

Economic Conditions of Military Families

James Hosek and Shelley MacDermid Wadsworth

Summary

For military children and their families, the economic news is mostly good. After a period of steady pay increases, James Hosek and Shelley MacDermid Wadsworth write, service members typically earn more than civilians with a comparable level of education. Moreover, they receive many other benefits that civilians often do not, including housing allowances, subsidized child care, tuition assistance, and top-of-the-line comprehensive health care. Of course, service members tend to work longer hours than civilians do, and they are exposed to hazards that civilians rarely, if ever, face. The extra pay they receive when they are deployed to combat zones helps their families cope financially but cannot alleviate the stress.

Though service members are relatively well paid, the military lifestyle takes a toll on the earnings of their spouses. Chiefly because the military requires service members to move frequently, spouses' careers are regularly interrupted, and employers are hesitant to offer them jobs that require a large investment in training or a long learning curve. More military spouses than comparable civilian spouses are either unemployed or work fewer hours than they would like, and military spouses overall tend to earn less than their civilian counterparts.

Despite the military's relatively high pay, some service members and their families—particularly among the junior enlisted ranks—report financial distress, and a handful even qualify for food stamps. Moreover, precisely because military pay tends to be higher than civilian pay, families may see a drop in income when a service member leaves the armed forces. Finally, the pay increases of recent years have slowed, and force cutbacks are coming; both of these factors will alter the financial picture for service members, possibly for the worse.

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In this article, we find that the economic circumstances of military families are good, certainly much improved compared with even a decade ago. But the military context is nonetheless challenging, with long hours, dangerous work, frequent transfers, and stressful absences during deployment. Service members receive relatively high pay and have steady work, but military life can exact a price from their spouses: frequent moves disrupt spouses' employment, and military spouses' wages are lower than those of comparable civilians. Yet the military offers important services to families in the form of noncash benefits. For example, on-base child-care centers are renowned for high-quality care (see the article in this issue by Major Latosha Floyd and Deborah Phillips). Similarly, military dependents receive health care at little or no cost through the TRICARE system, and the military contributes to local school districts to ensure that school-age military children have access to quality education. Despite these noncash benefits, some families, especially large families of junior service members, have trouble making ends meet, just like families in the civilian world.

To depict the economic conditions of military families, we describe the elements of military compensation and how it has changed over the past decade, and we discuss a range of topics including health-care costs, the possibility of being on food stamps, pay in the reserve forces, military spouses' earnings, deployment and deployment-related pay, and selected benefits that affect military families with children. We compare military pay with minimal self-sufficiency budgets, and we assess financial stress among military families. Finally, we recognize that military service can have consequences that extend into civilian life, and we examine postservice earnings,

unemployment, and homelessness among veterans, and how these things are associated with service-related disabilities, including posttraumatic stress disorder (PTSD).

As a point of departure, table 1 illustrates how many service members have children in their homes at different points in the military life cycle; table 2 breaks down the types of households these children live in: single-parent, one military parent and one civilian, or dual-service. The tables use data from 2010, but military population dynamics are stable enough that these data offer a good approximation of current conditions. In 2010, 44 percent of active-duty service members had children. Of service members with children, 11 percent were single, 82 percent were married to a civilian, and 7 percent were in dual-service marriages. (Although the tables don't include them, the corresponding percentages for the Guard and Reserve are similar. Forty-three percent of Guard and Reserve members had children, and of those with children, 21 percent were single, 75 percent were married to a civilian, and 3 percent were married to another service member.)

The longer people stay in the military, the more likely they are to have children. Among active-duty service members, 22 percent of junior enlisted personnel (pay grades E1–E4) had children, compared with 60 percent of midcareer personnel (pay grades E5–E6) and 82 percent of senior personnel (pay grades E7–E9). Thirty-six percent of junior officers (pay grades O1–O3) had children, compared with 76 percent of midcareer officers (pay grades O4–O6). The highest officer grades, generals and admirals (pay grades O7–O10), count fewer than 1,000 members and are not shown in the table. Because of attrition and failure to reenlist, only about

Table 1. Number and Percentage of Active-Duty Personnel with Children

	Enlisted personnel, by pay grade			Officers, by pay grade		Total
	E1–E4	E5–E6	E7–E9	O1–O3	O4–O6	
Total active-duty personnel	627,628	420,222	134,807	127,997	86,549	1,397,203
Active-duty personnel with children	136,043	251,150	110,571	45,936	66,074	609,774
Percentage with children	22%	60%	82%	36%	76%	44%

Source: Department of Defense, 2010 *Demographics Profile of the Military Community*.

35 percent of an entering cohort of active-duty enlisted personnel will have a second term of service, and about 14 percent will attain the 20 or more years of service that will qualify them for military retirement benefits. Among officers, approximately half of an entering cohort will depart between their fifth and 10th year of service as their initial obligation ends, and 34 percent will reach 20 years of service.

