

# Trends in Total Costs of Military Compensation

September 25, 2026

Presentation at the Defense Manpower Roundtable

F. M. Woodward  
National Security Division

# Notes About This Presentation

Unless indicated otherwise, all years referred to are federal fiscal years, which run from October 1 to September 30 and are designated by the calendar year in which they end.

Where real (inflation-adjusted) dollars are used, amounts are expressed in 2026 dollars. To remove the effects of inflation, the Congressional Budget Office adjusted dollar amounts by using its February 2026 economic projections ([www.cbo.gov/data/budget-economic-data#4](https://www.cbo.gov/data/budget-economic-data#4)) for the gross domestic product price index. Dollar amounts attributed to the Department of Defense (DoD) for 2026 are based on DoD's nominal estimates and are shown as converted to 2026 dollars in the same way.

Numbers may not sum to totals because of rounding.

Most data presented here can be found in either the *Atlas of Military Compensation, 2026* ([www.cbo.gov/publication/62260](https://www.cbo.gov/publication/62260)), or *Accrual Accounting for Veterans' Benefits: Working Paper 2026-07* ([www.cbo.gov/publication/62384](https://www.cbo.gov/publication/62384)).

# Summary of CBO's Main Findings

- **The total cost of military personnel is an important consideration in DoD's planning for the size and composition of the total force.** Currently, a substantial component of cost for military personnel lies outside DoD's budget, not captured by total force planning.
- **In DoD's budget, costs for military compensation span multiple appropriation accounts.** Most DoD costs are in the appropriations for military personnel, but some costs are found in appropriations for operations and maintenance and for military housing.
- **Significant costs lie outside DoD in the Department of Veterans Affairs (VA), and those costs are rising rapidly.** The cost of providing disability compensation, health care, and other benefits to veterans exceeds the cost of compensation for the current force.
- **To estimate the entire government cost of military personnel, CBO applied accrual accounting to the cost of deferred VA benefits.** CBO estimates that a yearly accrual cost of \$86,000 per active-duty service member is needed to cover the future cost of their Veterans Benefits Administration (VBA) and Veterans Health Administration (VHA) benefits.

# **What Is the Cost of Military Personnel?**

# Approaches to Calculating the Cost of Military Personnel

The cost of military personnel is a mix of funding for the current forces and the cost of benefits for former service members (retirees and veterans).

- DoD's regular military compensation (RMC) is a common metric used to compare military compensation with that in the private sector. RMC includes cash compensation, tax-free allowances for housing and food, and the tax advantages for allowances in cash compensation.
- Other costs in DoD's budget include noncash benefits (such as medical care) and deferred costs (such as retirement).
- Other federal agencies, chiefly VA, provide other benefits.

DoD's accounting for current military personnel costs includes budgets for current compensation (RMC and in-kind) and accrual accounting to capture liabilities for deferred compensation to be paid in future years.

- **There is no similar accrual approach to capture the sizable cost of deferred VA benefits outside DoD's budget**—CBO has developed one for VA.

A more detailed accounting of compensation costs yields a more inclusive estimate of the total cost of personnel for weighing options to adjust the size and composition of the total force.

# **How Much Funding Is in the Federal Budget for Current Costs of Military Compensation?**

# **Current Costs of Military Compensation in the Federal Budget**

In DoD's budget, most funding for military compensation is in the military personnel appropriation accounts, with the rest in operation and maintenance (O&M) and military housing accounts. The total request for military compensation in DoD's budget for fiscal year 2026 was \$277 billion:

- \$195 billion for military personnel
- \$55 billion for O&M, comprising about \$43 billion for the Military Health Service and \$12 billion for in-kind benefits (such as family programs)
- \$2 billion for family housing
- \$25 billion for the cost of concurrent receipt (which allows some veterans to collect both a full military pension and full VA benefits), which the Treasury pays

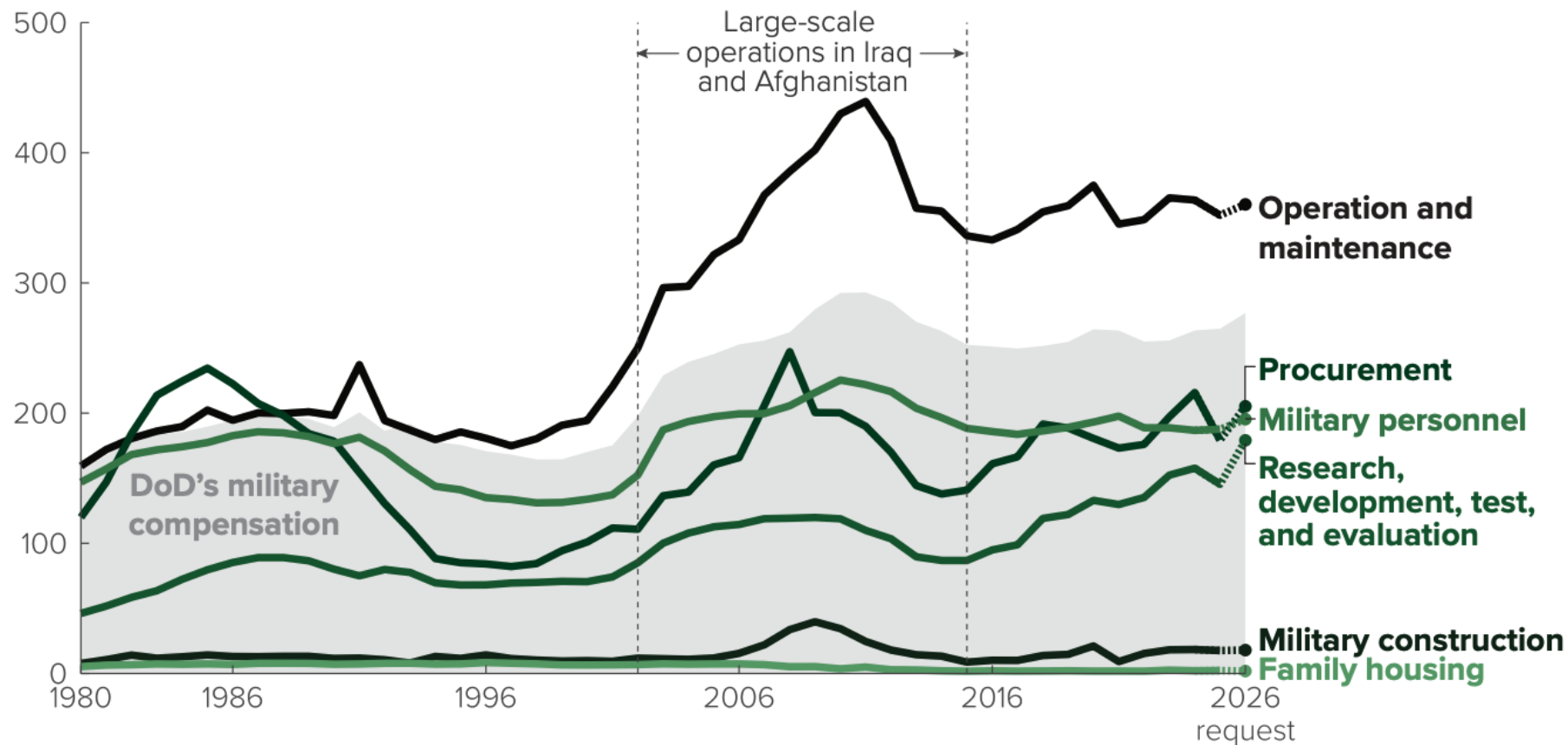
VA's budget contains funding (mainly for former military personnel) for both cash benefits (disability compensation, for example) and noncash benefits (such as VA-funded medical care). VA's total budget request for fiscal year 2026 was \$441 billion.

