, the U.S. defense base budget will be \$521 billion, compared to \$530 billion in 2012.¹ Some argue that we can afford to cut more still, while others contend that we have already gone too far. But this is not the right debate.

A single number—the “top line,” or total defense budget—tells us nothing about what should be the fundamental question when it comes to national security: Is our military adequately staffed, trained, and equipped to protect us from the threats that our nation does and might face? An informed debate about the appropriate level of defense spending, therefore, requires both an understanding of strategy (what are the threats and how can they be addressed?) as well as budgeting (what are our defense dollars spent on?).

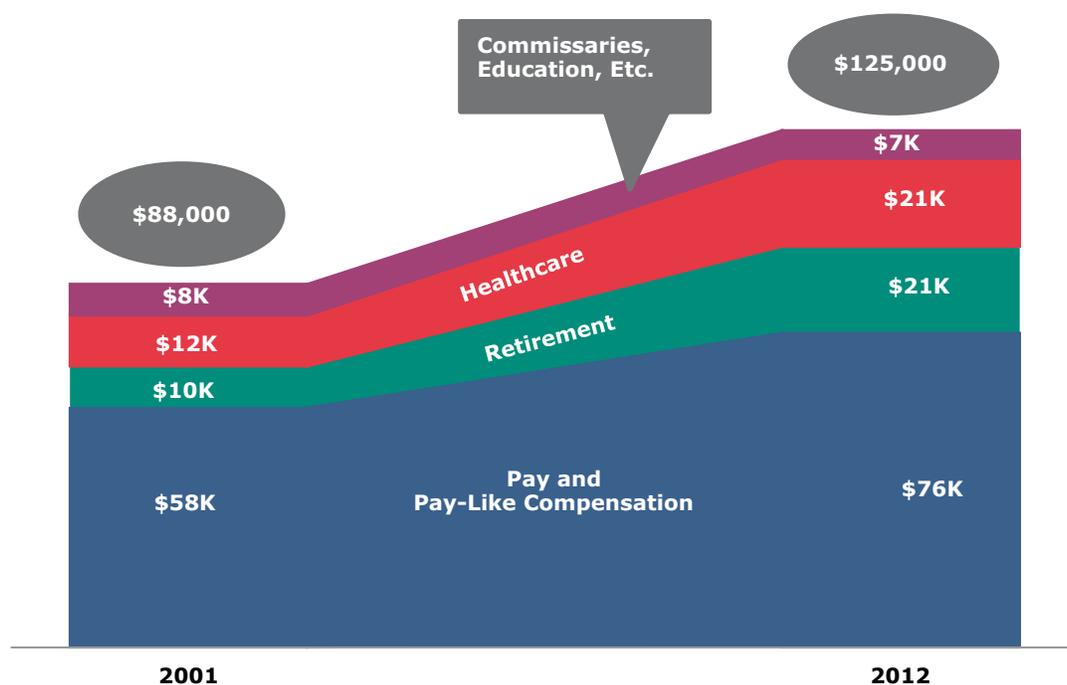
This paper, which is intended to provide factual analysis on part of the latter question, is based on joint analytical work by the Bipartisan Policy Center (BPC) and the American



Enterprise Institute (AEI). It examines how spending on military personnel—a particular, but particularly important, part of the defense budget—has changed over time.

Total personnel costs, which include cash compensation, housing, healthcare, and retirement benefits, increased by 43 percent between FYs 2001 and 2012 after accounting for inflation. Over the same time period, the size of the active duty force grew by less than 1 percent, so the average cost per service member increased by 42 percent. The speedy growth in average per-capita costs is due in large part to repeated annual pay raises that exceed inflation and substantial increases in the value of healthcare and retirement benefits.