Service Members' Pay and Benefits

Perhaps the best way to compare military compensation to civilian earnings is to begin with “regular military compensation,” or regular compensation for short.¹ Regular compensation consists of basic pay, a subsistence allowance, a housing allowance, and, because the two allowances aren't taxable, a tax advantage as well. Basic pay and the housing allowance increase with pay grade and years of service. The housing allowance goes to the 65 to 70 percent of service members who don't live in government housing. It increases with family size and with the cost of rentals for civilians with comparable income who live in the same area.² On average, regular compensation accounts for about 90 percent of military cash compensation. Special pay and incentive pay, as well as other allowances, contribute much of the remainder and serve to differentiate pay by

circumstance and occupation. Some examples are the family separation allowance (\$250 per month), hardship duty pay (\$100 per month for duty in Afghanistan, for example), bonuses for enlistment and reenlistment, and allowances for moving.

In addition, service members receive health-care coverage—free for themselves and at low cost for their families—and they earn 30 days of paid vacation each year. They can also receive “special leave” for reasons that include deployment, morale, convalescence, maternity, paternity, or adoption, as well as emergency unpaid leave.³ Members who complete 20 years of military service qualify for retirement benefits and lifetime health benefits. Active-duty service members begin receiving these benefits as soon as they leave the military, and reservists start receiving them at age 60 (or somewhat earlier, depending on how often they were deployed). Retirement benefits equal roughly 50 percent of basic pay after 20 years of service and 75 percent after 30 years; retirement benefits for reservists reflect only the time they spent on active duty or in training and drills. After leaving the military, new veterans can receive unemployment compensation while they look for civilian jobs, though benefit levels vary by state.

Table 2. Active-Duty Personnel with Children, Percentage by Marital Status

	Enlisted personnel, by pay grade			Officers, by pay grade		Total
	E1–E4	E5–E6	E7–E9	O1–O3	O4–O6	
Single-parent	18%	10%	10%	7%	5%	11%
Married to civilian	77%	82%	81%	87%	91%	82%
Dual-service	6%	9%	9%	7%	5%	7%

Source: Department of Defense, *2010 Demographics Profile of the Military Community*.

Through a tuition assistance program and various versions of the GI Bill, service members can get help with college expenses. When they're deployed, the Servicemembers Civil Relief Act protects them from high mortgage interest rates and foreclosures, termination of leases, and eviction, among other things. Further legal protections include the Uniformed Services Employment and Reemployment Rights Act, which preserves the jobs of deployed Guard and Reserve members, and the Family and Medical Leave Act, which includes special provisions for military families. The families of service members who die on active-duty receive a death gratuity of \$100,000. The Survivor Benefit plan also provides an annuity to one or more surviving family members, although military retirees must pay premiums for this benefit. For the most part, active-duty service members receive these forms of compensation and others at all times, and reservists receive them while they're on active duty.

Military Cash Compensation since 2000

Service members receive well above the median wage of civilian workers of comparable age and education. Military service can be difficult and dangerous, and paying well helps the all-volunteer force meet its staffing requirements. In fact, when military pay

has been allowed to fall relative to civilian pay, the service branches have had trouble recruiting and retaining personnel. For example, the military shrank after the Cold War, and military pay increases did not keep up with civilian pay. By 1999, the Army and Marines had difficulty finding enough high-quality recruits, and they had a hard time retaining personnel who were trained in technical specialties. Congress responded by increasing basic pay by 6.2 percent for fiscal year 2000, and it committed to increasing basic pay by half a percentage point more than usual through fiscal year 2006; it also mandated an increase in the housing allowance, to be phased in over the next few years. Later, with the wars in Iraq and Afghanistan under way, Congress continued the higher-than-usual increases in basic pay to fiscal year 2010. The basic pay increase returned to its usual adjustment—which is tied to the U.S. Department of Labor's lagged Employment Cost Index—for fiscal years 2011 and 2012, and it was half a percentage point lower than usual for fiscal year 2013.

From 2000 to 2010, the average increase in regular compensation, adjusted for inflation, was 40 percent for enlisted members and 25 percent for officers. Over the same period, inflation-adjusted civilian pay fell by between 4 and 8 percent.⁴

In 2013, an Army sergeant living near Fort Hood, Texas, who had nine years of service, a spouse, and two children received regular compensation of \$4,355 a month (\$2,620 basic pay, a \$325 subsistence allowance, a \$1,017 housing allowance, and a \$393 tax advantage), or \$52,263 annually. A captain (junior officer) living in similar circumstances received \$7,243 a month (\$5,189 basic pay, \$224 subsistence, \$1,365 housing, and \$465 tax advantage), or \$86,915 annually. In an area with high housing costs like Honolulu, for example, the housing allowance was more than twice as much.