**In total, \$718 billion was requested for military compensation in 2026.**

# After Rapid Growth, Compensation Has Levelled Off in DoD's Budget

## Budget of the Department of Defense

Billions of 2026 dollars

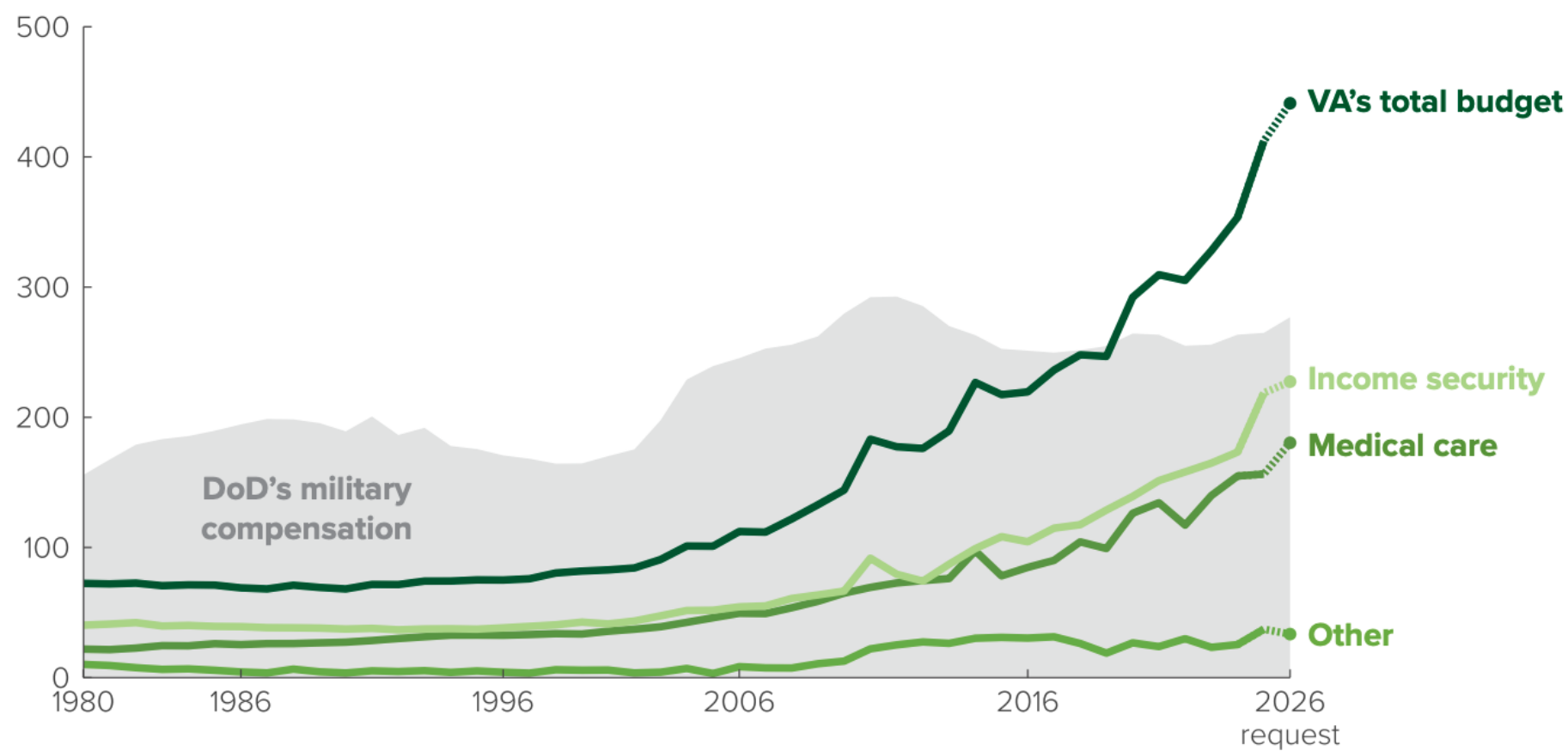


DoD's military compensation budget (gray shaded area) includes appropriations for military personnel and portions of the O&M appropriation that fund military health care and other smaller programs.

# VA's Budget Continues to Grow Rapidly

## Budget of the Department of Veterans Affairs

Billions of 2026 dollars

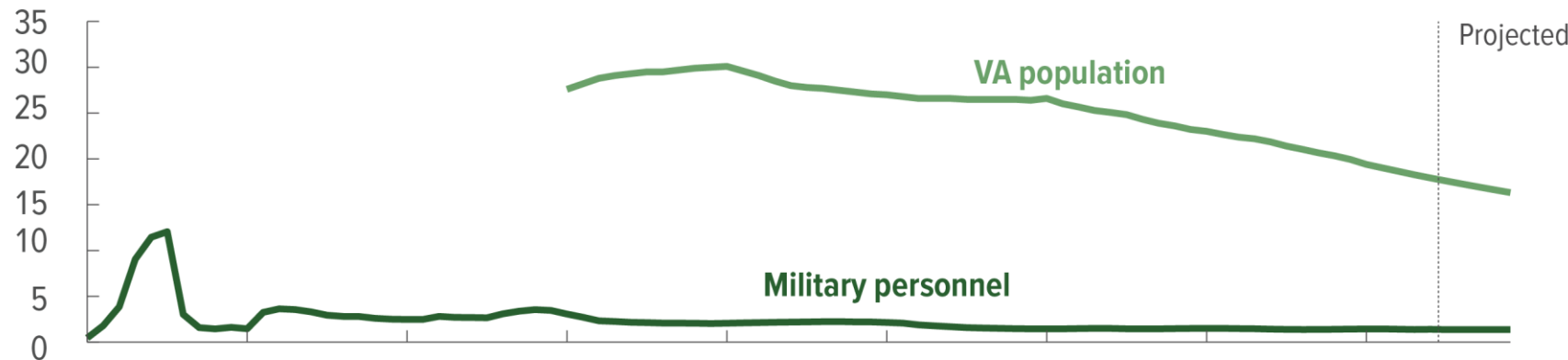


After growing little from 1980 to 1999, VA's budgets have increased rapidly. In the 2026 request, VA funding is 5.4 times the amount appropriated in 1999 in real (inflation-adjusted) terms.

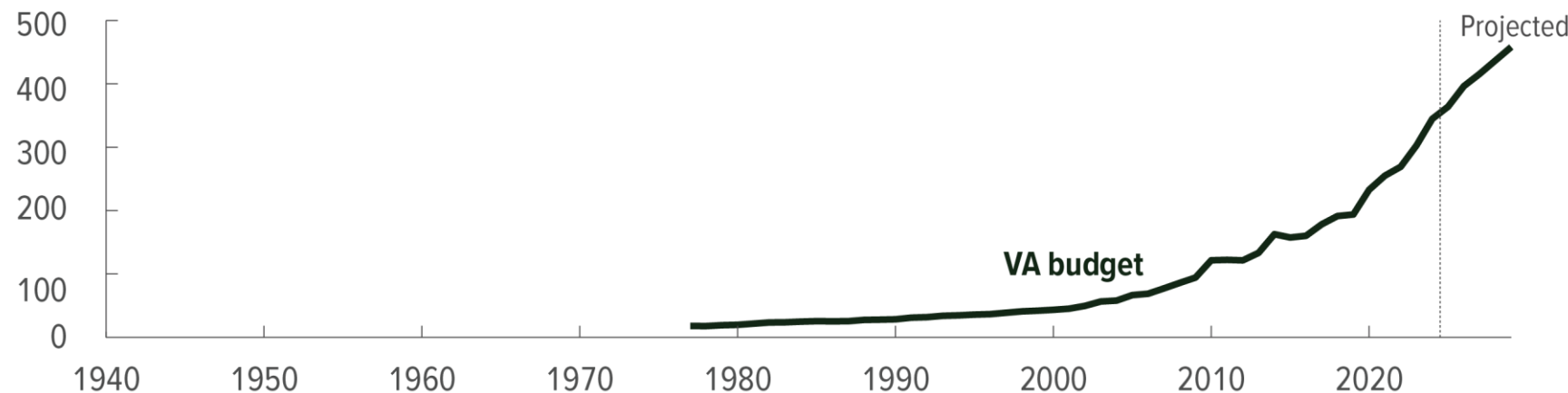
Income security (VBA) and medical care (VHA) account for most of that growth. In the 2026 budget request, each program alone approaches the size of DoD's budget for military compensation.

# The Veteran Population Shrinks as VA's Budget Grows

Millions of people



Billions of 2026 dollars



On the basis of increases in the scope of VA benefits and a shrinking VA population, the cost per veteran is likely to continue to increase.

# **What Components of Military Compensation Are in DoD's Budget?**

# Elements of Military Compensation in DoD's Budget Request

**Cash compensation** comprises basic pay, tax-free allowances for housing and food, and types of special and incentive pay. About \$157 billion was requested for this category in fiscal year 2026.