Compensation Per Service Member

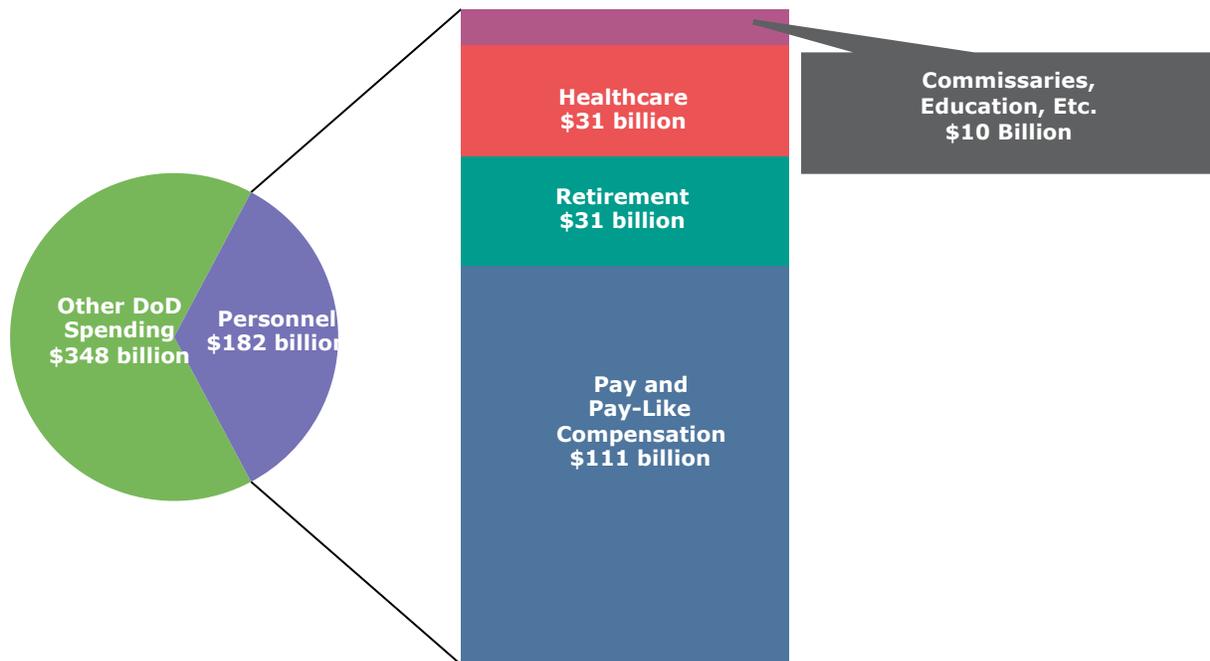


Note: All figures in 2012 dollars.
Source: BPC and AEI Analysis of DoD Figures.

AEI and BPC estimate that average military personnel costs per active duty service member rose from \$68,000 in FY 2001 to \$125,000 in FY 2012. The FY 2001 figure rises to \$88,000 after converting it into 2012 dollars (to adjust for inflation)—meaning that growth was 42 percent *after* adjusting for inflation.

These are average figures across all service members. Many service members make much less than this and some make much more. In particular, those who end up serving for a full 20 years and receiving health and pension benefits in retirement get much more per year than our average figures, while those who do not get substantially less. Our estimates do not incorporate funding for active duty, retired, or disabled service members outside the Department of Defense (DoD) budget—most notably care provided to some veterans through the Veterans Health Administration and certain accruals for military pensions.

What DoD Spent in 2012



Source: BPC and AEI Analysis of DoD Figures.

Costs related to military personnel make up about one-third of the defense budget. Pay and pay-like compensation account for more than half of personnel costs. While basic pay comprised about 56 percent of this category in FY 2012, service members' paychecks often include generous additional forms of pay-like compensation, including incentive or hazard pay, housing and subsistence allowances, and transportation benefits. The costs of these kinds of benefits are rapidly increasing. While basic pay grew by 17 percent between FYs 2001-2012 in real terms, other benefits grew faster such that pay and pay-like benefits in total grew at a much more rapid pace of 32 percent—from \$84 billion to about \$111 billion.^{2,3}