The higher-than-usual increases in basic pay over the past decade, along with the increase in the military housing allowance, buoyed military pay relative to civilian pay. For instance, for 23- to 27-year-old enlisted soldiers with only a high school diploma, median weekly regular compensation grew from \$566 in 2000 to \$771 in 2009 (both in 2010 dollars), while wages of comparable civilian workers decreased slightly. Military pay of \$771 placed a young soldier at the 80th percentile of the civilian wage distribution, that is, at a wage level higher than eight out of ten comparable civilian workers. For 28- to 32-year-old Army officers with a bachelor's degree, median weekly regular compensation was \$1,279 in 2000 and \$1,527 in 2009, and the 2009 figure put them at the 84th percentile of comparable civilian workers.

In civilian life, women and minorities tend to earn less than white men do. In 2009, for example, a 23- to 27-year-old woman or Hispanic man with a high school diploma, working full time, earned, on average, 83 percent of the salary of a white male with the same attributes; a black man earned 86 percent. But military pay, based on pay tables for enlisted personnel and officers

alike, is the same regardless of race and gender. For women and minorities, then, military pay looks even better relative to civilian pay. By the same token, women and minorities who leave the military and take a civilian job are likely to see their wages fall even more than white men would, and the change in their families' economic circumstances might be more marked. But this is not to assert that women and minorities in the military have the same promotion and retention rates as white men do. The Military Leadership Diversity Commission recently reported that, among enlisted personnel, men are more likely than women to reenlist, and blacks, Hispanics, and Asians and Pacific Islanders are more likely than whites to reenlist. Among officers, women are less likely than men to continue their service when their initial term is up; black and Hispanic officers are more likely than whites to continue, and Asians and Pacific Islanders are less likely. Also, black men and women have lower promotion rates than do white men, although white women have higher rates. The commission also found that officers who belong to minority groups have lower promotion rates at midcareer pay grades (major to colonel) than do white officers.⁵

The relatively higher pay for women and minorities makes the military more attractive for these groups. However, the percentage of female recruits has not changed much in the past 20 years. This might reflect a preference not to join, a limited demand by the military for women, the fact that not all military occupations have been open to women, or other factors. Moreover, low scores on the military aptitude exam and lower high school graduation rates screen out many members of minority groups, and those with high aptitude scores might aspire to attend college and might receive financial aid to do so.⁶

Among youth who qualify to enlist, recruits often mention patriotism, adventure, travel, few local job opportunities, and educational opportunities, as well as pay, as reasons that led them to join the military.

The military also offers steady employment, while firms in the private sector face competition and cyclical pressure that can lead to job cuts. When the national unemployment rate rose above 8 percent in 2008–10, military retention and recruiting were in great shape.

Military Health Care

Health-care costs in the civilian world have grown rapidly since 2000. For civilian workers, the average annual health insurance premium more than doubled from 2000 to 2010, going from \$1,619 to \$3,997.⁷ And that's only the worker's share. A health plan with broad coverage cost about \$14,000 in 2010, and employers generally paid the remainder.

But for military families, the cost of health care has remained low; they have, in effect, been sheltered from the cost increases in the private sector.⁸ Military personnel receive health care at no cost, and their families can enroll in TRICARE at three levels of coverage: Prime, Standard, or Extra. Prime has no enrollment fees and no network copayments; Standard (out-of-network provider) and Extra (network provider) have fees ranging from \$15 to \$25 per visit or copays of 20 percent.

Food Stamps

In 2010, fewer than 1,000 active-duty military families participated in the Social Security Administration's Supplemental Nutrition Assistance Program, popularly known as food stamps, down from 2,100 families in 2002 and 19,400 in 1991; probably as a consequence of the recession,

this number rose to 5,000 in 2012.⁹ Yet as military salaries have risen, why are any military families on food stamps at all? The answer lies in the eligibility criteria for food stamps, particularly a gross income standard that excludes most noncash income and in-kind benefits. A household can get food stamps if its monthly gross income is below 130 percent of the poverty line (\$2,389 for a family of four in fiscal year 2010). Depending on military pay schedules and the service member's rank, a family of four headed by a married private (rank E4) with three years of service who was the sole earner might have qualified for about \$200 of food stamps per month in fiscal year 2010.

In 2001, however, Congress created the Family Subsistence Supplemental Allowance (FSSA), aiming to increase service members' income enough that they wouldn't be eligible for food stamps. If service members' gross family income, as defined by the Supplemental Nutrition Assistance Program, makes them eligible for food stamps, they can receive an FSSA payment that brings them up to 130 percent of the poverty line. Congress set the maximum monthly FSSA payment at \$500; in 2010, it was increased to \$1,100 and made nontaxable. Relatively few families have applied for and received FSSA payments: 510 in 2010 and 245 in 2009.