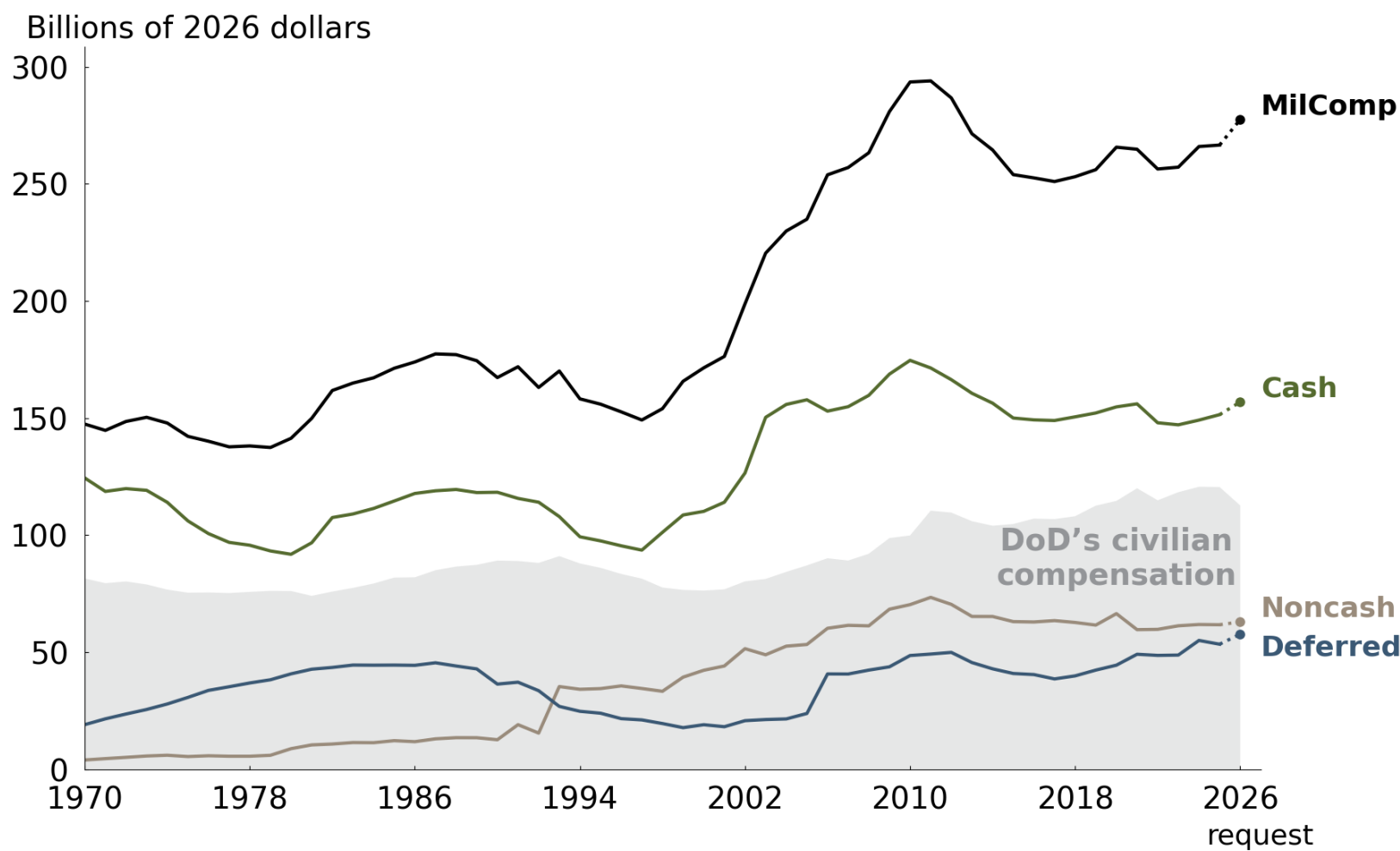
**Noncash compensation** includes health care for active-duty personnel, family programs, and family housing. About \$63 billion was requested for this category in fiscal year 2026.

**Deferred compensation** includes the following:

- An estimate of the accrued cost of health benefits for retirees before Medicare eligibility,
- Accrual payments for future costs of TRICARE for Life (health care for Medicare-eligible retirees),
- Accrual payments for future retiree benefits, and
- The accrual cost of military retirement for retirees who are eligible for both a full military pension and disability payments from VA—known as concurrent receipt, paid by the Treasury.

About \$58 billion was requested for deferred compensation in fiscal year 2026.

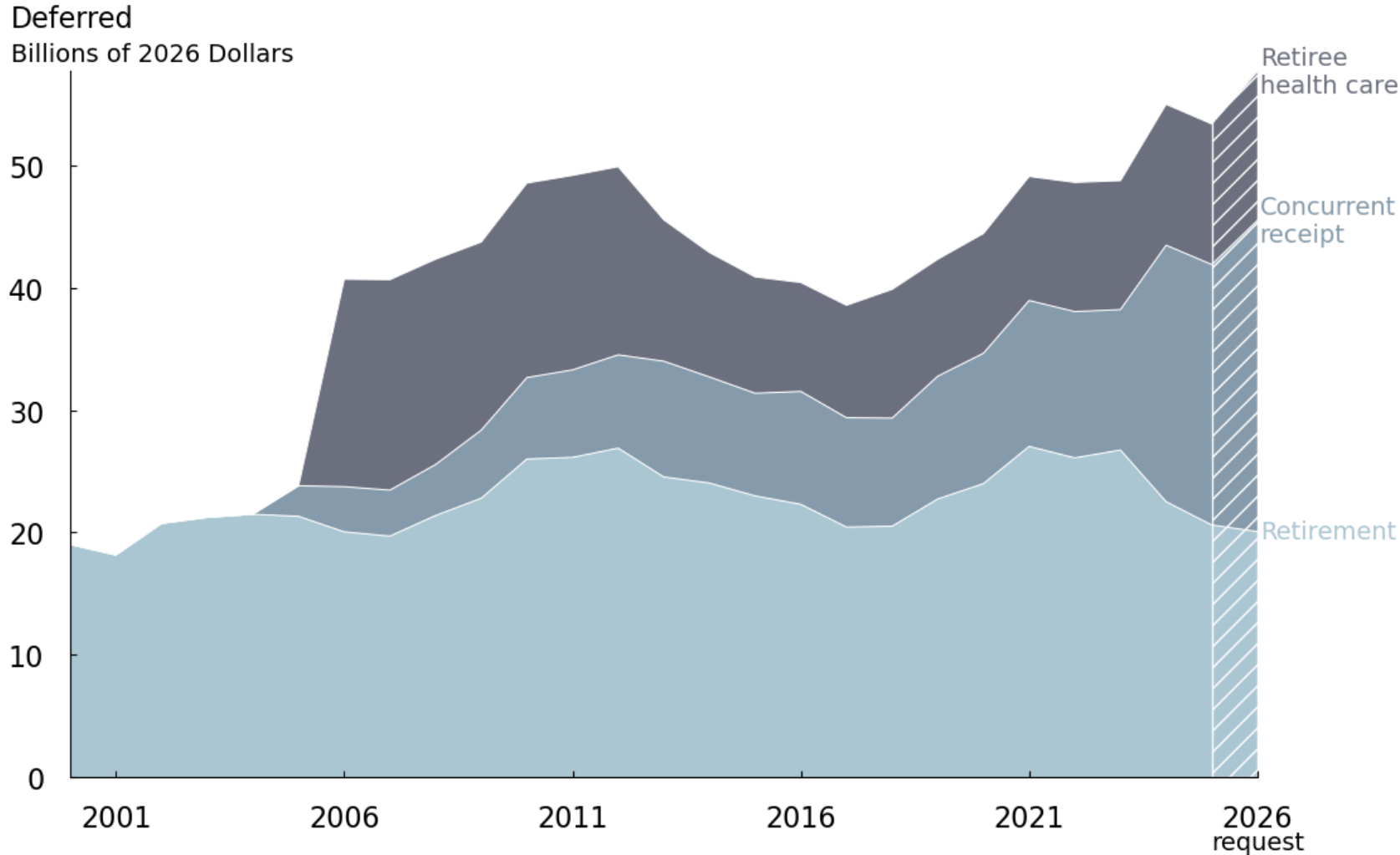
# Growth of Military Compensation in DoD's Budget Has Slowed



Funding for all three elements of military compensation in DoD's budget has grown since the late 1990s. Funding declined after 2010 and has leveled off in recent years, with most growth confined to deferred compensation.

Data sources: Congressional Budget Office, using data from Office of the Undersecretary of Defense (Comptroller), *National Defense Budget Estimates for FY 2025 (Green Book)* (April 2024), <https://comptroller.defense.gov/Budget-Materials/Budget2025/>, and *Military Personnel Programs (M-1): Department of Defense Budget, Fiscal Year 2026* (June 2025), <https://comptroller.defense.gov/Budget-Materials/Budget2026/>.

# New Benefits Have Driven Increases in Deferred Compensation



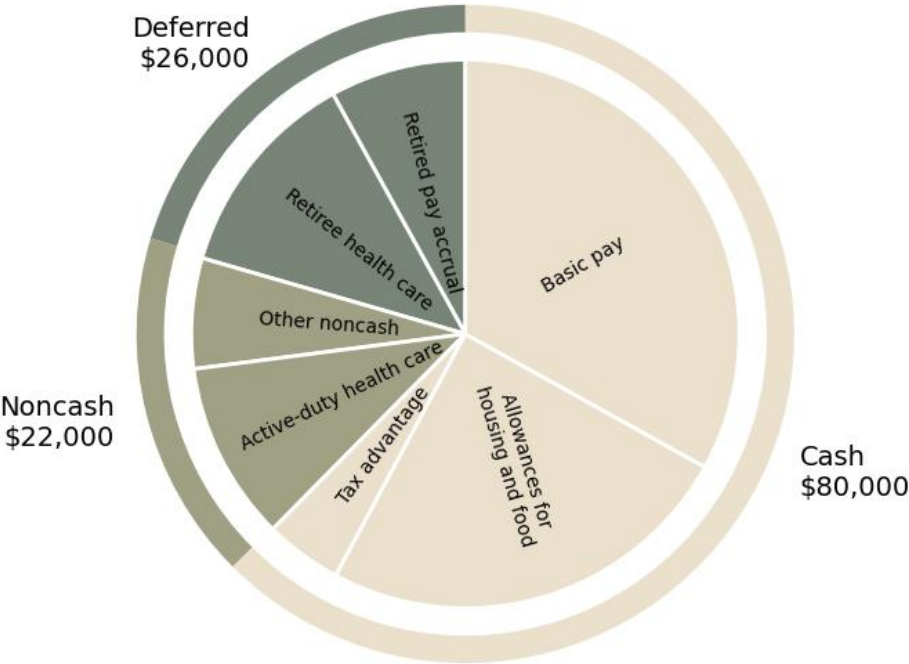
Concurrent receipt of retirement pay and disability compensation has been the main source of growth in deferred compensation in recent years. More retirees have become eligible, and average disability ratings and payments for veterans are rising.

