

Report on the Calculation of the Basic Allowance for Housing, Basic Allowance for Subsistence, and Cost-of-Living Allowances

Problem

The director of the 14th Quadrennial Review of Military Compensation asked CNA to review statutory requirements and methodologies used to calculate the Basic Allowance for Subsistence (BAS) and Cost of Living Allowances (COLAs). Specific research questions related to BAS included how often it should be calculated, whether it should vary by geographic area, and how much it would cost to extend BAS to servicemembers' dependents as a way of fighting food insecurity. As a follow-up to a report released earlier in this study, which found that the Basic Allowance for Housing (BAH) was sufficient overall but perceived as inadequately transparent or predictable, we were also asked to develop several courses of action (COAs) to reform BAH.

Findings

BAS

The 1998 National Defense Authorization Act (NDAA) set enlisted servicemembers' BAS between the *values* of the United States Department of Agriculture's (USDA's) liberal food plan (the cost of a nutritious basket of goods based on the spending habits of the top quartile of consumers) and its moderate food plan (based on the second-highest quartile) [1]; however, the 2001 NDAA set the *growth* of BAS according to only liberal food plan values [2]. Additionally, the 2001 NDAA was written in a way that implies that food costs only rise; as a result, BAS values stay fixed when food prices fall, leading its purchasing power to gradually rise to the point that it now approximately matches the values of the liberal food plan. BAS values are set in January, but food prices frequently rise throughout the year, meaning that an accurately set BAS value at the beginning of the year will often undershoot the actual cost of food for the next 11 months. As a result, there is no intuitive benchmark for what Congress intends BAS's value to be.

There is evidence that food costs vary substantially by geographic region even when accounting for OCONUS military housing areas (MHAs). However, county-level data exist only for the USDA's thrifty food plan, which is used in computing the value of the Supplemental Nutrition Assistance Program and contains a very different basket of goods than the liberal food plan.

We estimate that extending BAS to servicemembers' dependents would cost between \$5 and \$6.2 billion, depending on whether dependents are tied to the moderate or liberal food plan. Doing so would roughly double the program's cost; however, these assumptions are likely lower bounds, as increased benefits for dependents may lead to greater enlistment and retention of individuals who intend to have large families.

COLAs

Both CONUS and OCONUS COLA computation methods are well-documented, but their values vary by implausibly large amounts over time and across nearby locations (e.g., estimated national average costs rose by 24 percent between 2023 and 2024, bases 60 miles apart in Germany receive different COLA amounts). Some of this may be due to prior contractor error. However, use of the Living Pattern Survey (LPS), which relies on self-reported shopping habits, can lead to conflicts of interest in assessing local costs of living. Servicemembers living abroad may also be penalized for honestly reporting their shopping habits in the LPS; a weakened dollar may lead servicemembers to shop more on base, which the LPS would regard as reducing the cost of living and therefore any need for additional allowances, even though servicemembers have less purchasing power in local markets.

BAH COAs

We presented three COAs for BAH reform, with a range of comprehensiveness. A **Tweak COA** would compute BAH values for one quarter of MHAs per year over a four-year cycle, with BAH updated in off-years according to growth in median rental rates as

computed by the Department of Housing and Urban Development. This would limit the more volatile re-leveling to one year out of four and use publicly available data for the other three. A **Consolidate COA** would build on the Tweak COA by collapsing the housing profiles used in BAH computation (one- and two-bedroom apartment, two- and three-bedroom townhouse, and three- and four-bedroom single-family home) into four categories based solely on bedroom count. This would limit the need to search for rare housing profiles (e.g., four-bedroom single-family homes in dense urban areas) and would prevent having to adjust BAH values when more senior paygrades are inadvertently rated for less expensive housing profiles (e.g., when a single-family home is cheaper than a townhouse in the same MHA). An **Overhaul COA** would have DOD collaborate with the Census Bureau to meet statutory language by directly assessing what comparable civilians spend on housing in each MHA, without the intermediate step of assuming that comparable civilians can afford a specific housing profile [3]. Once MHAs are divided into four cohorts (ideally balancing size, urbanicity, and expected methodological challenges across cohorts), the Tweak COA could commence at the beginning of any calendar year and require a four-year implementation cycle. The Consolidate COA would require additional lead time to coordinate with contractors on a sampling strategy to ensure an optimal mix of housing types but would also be implemented over a four-year cycle. The Overhaul COA would require several years for collaboration with Census and computation of a “shadow BAH” to assess any distributional and/or incentive effects of reform but could be implemented all at once rather than over four years.

Recommendations

We recommend indexing BAS to the *value* of the USDA liberal food plan, not just its growth rate. Doing so would provide intuitive, transparent values for BAS and limit cost growth without harming servicemembers. It may be appropriate to forecast food prices into the upcoming year when setting BAS values; these will typically overpay at the beginning of the year and underpay at the end of the year, rather than underpaying for 11 out of 12 months. **We do not recommend** adjusting BAS to reflect local variation in food costs. This issue is better handled through proper implementation of COLA; furthermore, even if Congress wishes to vary BAS by location, there is no readily available data on local variation in the cost of the USDA liberal food plan. Adjusting BAS values geographically would therefore require further data collection and analysis. **We do not recommend** extending BAS to servicemembers’ dependents. Doing so falls outside the historic purview of BAS, would roughly double program costs, and would be a less efficient way of address food insecurity concerns within the Services than more narrowly targeted policies.

We endorse the recent elimination of automobile purchases as a component of overseas COLA and the reimplemention of an exchange rate accumulator for adjusting OCOLA in the wake of large exchange rate swings. **We recommend** incorporating observed commissary and exchange usage rather than relying on self-reported usage in the LPS. **We do not recommend** lowering the threshold for COLA receipt beyond the planned level of 107 until effects of recent and planned reforms can be observed and studied.

We do not take a stance on which BAH COA is optimal. DOD is best positioned to determine which COA best meets department needs, or whether elements of multiple COAs should be combined into a hybrid approach.

For further reading

Adam M. Clemens, Danielle N. Angers, Russell W. Beland, Shing L. Cheng, Daniel M. Leeds, Rikesh A. Nana, Robert W. Shuford, Susan Starcovic, and Sarah L. Wilson. *Evaluation of Basic Allowance for Housing*. DRM-2023-U-036969-1Rev

References

- [1] *National Defense Authorization Act for Fiscal Year 1998*. Pub. L. No. 105-85. Nov. 18, 1997.
- [2] *National Defense Authorization Act for Fiscal Year 2001*. Pub. L. No. 106-398. Oct. 30, 2000.
- [3] *Section 403: Basic Allowance for Housing*. Title 37 United States Code.

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