Pay in the Guard and Reserve

In 2010, the Guard and Reserve encompassed 857,000 people, compared with 1,417,000 active-duty service members. Reservists drill one weekend per month and have 14 days of training in the summer, and they may be activated for domestic or national security reasons. Their annual regular compensation for drilling and training totals \$5,000 to \$15,000, depending on rank. For example,

in 2010, a Reserve sergeant (pay grade E5) with nine years of service and dependents received \$6,845, and a captain (pay grade O3) with similar attributes received \$12,541. This military pay added 15 to 20 percent to their annual earnings, on average. Reserve families also have access to affordable health coverage. When a reservist is activated for 30 days or more, his or her family is eligible for the same TRICARE benefits that active-duty families receive. When a reservist deactivates, he or she qualifies for 180 more days of TRICARE coverage if the activation was in support of a contingency operation. Otherwise, reservists may purchase the TRICARE Reserve Select health-care plan, which in 2012 charged about \$2,300 to cover a reservist and his or her family.¹⁰

Compared with civilian wives with similar characteristics, ... military wives are less likely to work and more likely to be unemployed; they work fewer weeks each year and fewer hours each week; they are paid less; and they move more frequently. They are more likely to work part time when they would prefer full-time work, and they are more likely to be overeducated for the job they hold.

It is often thought that reservists who are deployed take a cut in pay. But about 90 percent of reservists see their pay rise during deployment, because military compensation is typically higher and more stable than civilian pay.¹¹ However, people who are self-employed, or professionals such as lawyers, may see their pay fall.

Military Spouses' Earnings

A service member may be on duty any day at any hour, and may be at home or away. The demands of military duty mean that a service member's spouse has less flexibility when it comes to work schedules, which can affect the spouse's earnings. This is true whether the spouse is a man or a woman, and in dual-service marriages as well.

Compared with civilian wives with similar characteristics, for example, military wives are less likely to work and more likely to be unemployed; they work fewer weeks each year and fewer hours each week; they are paid less; and they move more frequently.¹² They are more likely to work part time when they would prefer full-time work, and they are more likely to be overeducated for the job they hold.¹³ Similarly, military husbands are more likely to be unemployed, earn less, and move more frequently than comparable civilian husbands.¹⁴

Analyzing data from the American Community Survey for 2005–11, we find that the annual earnings of female military spouses who are married to active-duty service members and who worked during any given year were about 14 percent less than those of comparable civilian spouses. This 14 percent difference remains nearly constant when we compare the two groups by number of weeks worked or hours of work per week.

Statistical analyses indicate that female military spouses were 9 percent less likely than their civilian counterparts to participate in the labor force during a year, 10 percent less likely to work full time (30 or more hours a week), and 14 percent less likely to work 33 or more weeks a year; on average, they worked 6.4 fewer weeks per year. Average annual earnings (in 2010 dollars) among female military spouses working part time and full time were \$9,037 and \$31,167, respectively; about one-fourth worked part time and three-fourths worked full time, implying an overall average of \$25,900.

Earlier studies have also found that military wives earned less than civilian wives, and that military husbands earned less than civilian husbands.¹⁵ However, the earnings differential was on the order of 25 percent for military wives and 20 percent for military husbands. The differential we found for military wives, 19 percent, may indicate a relative gain, though we don't yet know why this apparent gain has occurred.

To some degree, higher military pay offsets military spouses' lower earnings. To illustrate, in Hawaii in 2009, active-duty personnel had a median income of \$74,900, and full-time civilian workers had a median income of \$50,400. Yet median family incomes, which include spouses' earnings, were much closer together: \$87,300 for active-duty families and \$85,000 for civilian families with at least one full-time worker.¹⁶

Studies of military spouses' earnings suggest that their work opportunities, time constraints, and willingness to work have been much the same for the past 20 years. But spouses are less likely to work when a service member is deployed. If male service members were deployed more than 30 days in the

past year, for example, their wives were about 3 percent less likely to participate in the labor force, and 4.9 percent less likely to do so if they had children under age six.¹⁷ Moreover, spouses' participation in the labor force fell several months before deployment and did not rise again until several months after. However, if spouses continued to work during deployment, they saw almost no change in wages and hours.

Deployment and Related Pay

Deployed service members can receive additional pay in many forms, including a combat zone tax exclusion, hostile fire pay, hardship duty pay, and a family separation allowance. This additional pay adds up to roughly \$1,000 per month for a Marine corporal (pay grade E4) with dependents, for example. At the same time, they may have higher expenses at home; spouses may need to pay for more child care, hire people to do repairs around the house, or eat more often in restaurants.

The operations in Iraq and Afghanistan have been manned on a rotating basis, meaning that units and their personnel often deployed, returned, and deployed again. The length of deployment varies. Marines have often been deployed for seven months at a time, soldiers for 12 to 15 months, sailors for six months, and airmen for three or four months. But sailors and airmen could be detailed to other services and thus be deployed longer. In 2006, perhaps the year when the military needed the most troops on the ground, about two-thirds of soldiers and Marines who were reenlisting for the first time had been deployed at least once.

