

How the Military's Basic Allowance for Housing Compares With Civilian Housing Costs

July 2, 2024

Presentation at the 2024 Conference of the Western Economic Association International

David Mosher (based on work by Heidi Golding, Kathryn McGinnis, and F. Matthew Woodward)

National Security Division

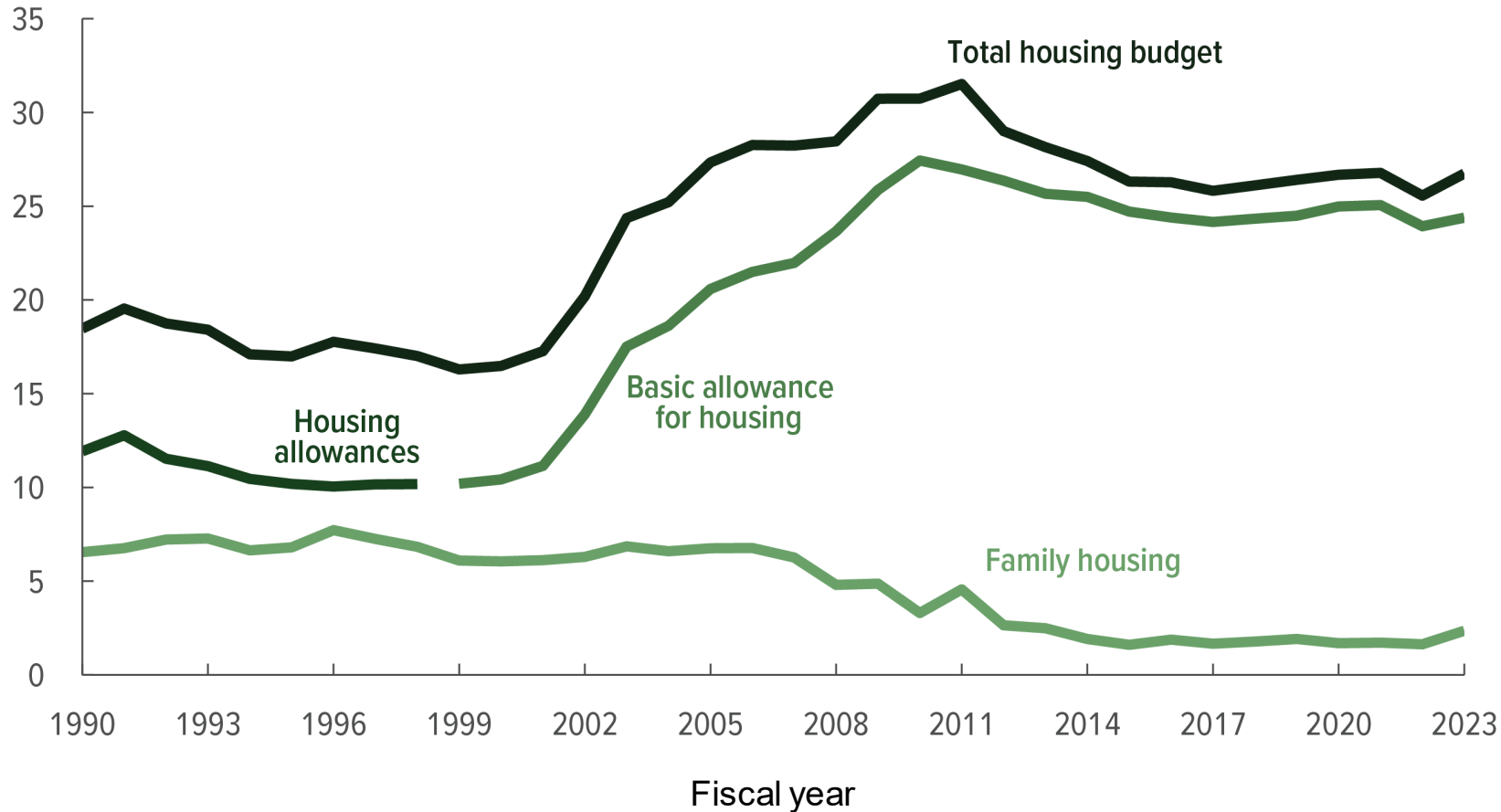
At a Glance

- Funding for the Basic Allowance for Housing (BAH) program has grown faster than the overall rate of inflation—and faster than the increase in the consumer price index (CPI) for rent—over the past 25 years, especially in the early 2000s.
 - Both the average BAH payment per recipient and the number of recipients rose.
- CBO found that BAH payments were typically higher than what similar civilians paid for rent and utilities:
 - About 47 percent higher for E-5s with dependents than for civilians with similar age and education levels who have dependents.
 - About 20 percent higher than for civilians with similar income who have dependents.
- CBO also found that few civilians rented housing units the same size as the military standard unit (the basis for BAH rates). For civilians similar to E-5s with dependents:
 - About 4 percent of civilians with comparable age and education levels or comparable income rented housing the size of the military standard unit.
 - The majority of civilians rented smaller housing than DoD's standard for E-5s in high-cost areas and larger housing in low-cost areas.