As a result, almost half of DoD's costs for deferred compensation are paid by the Treasury.

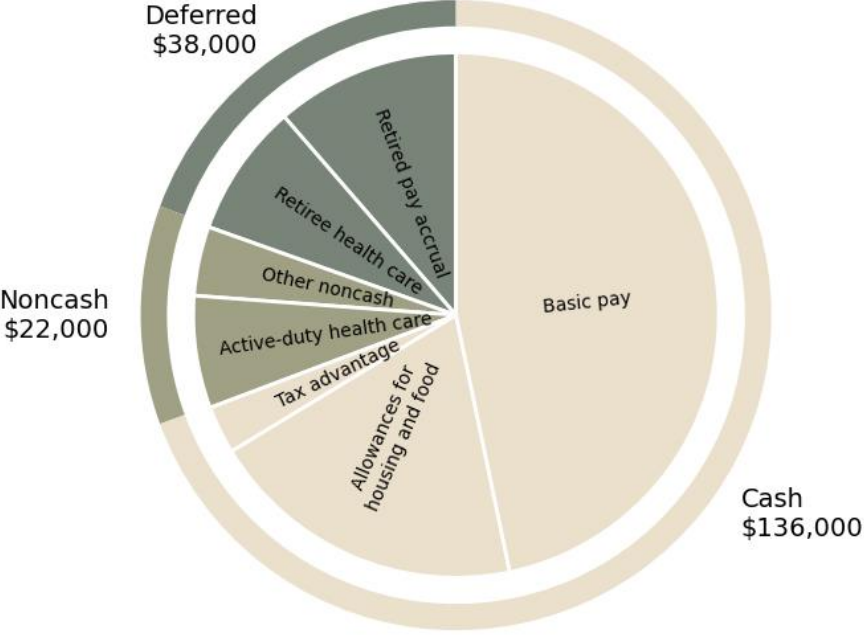
## **How Are Compensation Components Arrayed per Service Member?**

# DoD's Annual Compensation Costs per Service Member

**E-4 Compensation**  
\$129,000 (FY 2026)



**O-3 Compensation**  
\$196,000 (FY 2026)



Different forms of compensation have different effects on recruiting and retention.

Cash compensation is the largest category of DoD's costs.

Cash compensation, including bonuses, is valued more by younger service members and is useful for recruiting; noncash and deferred compensation are useful for retaining personnel who are more senior.

Compensation for an enlisted E-4 and an officer O-3 with dependents was chosen because they are the median grades based on year of service and population.

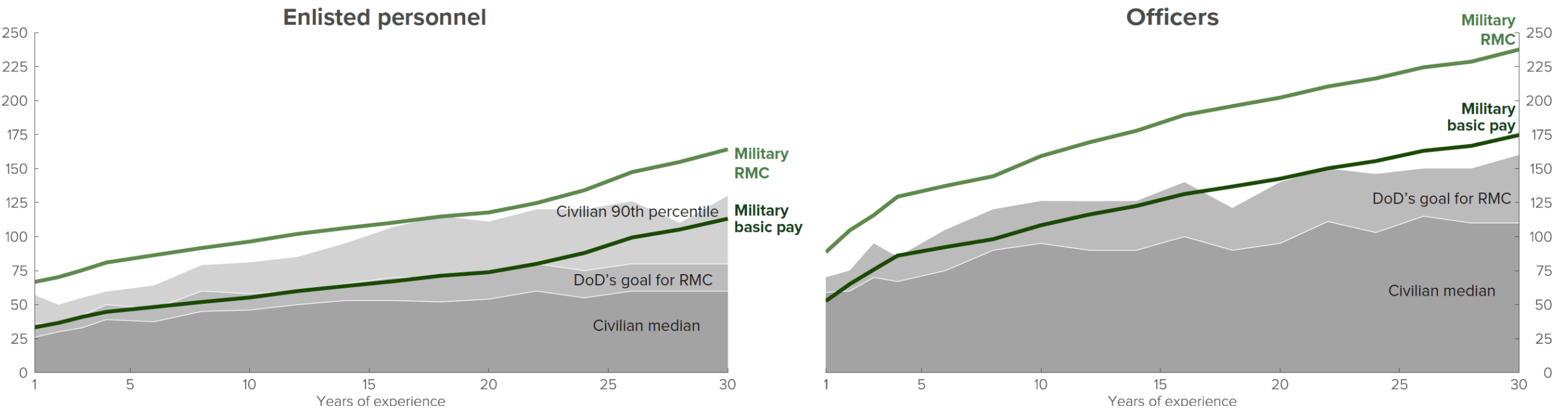
Data source: Congressional Budget Office, *Atlas of Military Compensation, 2026* (June 2026), [www.cbo.gov/publication/62260](http://www.cbo.gov/publication/62260).

“Other noncash” includes schools for dependent children; childcare and youth programs; family programs; morale, welfare, and recreation programs; education programs; and commissaries.

# Compensation for Enlisted Personnel Generally Exceeds That of Their Civilian Peers and DoD's Goals

Yearly Median Cash Earnings, by Years of Experience

Thousands of 2026 dollars



DoD's goal for RMC is set at the 70th percentile to attract and maintain a quality workforce.

On average, RMC for enlisted personnel is greater than the compensation of the 90th percentile of civilian workers with comparable years of experience and some college education.

Military RMC omits the noncash (\$22,000 per year, on average) and deferred (varies by grade) elements of compensation.

Data sources: Congressional Budget Office, *Atlas of Military Compensation*, 2026 (June 2026), [www.cbo.gov/publication/62260](http://www.cbo.gov/publication/62260). Updated values reflect DoD's *Military Compensation Greenbook* (January 2026), <https://militarypay.defense.gov/Resources>, and 2025 Current Population Survey data, [www.census.gov/programs-surveys/cps.html](http://www.census.gov/programs-surveys/cps.html).

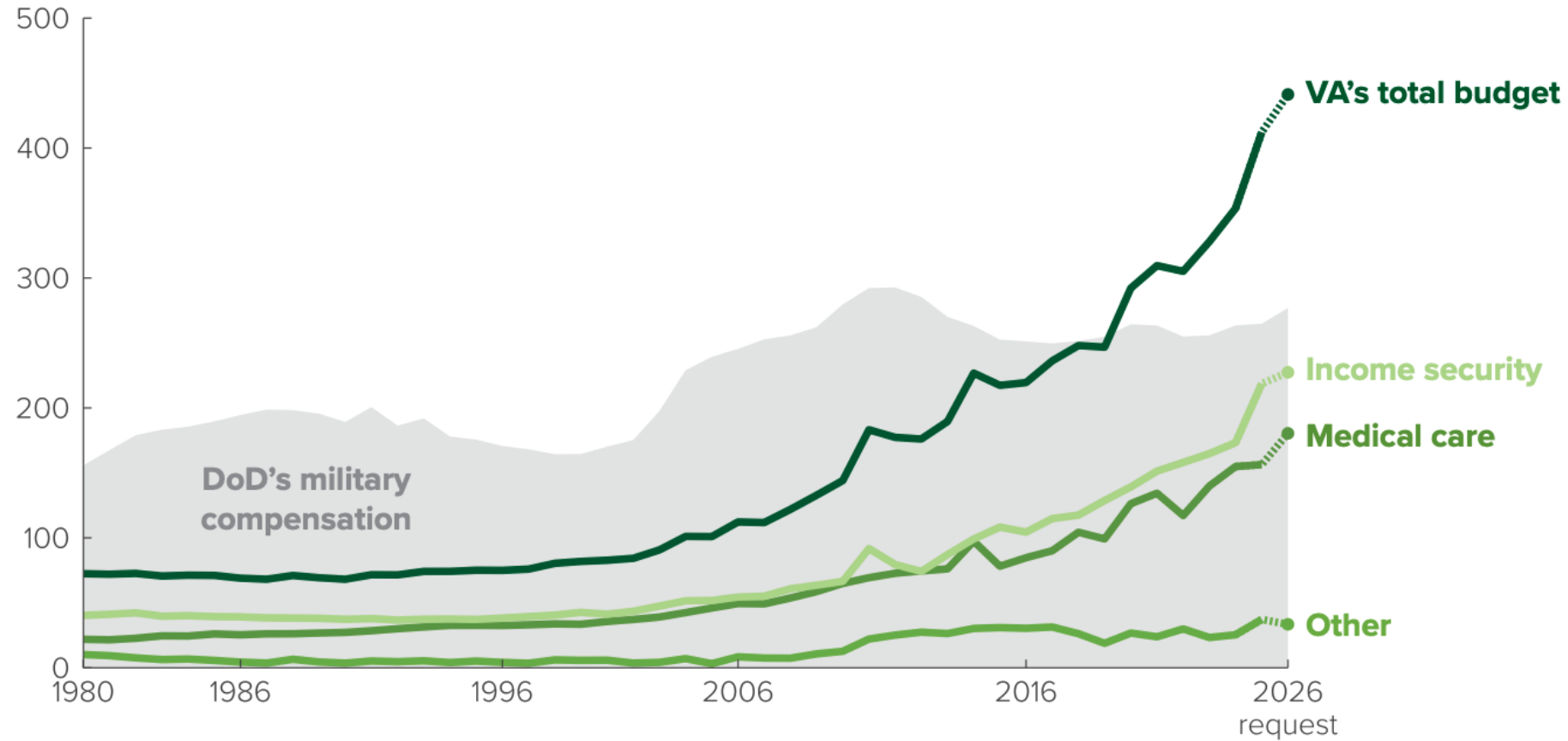
Regular military compensation (RMC) includes basic pay, tax-free allowances for housing and food, and the tax benefit of those allowances.