Cumulative length of deployment affected service members' willingness to reenlist. Soldiers who spent 12 or more months in Iraq

or Afghanistan were less likely to reenlist than those who spent one to 11 months; the Marine Corps saw similar results.¹⁸ Deployment also increased both personal and work stress.¹⁹ For one thing, duty days were longer than normal; other causes of stress included dangerous missions, terrorist attacks, lack of privacy, limited communication with home, and traumatic events. When individuals and units were well prepared, and when units were well led and well equipped, stress decreased.

By 2005, a high proportion of soldiers and Marines had experienced many months of deployment, pushing down reenlistment rates. The services responded by offering service members more and larger reenlistment bonuses.

Military Benefits for Children

Military families are eligible for more non-cash benefits and support programs than we can list here. Some are provided by the Department of Defense (DoD), some by individual service branches or the Guard and Reserve, and some by federal and state governments. For the sake of brevity, we will focus only on the DoD's offerings, collectively called Quality of Life programs, in particular those with financial implications. All Quality of Life programs are summarized annually in a report to Congress and every four years in the Quadrennial Quality of Life Review.²⁰

In July 2012, the DoD issued an instruction on "Military Family Readiness," replacing several earlier directives in an effort to redefine and consolidate DoD programs that support military families.²¹ The instruction, which pertains to all service branches and other components of the DoD, directs support services to help military families in three

areas—readiness to mobilize and deploy, finances and moving, and personal and family wellbeing. It also calls for an explicit move away from delivering services solely through military facilities.

Given that almost half of active-duty service members are 25 or younger, it isn't surprising that military families include more than 700,000 children younger than five.²² In this issue of *The Future of Children*, Major Latosha Floyd and Deborah Phillips discuss military child care in depth. What's relevant here are the cash and noncash benefits that military families with children receive. For example, the military subsidizes care in on-base child development centers on a sliding scale, according to family income. At the low end, families who earn \$29,400 or less pay as little as \$46 per child per week, while families with incomes of more than \$125,000 pay \$139 per week.²³ The military also subsidizes care in off-base child-care centers that meet DoD standards.

For older children, the DoD operates 194 schools in 12 foreign countries and seven states, and in other areas where local schools are either unavailable or lack the capacity to serve military children. But most military children attend civilian schools. Because military installations don't pay property taxes, and because some military families pay income taxes in a different state, the military often gives local schools "impact aid" to help cover the additional costs they incur from having military children on their rolls.²⁴

Historically, military families have had to access most support programs on-base. In the past decade, however, the military has significantly expanded the resources available to families either where they live or online, which is especially important for Guard

and Reserve families. For example, Military OneSource, created in 2002, offers round-the-clock access to information, counseling, and referrals, both by telephone and on the web. Guard and Reserve families now have full commissary benefits, and trucks bring on-site sales to local armories. Child Care Aware works with the DoD to help military families find and afford community-based child care; family life counselors who specialize in children's issues have been sent around the country; and the military has added resources to state family programs, usually through the National Guard.²⁵

Self-Sufficiency Budgets and Consumption Patterns

We lack complete data about military families' income and expenditures, and we have no clear external standard against which to compare their economic circumstances, making it hard to determine exactly what financial hardships they face. However, research on the affordability of child care can give us a partial picture.

The 1999 Survey of Active Duty Personnel was the last military-wide survey conducted before the current conflicts began that included questions about income and expenditures. One of us, Shelley MacDermid Wadsworth, along with several colleagues, selected a subsample of respondents to this survey that comprised 2,526 service members in enlisted pay grades E3–E6 and officer pay grades O2–O3 who were stationed in the continental U.S.; they lived in both one- and two-parent families, and they had either one or two children younger than six.²⁶ MacDermid Wadsworth and her colleagues compared this group with a group of 968 civilian families drawn from the 1999 Consumer Expenditure Survey who were

similar in family structure and income. They also consulted data about living expenses from the 1999 Permanent Change of Station Costs Survey and the 1999 Living Patterns Survey, as well as civilian self-sufficiency budgets, which estimate the minimum income a family would need to live free of government assistance, for three places in the U.S. with a low, medium, and high cost of living. Using all of these data, they estimated how much money civilian and military families would have left for child care after all other expenses were paid.

Military families overall were more likely to be able to afford child care than were comparable civilian families.

Military families spent less than civilian families did for health care, food, household or personal items, and taxes. But they paid more for child care (and considerably more for transportation). Although military families received subsidized child care, they tended to purchase more types of care than civilians did, perhaps because of long duty days.