The Budgetary Context for BAH

The BAH Program Grew Sharply in the 2000s

Billions of 2023 dollars

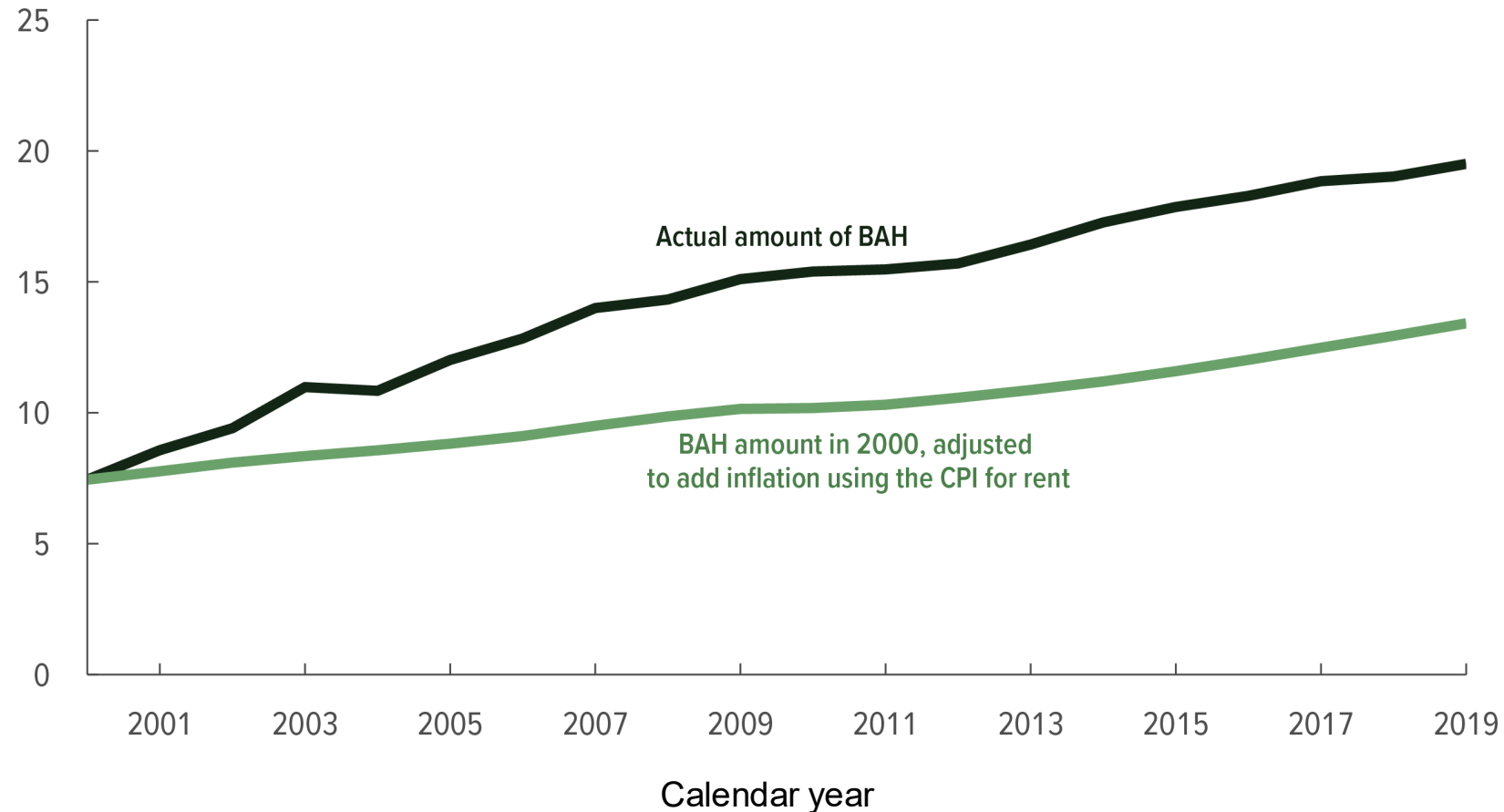


Between 1999 and 2023, the annual cost of the BAH program grew from \$10 billion to \$24 billion (in 2023 dollars), an increase of 140 percent.

