Veterans' Day: Paying What We Owe

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This article is the fifth in a year-long series about economics and holidays.

November 11th is Veterans' Day, when we honor those who fought in America's wars. The World War II vets are getting fewer and fewer, but there are still plenty of veterans from the Korean, Vietnam, Gulf and Iraq wars who are deserving of our respect and appreciation. This holiday began in 1919 as Armistice Day to commemorate those who served in World War I, which ended on November 11, 1918, at the eleventh hour of the eleventh day of the eleventh month. In 1954, it was changed to Veterans' Day to honor all veterans. According to the Census, in 2007 the U.S. has about 22 million veterans, including about eight million age 65 or older.

Our military, especially the enlisted men and women, are not very well paid, particularly considering the risks they take, the frequent moves and family separations, and the difficult working conditions for those in combat areas. Pay for enlisted members of the military ranged from about $15,000 a year for a raw recruit to more than $60,000 for the highest ranking members with 20 years of service. They also receive a subsistence allowance to pay for meals and health care.

A substantial part of military compensation is deferred, or paid after active service. Men and women who enlist in the military are made aware at the time of enlistment that these deferred benefits are part of their compensation. Like their civilian counterparts, active duty military can look forward to retirement pensions, but they also can count on continued health care and commissary and PX privileges. They also have access to other benefits that are much less common in civilian work--education assistance for themselves and their dependents, home loans, survivor benefits, life insurance, and vocational rehabilitation. Education assistance, home loans and vocational rehabilitation are not needed by everyone who leaves the military, but they are available to those who need or want these services. These benefit programs are administered through the Department of Veterans' Affairs, which became a cabinet department in 1989 and currently has a budget of about $60 billion. One of its major functions is to manage the VA health care system, which includes 171 medical centers, more than 350 outpatient, community, and outreach clinics, and 126 nursing home care units.

Deferred compensation and benefits are commonplace in both the public and private sectors. In the public sector, one important plus for using deferred benefits for the military is spreading the cost of war over both wartime and peacetime budgets instead of having budgetary "spikes" in the war years.

In the private sector, the most common form of deferred compensation is a pension, perhaps with retiree health benefits. In recent years, some private employers have reneged on those benefits, either by changing the retirement program or by failing to adequately fund it. The federal government has attempted to protect workers at private firms through the Pension Benefit Guarantee Corporation. It is funded by insurance premiums paid by firms with defined benefit pension plans, the assets of the pension plan when it is taken over, and investment income. But those resources have proved inadequate, so the ultimate guarantor is the taxpayer. At least the military have a somewhat more secure commitment from the federal government, although even they have experienced some unexpected and unwelcome changes in benefits from time to time.

Why are deferred benefits so much more heavily used in the military than in civilian careers? A career in the military is likely to be shorter (and perhaps more intense) than a civilian career, whether in the public or private sector. Combat duty or combat support is physically demanding and usually suited to younger people. Constant relocation takes its toll of military families. Expecting a shorter time span of fitness (and willingness) for active duty from most recruits, military pensions are made attractive after 20 years of service, when the retiree is likely to still be young enough to start a second career. Some of the other deferred benefits, like home loans and/or tuition for education, are designed to make that transition smoother. There are also many retirees or disabled veterans who leave the military with some kind of chronic or recurring medical problem. The military and veterans' health care system is an important kind of insurance for what can be a very high risk occupation. New recruits, even officers, have little idea what kinds of services, benefits, or support they may need or want when they leave military service.

In the private sector, employee benefits programs grew rather haphazardly largely in response to tax incentives. Most fringe benefits are not subject to income taxes, while wages and salaries are. We are reconsidering that tax status now as we work our way through the maze of health insurance reform, because employer-provided health insurance is one of our most expensive fringe benefits. But except for retiree health benefits and pensions, most private sector fringe benefits are part of current rather than deferred compensation. There is no system of nursing homes for retired auto workers, no education benefits or subsidized home loans from those ending their careers in insurance or data processing. Military service is a somewhat unique occupation—not a career to last a full working lifetime for most people, subject to high risk both physically and psychologically, with frequent moving around that disrupts family life and spouses' careers. A healthy and diverse package of deferred benefits is one of the ways we say thank you to those who have undergone those traumas and challenges on behalf of a grateful nation.