Still, most of the civilian families had a moderate to high risk of not being able to afford child care, but military families who lived in military housing had only a low to moderate risk, no matter how many children they had or how many earners were in the family. The low cost of military housing and the savings available at military commissaries and exchanges probably gave these families a financial cushion. On the other hand, military

families who lived in civilian housing experienced low risk if they had two earners but high risk if they had only one (including, of course, all single-parent families). Families of enlisted personnel were generally at greater risk than officers' families. Despite these variations, military families overall were more likely to be able to afford child care than were comparable civilian families.

MacDermid Wadsworth and her colleagues then compared the self-sufficiency budgets with data about military families in the E4, E6, and O3 pay grades. Self-sufficiency budgets are generally austere, including no funds for savings, loan payments, entertainment, restaurant meals, or vacations. They assume that families will use public transportation in cities or buy a used vehicle elsewhere. They also assume that families will purchase child care, setting the estimated cost high enough to ensure adequate quality.

The self-sufficiency budgets showed that shelter, child care, and taxes cost about twice as much in areas with a high cost of living as they did in areas with a low cost of living. Health-care costs varied less, and the cost of food and transportation varied relatively little. Military families spent at least twice as much on transportation as the self-sufficiency budgets allocated, and somewhat more on housing, but about one-third less on child care. Overall, the researchers found that most military families would meet self-sufficiency standards where the cost of living was low, but that almost none would meet the standards where the cost of living was high.

Taken as a whole, MacDermid Wadsworth's analyses suggested that military families were less likely to be able to afford child care if they had more children or fewer earners, lived in civilian housing, or lived in areas with

a high cost of living. But since the analyses were conducted, the military has done quite a bit to help military families financially. By 2005, the housing allowance had risen to the median rental cost of adequate housing in each community, and from 2000 to 2010 inflation-adjusted regular compensation grew by 40 percent for enlisted personnel (nearly 50 percent for junior personnel) and 25 percent for officers.²⁷

Financial Stress among Military Families

Indebtedness can cause financial stress for military families. And service members may be taking on more debt than in the past. For example, data from one military installation show that the proportion of entering trainees who were already in debt rose from 26 percent to 42 percent between 1997 and 2003; about half of their indebtedness came from vehicle loans.²⁸ But indebtedness is not necessarily a sign of financial stress. Debt can smooth consumption over time and increase wellbeing. When the burden of servicing the debt is greater than expected, however, debt can become a source of stress. A family's debt burden may grow too high if its expectations were naïve in the first place, or if it experiences shocks such as loss of a job. Moreover, "predatory" lenders have tried to entice young service members into taking on short-term loans with hidden high fees that they are unlikely to be able to repay.²⁹ Federal legislation passed in 2007 set limits on such loans, which include payday loans, vehicle title loans, and tax refund loans. More than 70 percent of service members now live in states where these statutes can be enforced (in some states, statutes at the state level do not grant the authority that financial regulators need to enforce the federal statute).³⁰

The military's 2011 Family Readiness report to Congress presented data about financial stress in junior military families.³¹ Among junior enlisted families in pay grades E1 through E4, the proportion of service members who reported serious financial trouble was 25 percent in 2002 and 17 percent in 2010, although the figure had dipped even lower, to 15 percent, in 2005 and 2009. Service members in the Air Force were least likely to report financial difficulties; those in the Army were most likely.

The report also examined the proportion of service members who had one or more problems related to paying bills, including bouncing two or more checks, failing to make a minimum payment on a credit card or other account, falling behind on rent or mortgage, being pressured to pay bills by creditors or collectors, or having utilities shut off. The prevalence of these problems fell substantially across all branches of service, from about 47 percent in 2002 to 26 percent in 2010, with the largest single decline—almost 15 percentage points—occurring between 2009 and 2010. Thus service members improved their financial management even as the increase in their overall financial health appeared to have stalled.

Which military families are most at risk for financial trouble? We analyzed 2008 data from the Family Life Project to find the characteristics of families who were most and least likely to report moderate to serious financial strain. Families were at least 20 percent more likely to report financial strain when:

- the service member's pay grade was lower than O4 (those at pay grades lower than E7 were more than three times as likely to report financial strain);
 - the service member's spouse was unemployed;
 - the service member had been wounded, particularly in a way that interfered with his or her ability to participate in the family;
 - someone in the family had special medical or educational needs;
 - the family had a hard time readjusting to the service member's presence after he or she returned from deployment; or
 - the family had used financial counseling services.
- On the other hand, military families were at least 20 percent less likely to report financial strain when:
- they put money aside each month;
 - they had \$500 or more in emergency savings;
 - they had more social support than average;
 - they were enrolled in the Exceptional Family Member Program (see the article by Major Latosha Floyd and Deborah Phillips in this issue); or
 - the service member's spouse was male.

Earnings, Unemployment, and Homelessness among Veterans

When service members leave the military, they must find a job and often resettle their families. Most will earn less in their new job than they did in the military, and it may take a while to find a job at all. A small percentage of veterans ultimately fare poorly enough that they become homeless.