# **What Is the Cost of Future VA Benefits for Current Active-Duty Service Members?**

# Implications of a VA Budget That Continues to Grow Rapidly

## Budget of the Department of Veterans Affairs

Billions of 2026 dollars



VBA's budget grew from \$54 billion in 2005 to \$227 billion requested in 2026.

Since 2005, the number of service members receiving VBA disability compensation and the average level of disability have increased significantly. In 2025, veterans younger than 50 receiving disability had an average disability rating of about 70 percent.

Current and continued growth have implications for the future costs of military forces.

# Estimating the Current Cost of Future VA Benefits

Military compensation budgets do not reflect the future costs of VA benefits for today's active-duty force. Accrual accounting is a method used to capture the cost of future benefits that the current force will consume over their lifetime.

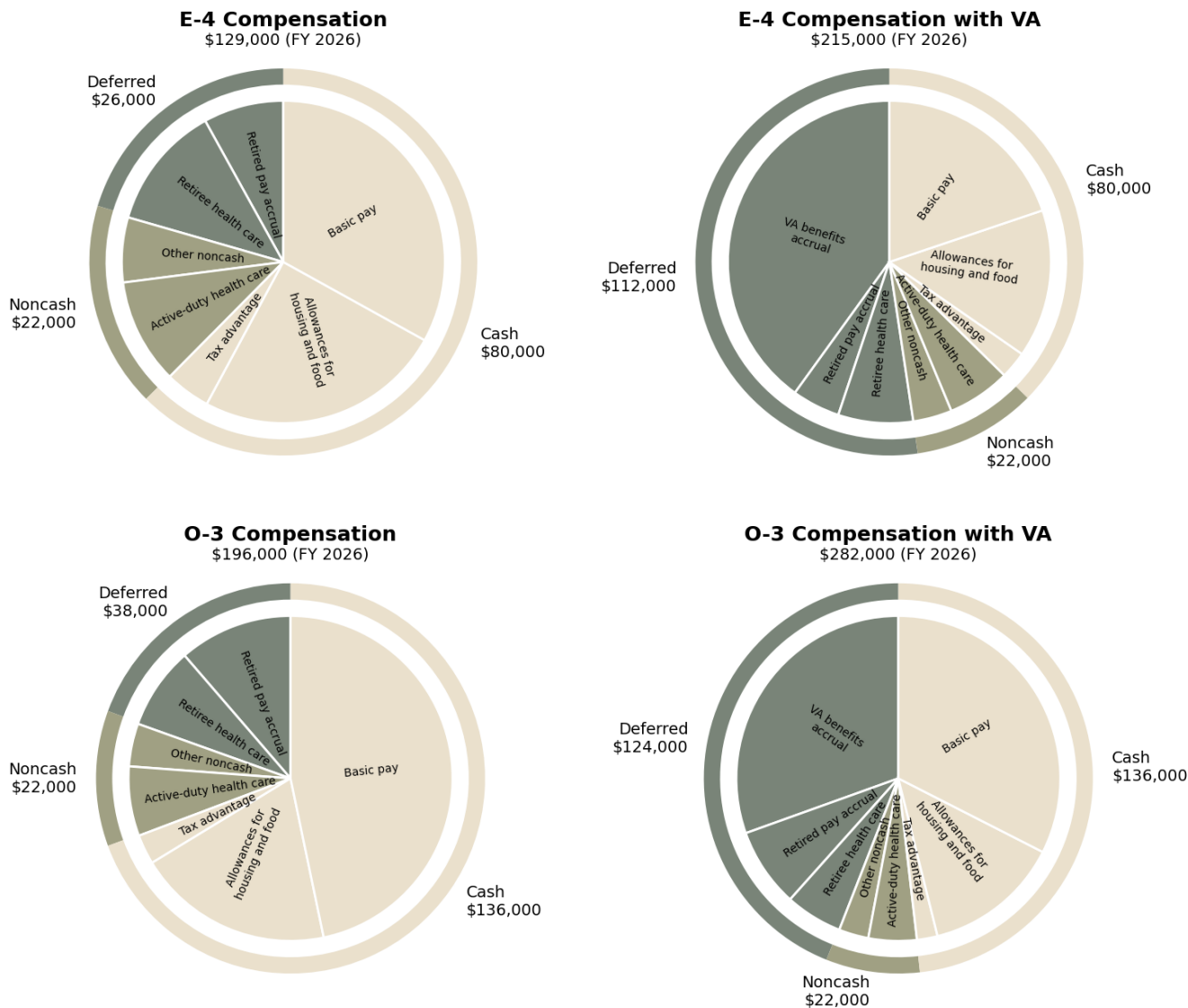
DoD uses the accrual accounting approach for deferred benefits (retirement and most retiree health benefits) to better capture the full cost of the current force.

CBO has developed an accrual accounting approach that treats VA benefits as deferred compensation, allowing analysts to estimate a yearly cost per service member:

- The agency estimates that an annual accrual cost of **\$86,000 per active-duty service member** is needed to cover the costs of future VA benefits.
- As a result, the annual cost for every active-duty service member increases by that amount.
- Including VA accrual skews the cost of military personnel heavily toward deferred compensation.
- Further growth in VA costs will result in a larger annual accrual cost and an increase in the whole-of-government cost of military personnel.

That approach allows analysts to assess the government's full cost of military personnel in making decisions about the total force.

# Changes in Distribution of Compensation When VA Costs Are Included



From a labor cost perspective, VA benefits create a compensation package weighted heavily toward deferred compensation.

CBO has not analyzed how increases in VA benefits affect recruiting or retention, so the extent to which increasing VA benefits would affect recruiting or retention is unclear.

Data source: Congressional Budget Office, *Atlas of Military Compensation, 2026* (June 2026), [www.cbo.gov/publication/62260](http://www.cbo.gov/publication/62260).

“Other noncash” includes schools for dependent children; childcare and youth programs; family programs; morale, welfare, and recreation programs; education programs; and commissaries.

# Conclusions

- The total cost of military personnel is an important component of DoD's decisions about changing the size of the total force, the mix of forces (active, reserve, civilians, and service contractors), or the mix of capital and labor.
- DoD's budget does not include VA costs, but they have increased enough to become an important factor in assessing the total costs of military personnel.
- Using an accrual approach, CBO estimates that a yearly accrual cost of \$86,000 per active-duty service member is needed to cover the future cost of VBA and VHA benefits. If the cost of VA benefits rises in the future, the accrual cost of future cohorts will be higher.

## **How Did CBO Estimate the Cost of Deferred VA Benefits?**

# Estimating the Accrual Cost of VA Benefits

Accrual accounting matches an estimate of a program's total costs to an estimate of total resources while accounting for the time value of money and its effects on when costs are incurred and when resources are received.

CBO's estimate models the veteran population consisting of a military cohort of active-component service members who all enter in the same year.