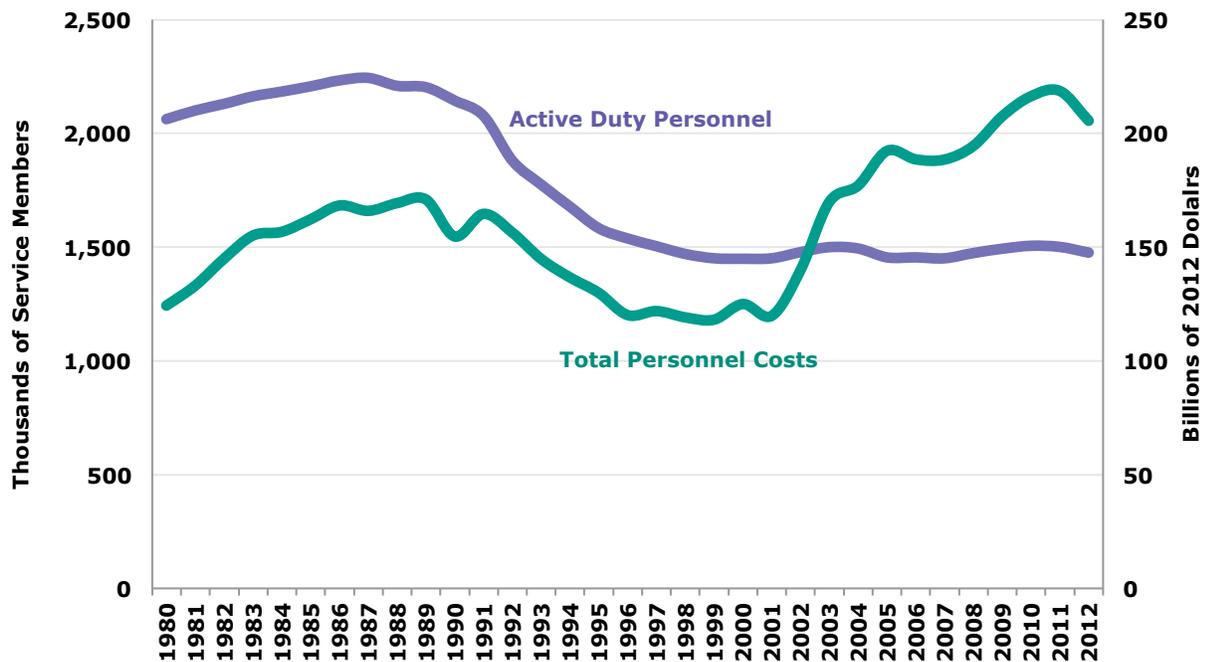
The Pentagon's bill for retirement costs, which includes funding accruals for pensions and Medicare-eligible retiree healthcare, grew more rapidly still on a proportional basis. In inflation-adjusted terms, retirement compensation more than doubled over the period—from about \$15 billion in FY 2001 to nearly \$31 billion in FY 2012.

Growing almost as quickly was Pentagon healthcare spending—a personnel cost like employer-provided health insurance. This encompasses the TRICARE program that provides medical care to active duty service members, retirees, and their families; pharmacy programs; medical education and training; medical R&D; and more.⁴ Pentagon healthcare costs grew in inflation-adjusted terms by 74 percent between FY 2001 and FY 2012—from under \$18 billion to \$31 billion.

There are several other small categories of spending that we include to ensure a complete picture: the DoD constructs and maintains housing for service members and their families; provides retail shopping at subsidized rates to active duty service members; provides schooling to the children of active duty service members; provides child care and youth programs; funds support centers, transition assistance, and counseling; and more. In total, these programs actually shrank slightly in inflation-adjusted terms from FY 2001 to FY 2012 – from \$11 billion to \$10 billion.

Going back even further than 2001, personnel costs have risen very significantly relative to the size of the fighting force as well. Since 1980, military end strength has dropped by about one-quarter, to just under 1.5 million in FY 2012 from over 2 million in FY 1980.⁵ But over that same period of time, total personnel costs have increased by nearly 65 percent after accounting for inflation.

Costs Up, Forces Down

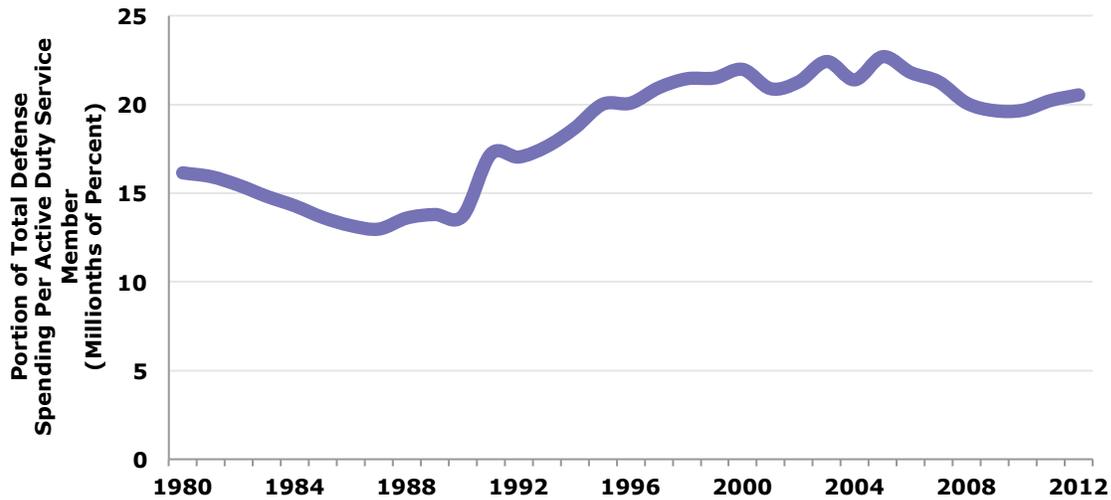


Note: Both number of personnel and costs include war spending and personnel. Spending figures are outlays. Costs are calendar years, personnel are fiscal years.