Earnings

Evidence suggests that enlisted personnel who leave the armed services and rejoin the civilian world can expect to earn about what they would have earned if they had never joined the military. David S. Loughran and his colleagues followed over time a group of Army applicants who met the qualifications to enlist. Many of the applicants enlisted, but others decided not to do so. During their years in the military, those who enlisted earned considerably more than those who didn't, which is not surprising, given that wages are higher in the military for people with similar backgrounds. Ten years after the study began, roughly 80 percent of those who enlisted had left the Army and become workers in the civilian economy. Overall, these veterans' annual earnings were about the same as those of the applicants who didn't enlist. When the two groups were compared according to their scores on the Armed Forces Qualification Test, however, some differences cropped up. Fourteen years after enlisting, for instance, veterans with low to middling scores on the test earned slightly more than those with similar scores who had never enlisted. But veterans with higher test scores earned slightly less, possibly because they were less likely than their counterparts who didn't enlist to ever earn a college degree.³²

Still, any differences in civilian-world earnings between comparable groups were small—no more than 5 percent in either direction. However, because of the military's high wages, those who enlisted often experienced a significant drop in earnings when they left the Army, and the decrease was steeper the longer they served. Four years after the study began, enlistees who remained in the Army earned about \$12,000 more annually than enlistees who had left;

after 10 years, enlistees who remained in the Army earned about \$25,000 more.³³ Veterans' families may be able to make up at least some of the difference because their spouses can earn more once they leave military life, but we know of no study that tests this theory.

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We need to know a lot more about how posttraumatic stress disorder (PTSD) and traumatic brain injury affect post-service earnings. One study of reservists with self-reported PTSD symptoms is under way at the RAND Corporation. The researchers have found that reservists with PTSD symptoms tended to have lower earnings not only after deployment, but also *before* they ever went to war. In fact, before their deployment, reservists who would later report PTSD symptoms earned 17 percent less, on average, than those who would not go on to report PTSD symptoms. Controlling for this effect, the researchers found that PTSD symptoms are associated with a postdeployment drop in earnings of only 1 to 2 percent, on average.³⁴ These findings may have implications for policy. They suggest that to help veterans with symptoms of PTSD succeed in the civilian labor market, we should focus on building their capacity to earn, rather than on mental health treatment alone.

Many veterans have disabilities that they incurred in the military. The Department of Veterans Affairs (VA) counts more than 1.6 million veterans who are eligible for VA disability compensation. Richard Buddin and Bing Han linked VA records to Social Security earnings records and found that veterans with a high disability rating had lower annual earnings in the labor market.³⁵ For most disabled veterans, however, VA disability benefits offset most or all of this earnings gap. There is an exception: people who were discharged from the military because of a service-connected disability, a group that makes up less than 10 percent of the VA's roster of disabled veterans. These veterans are less likely to work than other disabled veterans, and their civilian earnings are lower, especially among older veterans. The VA benefit does not offset their diminished earnings, which can be several thousand dollars less annually for enlisted veterans and more than \$10,000 for officers. Conversely, VA benefits substantially reduce the odds that veterans are living in poverty, although black and female veterans are much less likely to receive benefits.³⁶

Unemployment

Many people who serve in Iraq or Afghanistan don't have a civilian job when they leave the military (or, if they are reservists, when they return from deployment), and veterans have a higher unemployment rate than nonveterans, although this effect diminishes significantly with age.³⁷ Statistics from the Department of Labor show, for example, that in the second quarter of 2012, 22.3 percent of male veterans aged 18–24 who had served in the military at some point since 9/11 were unemployed, compared with 16.7 percent of male nonveterans in the same age range. Similarly, 11.7 percent

of veterans aged 25–34 were unemployed, compared with 7.7 percent of nonveterans. But among people aged 35–44, veterans and nonveterans had nearly identical unemployment rates, 6.1 percent and 6.3 percent, respectively.³⁸ However, the calculations behind these statistics do not control for important differences between veteran and nonveteran populations. For instance, fewer than two percent of male post-9/11 veterans have less than a high school education, compared with 18.5 percent of male nonveterans. Controlling for such factors, the 2010 unemployment rate of post-9/11 veterans is estimated to be 10.4 percent, versus 9.9 percent for nonveterans.³⁹ The difference in unemployment rates is thus considerably less than in comparisons without fine control.