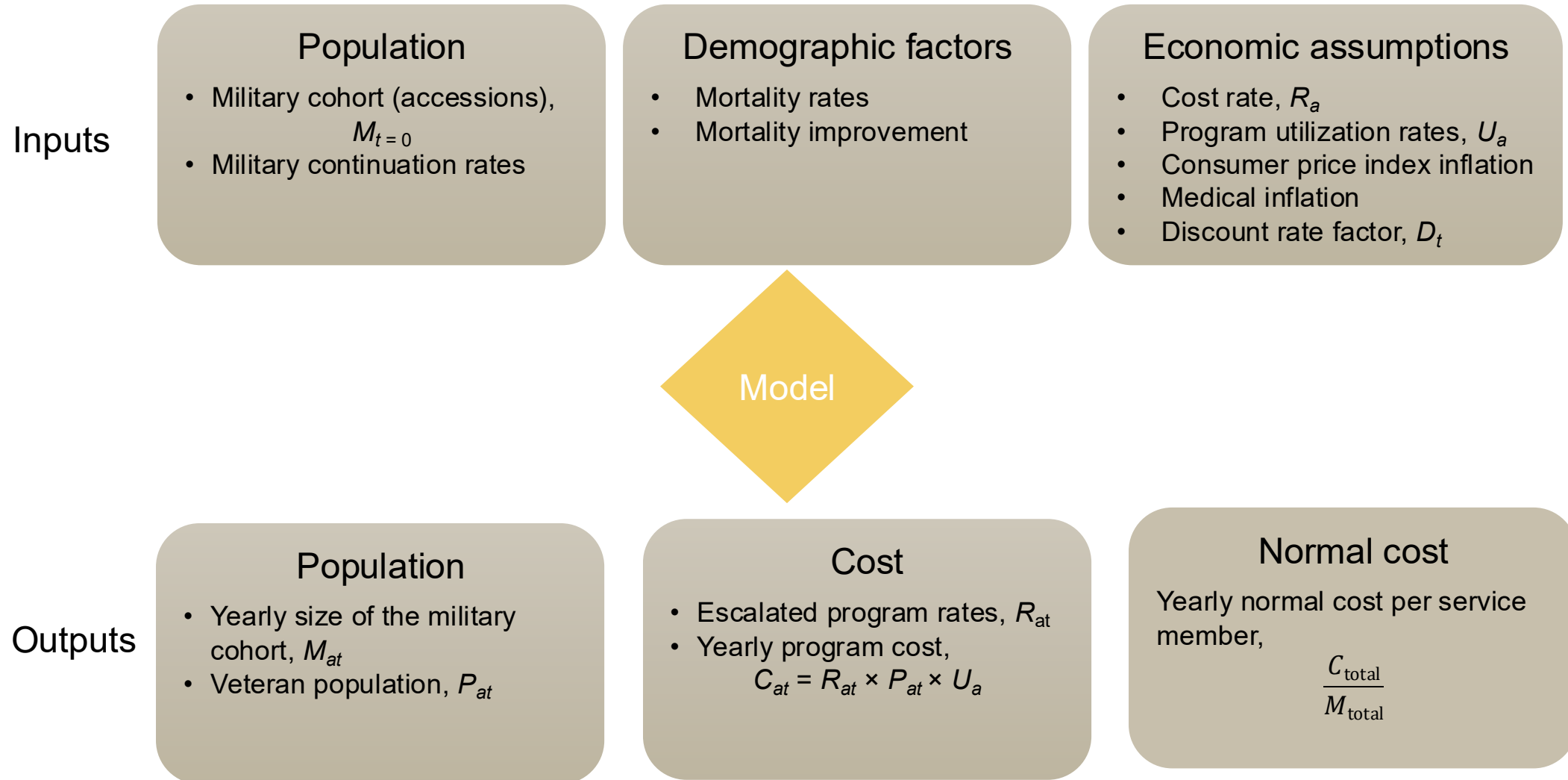
- The military cohort decreases each year on the basis of continuation rates.
- The veteran population increases each year as service members separate.
- The VA population decreases over time because of mortality.

The total cost of VA benefits for all veterans in the cohort is a combination of the following:

- Inflation-adjusted cost per veteran for the VBA and VHA programs using VA data,
- Utilization rates per veteran from VA data, and
- The modeled size of the veteran population by age.

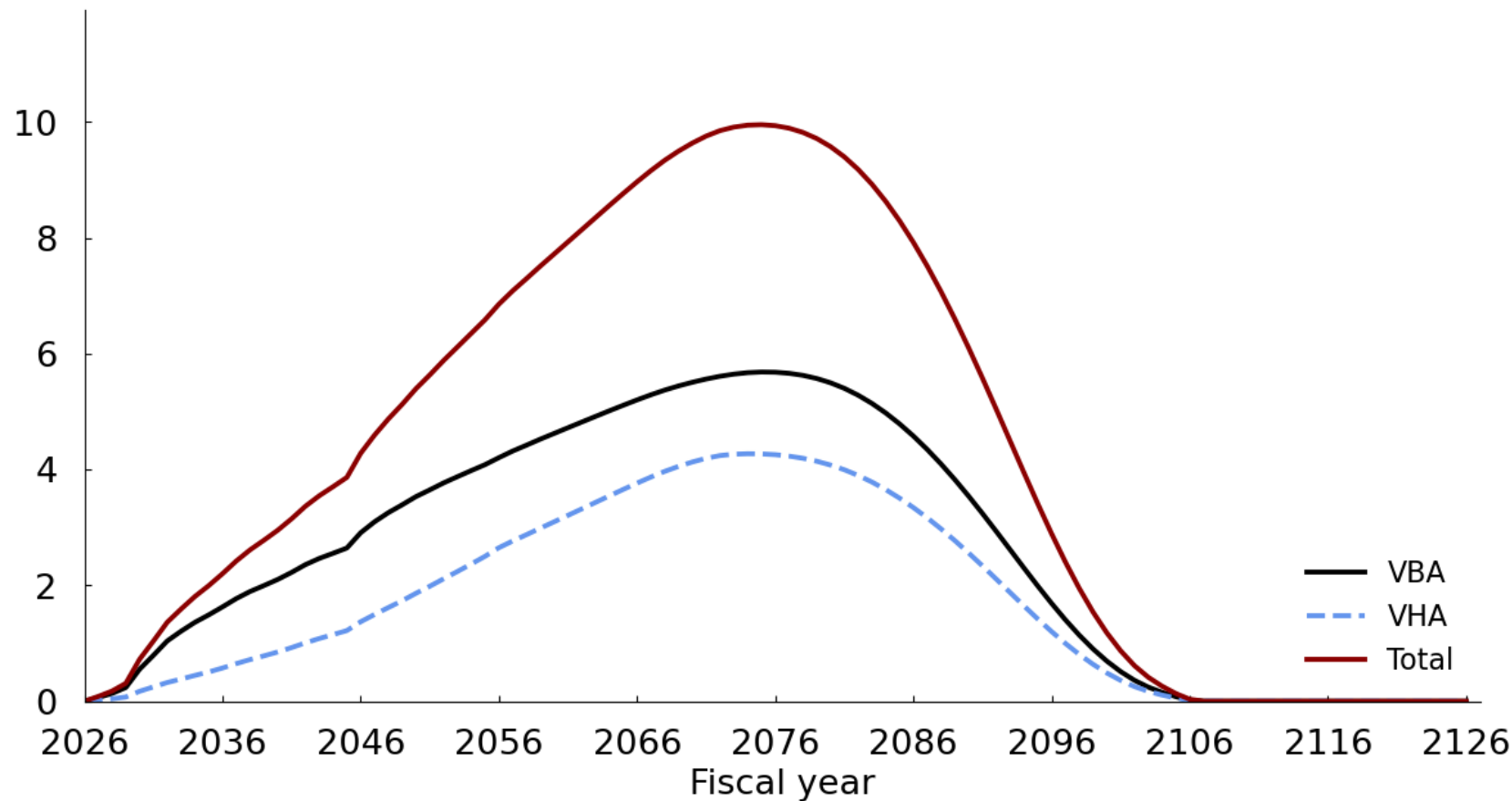
From that estimated total VA cost, CBO uses accrual accounting techniques to estimate a yearly normal cost per service member needed to offset the cost of future deferred benefits.

# Overview of CBO's Accrual Accounting Method for VA Benefits



# Estimates of the Cost of VA Benefits for the 2026 Cohort

VBA and VHA cost per year  
Billions of nominal dollars



Cost,  $C_t$ , is derived from the modeled veteran population,  $P_{at}$ , by using program costs per veteran,  $R_a$ , program utilization rates,  $U_a$ , and inflation estimates,  $d_t$ .

$$C_{at} = R_a d_t \times P_{at} \times U_a$$

$$C_t = \sum_a C_{at}$$

See Congressional Budget Office, *Accrual Accounting for Veterans' Benefits: Working Paper 2026-07* (June 2026), [www.cbo.gov/publication/62384](https://www.cbo.gov/publication/62384).

VA = Department of Veterans Affairs; VBA = Veterans Benefits Administration; VHA = Veterans Health Administration.