Source: BPC and AEI Analysis of DoD Figures.

As a summary measure, the portion of total defense spending going to each individual service member—though very small—has risen quite significantly since the early 1990s.

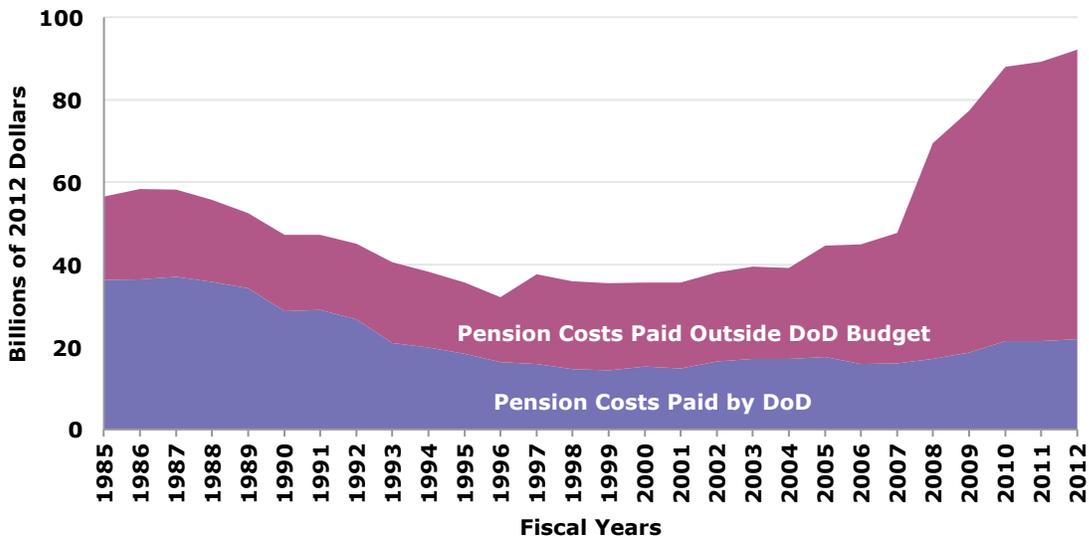
Each Member is a Larger Portion of Total Defense Spending



Note: Both number of personnel and costs include war spending and personnel. Spending figures are outlays.
 Source: BPC and AEI Analysis of DoD Figures.

Importantly, AEI and BPC figures on personnel spending include only costs borne by the defense budget. A substantial portion of what might be considered military personnel spending—including all spending by the Veterans Administration and a significant portion of military pension costs—actually occurs outside the DoD budget. The chart below shows this for spending on military retiree pensions.

Most Pension Costs Outside Defense Budget



Source: BPC and AEI Analysis of DoD Figures.

Unless structural changes come soon, the only way to meet the sequester spending caps set in the Budget Control Act of 2011 would be to continue to shrink the armed forces or cut other essential portions of the defense budget. There is no doubt that unchecked personnel cost growth would crowd out other critical investments in training, readiness, modernization, and innovation.

Technical Note

Our estimate of per-service-member personnel costs is a comprehensive look at military compensation in the DoD discretionary budget. As such, the estimate includes several forms of pay and benefits: basic pay, incentive pay, housing allowances, pension and TRICARE For Life accruals for current service members, health benefits for active duty members and retirees, family housing construction and operations, education programs, commissary subsidies, and other small benefit programs.

Our estimates of average per-capita spending do not include personnel spending for conducting the ongoing war in Afghanistan, DoD spending that is not annually appropriated (usually called mandatory spending), and spending outside the DoD discretionary budget, which most notably includes Treasury's accruals for legacy pension and TRICARE For Life obligations or benefits administered through the Department of Veterans Affairs (VA), such as healthcare, disability, and GI Bill education benefits.⁶

Endnotes

¹ These figures are in current dollars. Future defense budgets would be smaller if inflation was accounted for and the budgets were expressed in today's dollars.

² This portion of personnel costs includes a small amount of administrative costs.

³ Some service members receive pay-like benefits in-kind rather than in cash.

⁴ Our figures on the Defense Health Program include both spending on current active duty service members and on current retirees.

⁵ These figures are calculated as full-time equivalents (FTEs). A person works 1.0 FTEs if they work the number of hours that a full-time employee would work in a specified period of time. For example, if one person worked full-time for half the year and then left the force and another person started the next day and worked for the rest of the year, their work would together count as 1.0 FTEs.

⁶ Treasury's accruals are to account for pension benefits earned before 1985 and TRICARE For Life benefits earned before 2002, as well as to adjust for changes in experience, such the effect of congressional increases in pay growth on pension benefits.