Research has not definitively established why veterans are more likely than nonveterans to be unemployed. Possible causes include the need to establish a network of contacts, the difficulty of searching for a new job while on active duty, disappointment with the humdrum nature of civilian jobs compared to the excitement of military missions, and conditions such as PTSD and traumatic brain injury. Also, veterans are eligible for Unemployment Compensation for Ex-Servicemembers, a program administered by state employment offices and paid for by the military, and the receipt of unemployment compensation could be a factor that prolongs veterans' unemployment. Recent studies of National Guard members after deployment have found that returnees with mental health problems were just as likely to find work as were other returning Guard members, but they were less likely to work full time and more likely to perform poorly at work.⁴⁰

Congress has acted to promote the hiring of veterans. For example, listings of public sector jobs often include a veteran preference; the Work Opportunity Tax Credit (WOTC) program extensions in 2007 and 2008 offered financial incentives (up to \$4,800) to hire certain veterans with service-connected disabilities; and the VOW to Hire Heroes Act (2011) includes additional credits for employers. The WOTC increased veterans' employment by about 32,000 jobs annually, at a cost of about \$10,000 per job.⁴¹ However, the estimated effect of the incentive was not statistically different from zero for those under age 40.

Homelessness

A federal report estimates that 76,000 homeless veterans were living in sheltered housing on a given night in January 2010, and that 145,000 were doing so at some point in the 12 months from October 1, 2009, to September 30, 2010.⁴² Most of the 145,000 (98 percent) were individuals living alone without a dependent child, and about half of them were homeless before they entered the shelter. About 1 in 150 veterans were homeless, and veterans were more likely than nonveterans to become homeless. Fifty-one percent of the veterans in homeless shelters were disabled, versus 35 percent of nonveterans in homeless shelters. Also, 22,000 veterans lived in permanent supportive housing (and were no longer homeless), nearly all of them unaccompanied individuals. Interestingly, no study we found told us what the veterans' family status was before they became homeless. Because nearly all the homeless veterans who used shelters were unaccompanied individuals, it seems likely that if they had children, they were no longer caring for or materially supporting those children, nor were their children caring for them.

Conclusions

What lessons can we take from this article? First, service members earn more, not less, than comparable civilian workers. The military also provides a housing allowance and health care, and those who complete 20 years of service can receive retirement benefits immediately and health care for life. The military helps support local schools with high numbers of military children, helps spouses find and keep jobs, provides child care both directly and through subsidies, and more. In addition, the post-9/11 GI Bill covers tuition at state universities and at private colleges and universities that participate in the Yellow Ribbon program, and allows benefits to transfer to dependents if a member has served for six years and commits to four more. Also, military compensation is high enough that relatively few military families are on food stamps—about 5,000 in 2012, mostly junior enlisted service members with several children and a nonworking spouse.

Second, military spouses' earnings are less than those of comparable civilian spouses. This reflects lower labor force participation, fewer weeks and hours of work, and lower wages whether they work full or part time. Perhaps the chief barrier to military spouses' employment is frequent moves; military families move about three times as often as comparable civilian families. As long as the military services perceive these moves as necessary for military readiness, this structural difference will not disappear. For military spouses who want to work, the frequent moves create an incentive to accept readily available jobs, and for employers they create an incentive not to offer jobs with long learning curves and costly investment in job-specific training.

Third, a critical difference between military and civilian employment is that the military has virtual primacy over the member's availability and hours; the family must adapt to, or at least cope with, the member's duties and deployments. The frequent, persistent deployments throughout the military operations in Iraq and Afghanistan put stress on service members and their families. Deployment-related pay—along with increases in the overall level of military pay—helped to compensate for some of this stress, but of course higher pay cannot make stress disappear. Nondeployed personnel working to support the deployments also experienced stress, as did their families.

Fourth, junior service members and their families experience some degree of financial difficulty. This comes in part from the need to “learn on the job” about how to handle personal finances and avoid taking on too much debt. The military services recognize that service members need financial literacy, and they offer training and counseling. But still, about one in seven junior military families reported financial stress, for example, having trouble making ends meet in a given month.

Both congressional and military policy makers have paid considerable attention to the economic conditions of military families in recent years. Resources have been directed toward increasing military compensation, reducing the cost of housing, improving

employment prospects for spouses, and increasing the financial literacy of military personnel. Evidence suggests that these efforts have improved economic conditions for families but have not eradicated financial problems. In particular, junior enlisted personnel are at risk, as are families dealing with combat injuries, special medical or educational needs, readjustment problems, or a spouse's unemployment. In addition to the programs and policies already in place, it might be useful to offer special outreach and training to families who are experiencing these risk factors, to ensure that their difficulties are not compounded by financial problems. We should also continue efforts to encourage employers to hire military spouses.

Just like their civilian counterparts, some service members experience financial hardship as a result of their own decisions. But it is also clear that military service comes with unique financial challenges. Over the past decade and longer, policy makers have implemented strategies to minimize these challenges by increasing financial support across the military population. These efforts have met with considerable success. But the pay increases of recent years have slowed, and, barring a new outbreak of hostilities, the military will reduce the size of the force in the coming years. In light of these circumstances, we must keep a careful eye on the economic conditions of military families.

ENDNOTES

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