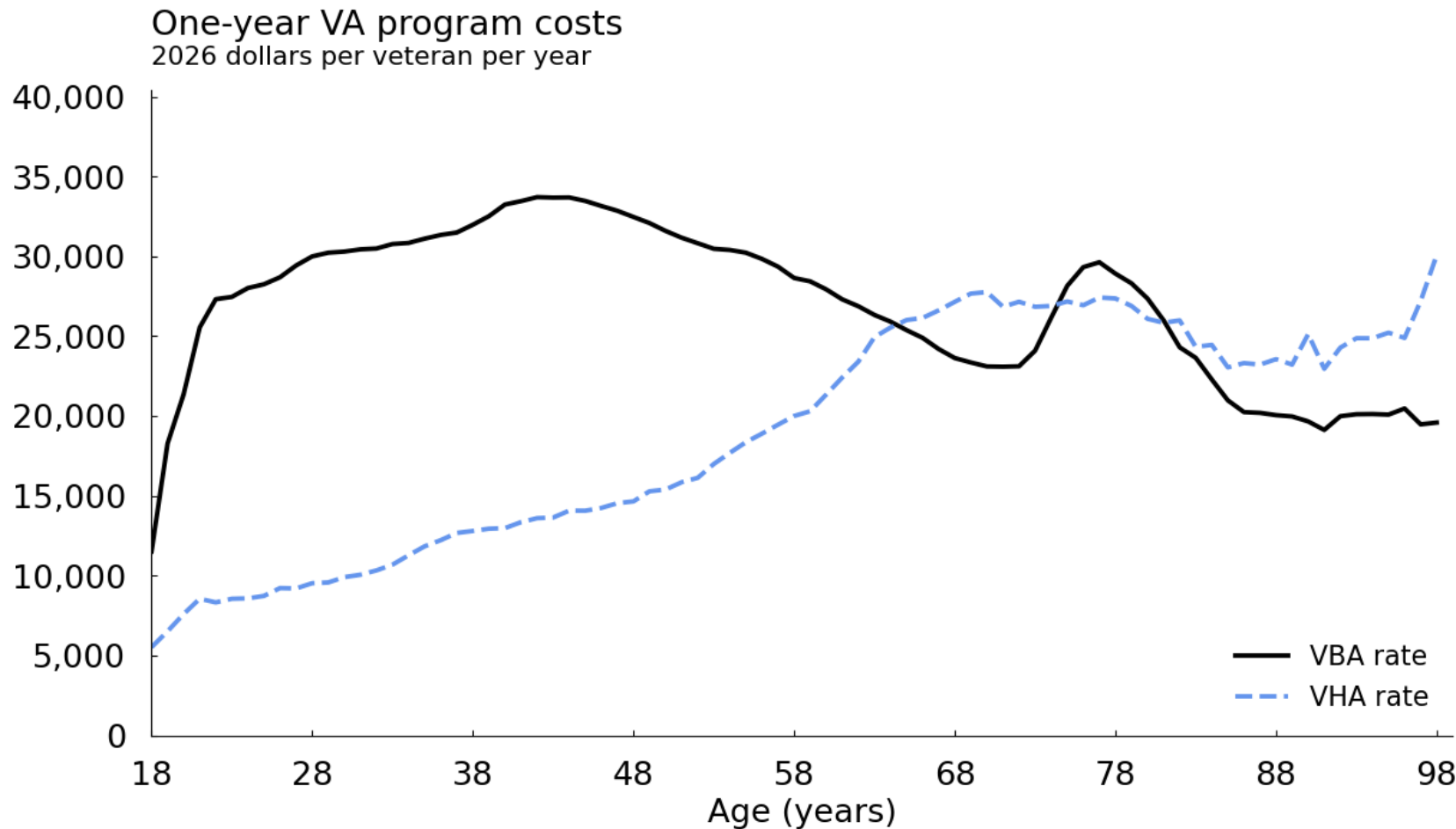
**What Are Some Key Assumptions  
in the VA Cost Model?**

# Average VA Cost Data for Current Users

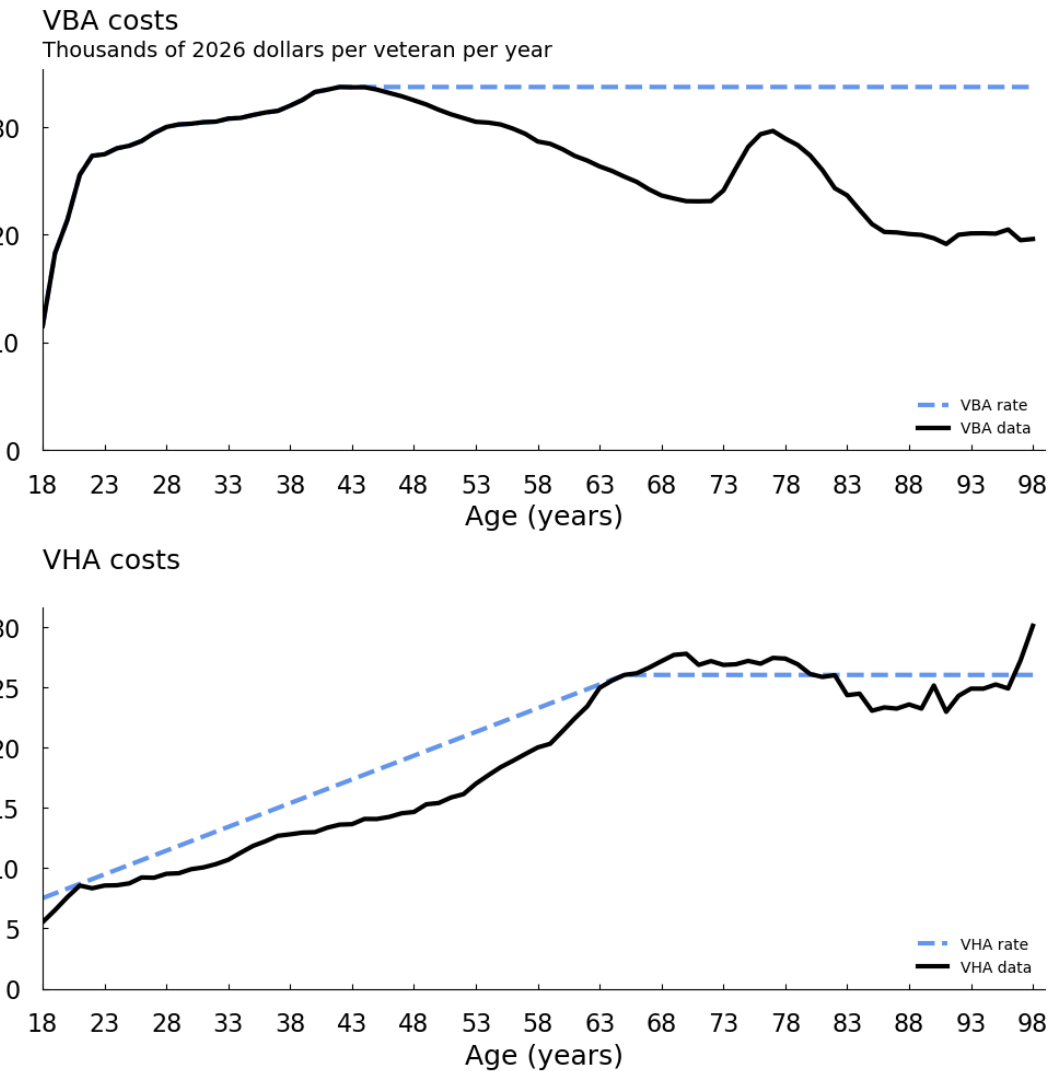
Data show cost per veteran by age for VHA-managed health care and for VBA-managed disability benefits. Together, VHA and VBA make up about 92 percent of VA's budget.

Cost growth,  $d_t$ , reflects the assumptions that VBA costs grow with the consumer price index for urban wage earners and clerical workers and that VHA costs grow with economywide health care costs.

These one-year VA program data provide the age component of the rate,  $R_a$ , used to calculate the cost of benefits for the veteran cohort,  $P_{at}$ .



# Modified Average VA Cost Data for Current and Future Users



The cost of veterans’ benefits over the past 15 years has grown significantly because of expanded veterans’ benefits and a trend for high disability ratings.

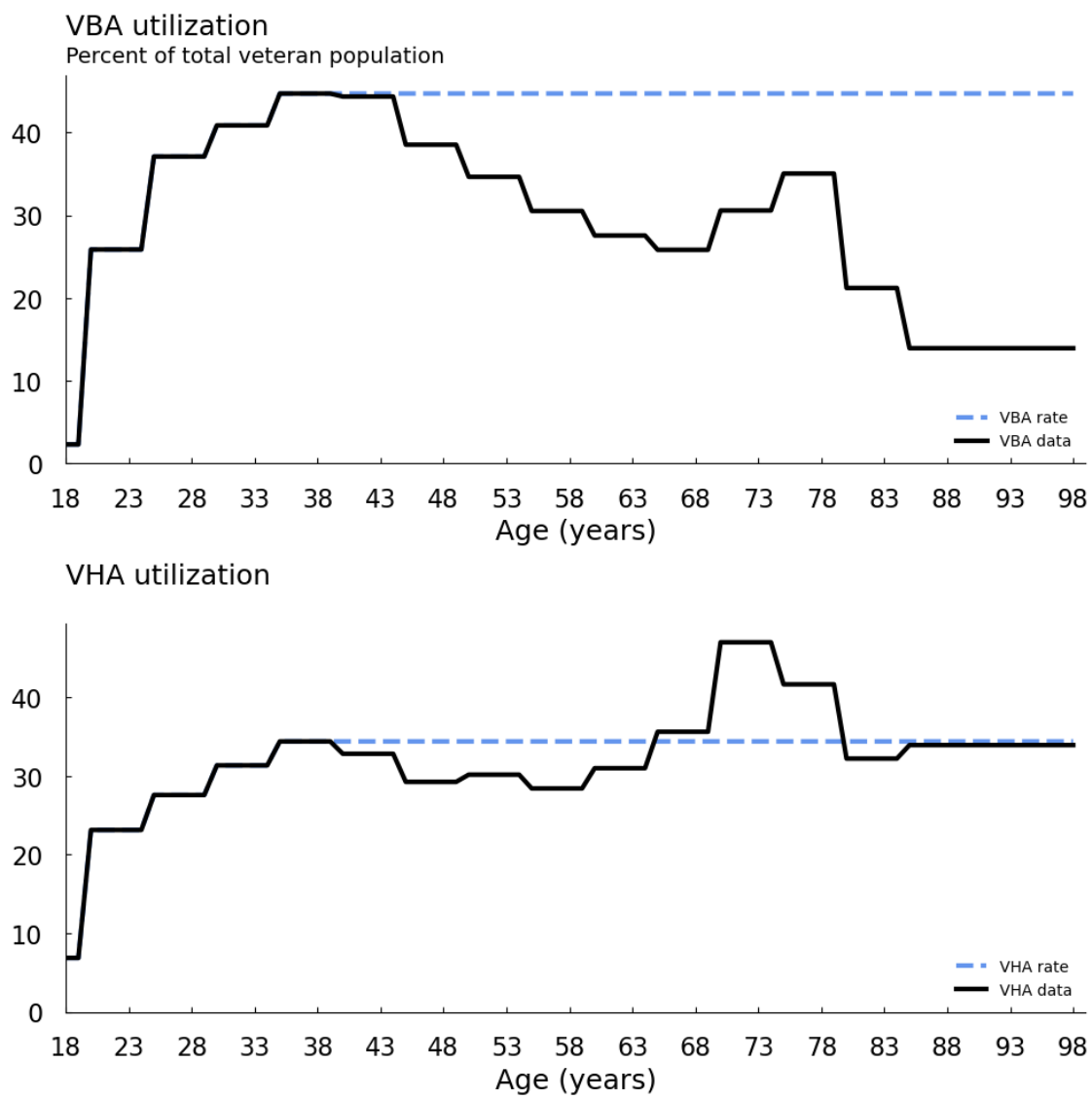
Because of those changes in VA benefits, the costs of benefits for today’s young veterans as they age probably will not reflect the costs for today’s older veterans.

$R_a$  is modified so that costs better reflect what current veterans will receive as they age.

VBA costs grow until age 42. VHA costs grow linearly with slope on the basis of growth between ages 23 and 68. VHA costs stop growing at age 68 because of the effects of Medicare. See Congressional Budget Office, *Accrual Accounting for Veterans’ Benefits: Working Paper 2026-07* (June 2026), [www.cbo.gov/publication/62384](https://www.cbo.gov/publication/62384).

VA = Department of Veterans Affairs; VBA = Veterans Benefits Administration; VHA = Veterans Health Administration.

# Modified VA Utilization Data for Current and Future Users



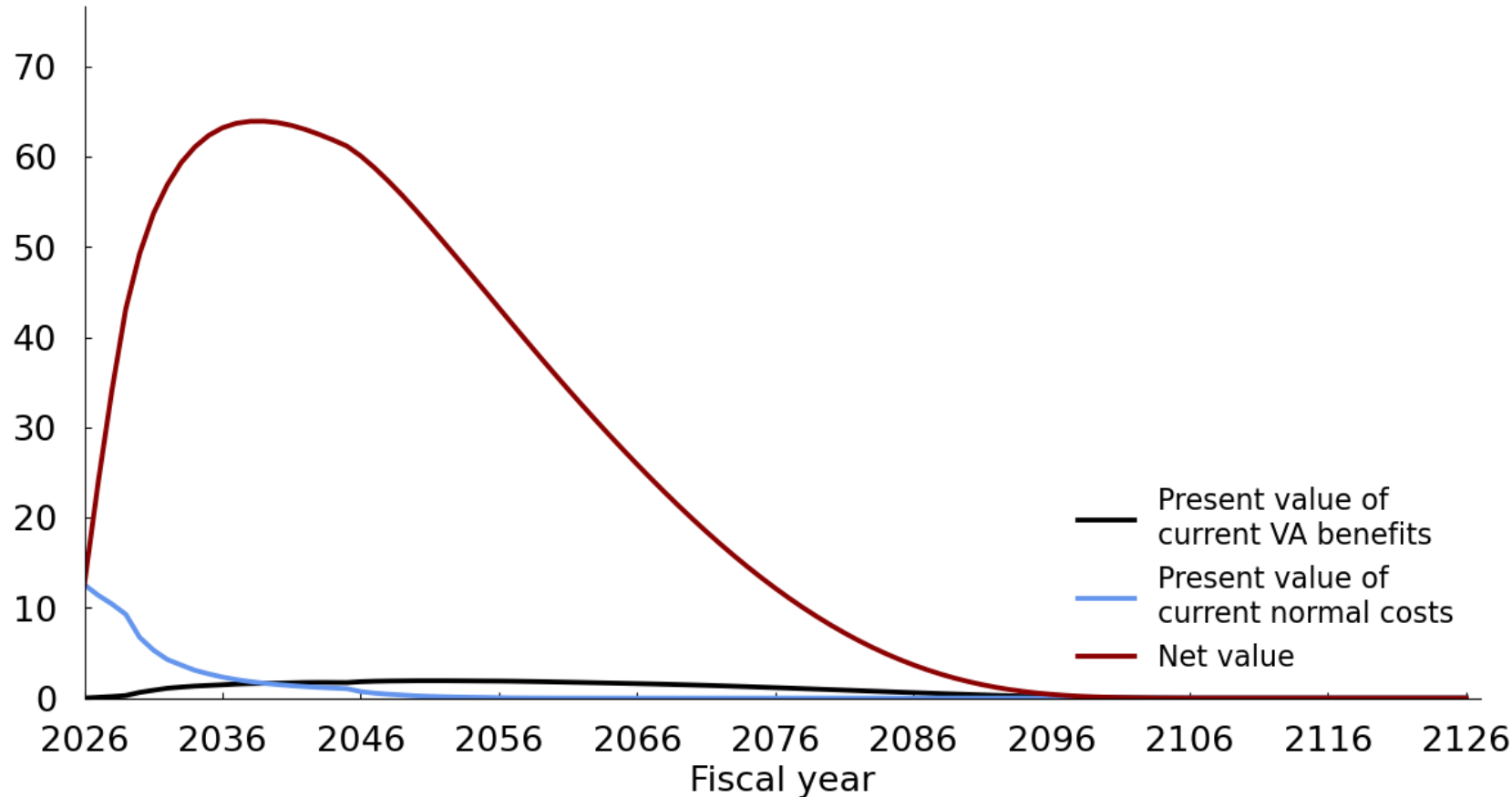
Program utilization data show the fraction of veterans using program benefits. Data as a function of age were modified to reflect current utilization trends.

See Congressional Budget Office, *Accrual Accounting for Veterans' Benefits: Working Paper 2026-07* (June 2026), [www.cbo.gov/publication/62384](https://www.cbo.gov/publication/62384).

VA = Department of Veterans Affairs; VBA = Veterans Benefits Administration; VHA = Veterans Health Administration.

# Yearly Discounted Cash Flow for Accrual Accounting

Funds per year, present value  
Billions of discounted dollars



The present value of yearly normal cost contributions (blue) follows changes in the size of the military population,  $M_t$ .

The present value of current VA benefits (black) follows changes in the size of the veteran population,  $P_t$ .

The net balance of the accumulated funds (red) goes to zero when the veteran population and VA cost goes to zero.

A discount rate,  $D_t$ , was used to get the present value of costs and contributions.

# Solving for Yearly Accrual Cost

- The cumulative VA cost for the cohort for discount rate  $D_t$  is

$$C = \sum_t C_t D_t = \$87.624 \text{ billion}$$

- If  $A$  is the constant accrual rate and  $M_t$  is the size of the military cohort over time, the cumulative accrued funding is given by

$$F = \sum_t M_t (A D_t) \text{ and } F = A \sum_t M_t D_t$$

- Cumulative accrued funds simplifies to the constant normal cost multiplied by the total number of times that the normal cost is collected, adjusted by the discount rate:

$$F = A \times 1.014 \text{ million times}$$

- Cumulative costs must equal cumulative funds ( $C = F$ ) to ensure fully funded VA benefits, so

$$\sum_t C_t D_t = A \sum_t M_t D_t$$

- After we solve for  $A$ , the yearly accrual cost per military service member yields

$$A = \frac{\sum_t C_t D_t}{\sum_t M_t D_t} = \$86,000$$