The annual appropriation for family housing fell by about \$4 billion, or 60 percent, during that period because of the privatization of on-base housing.

The Average BAH Has Grown Faster Than National Rental Rates

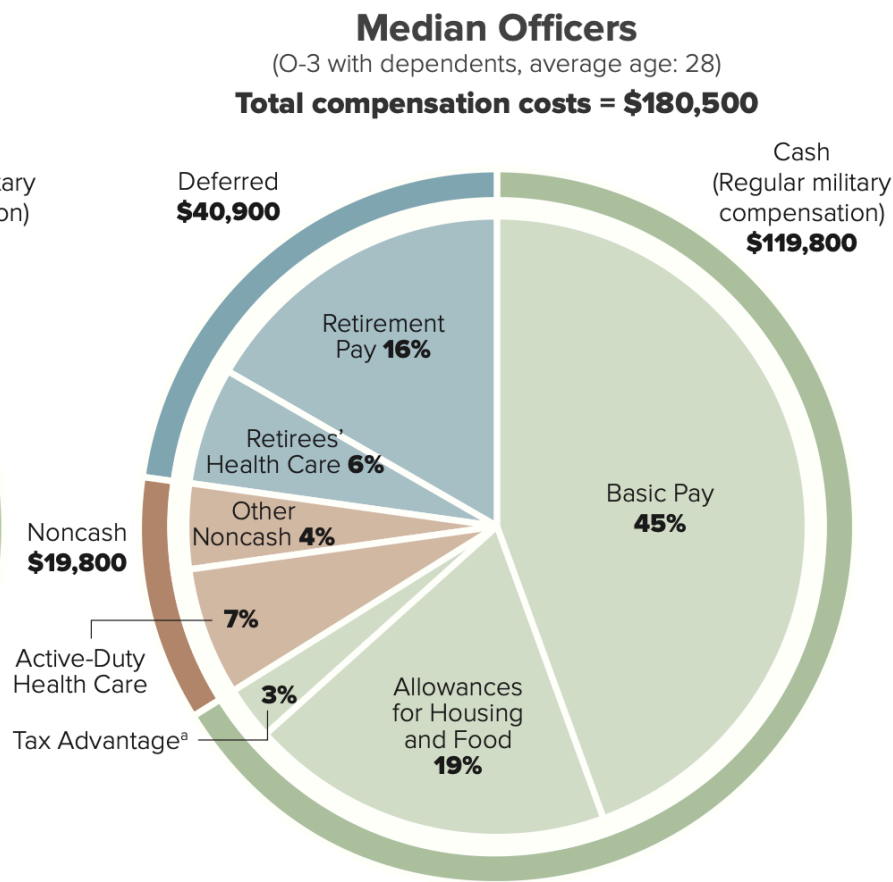
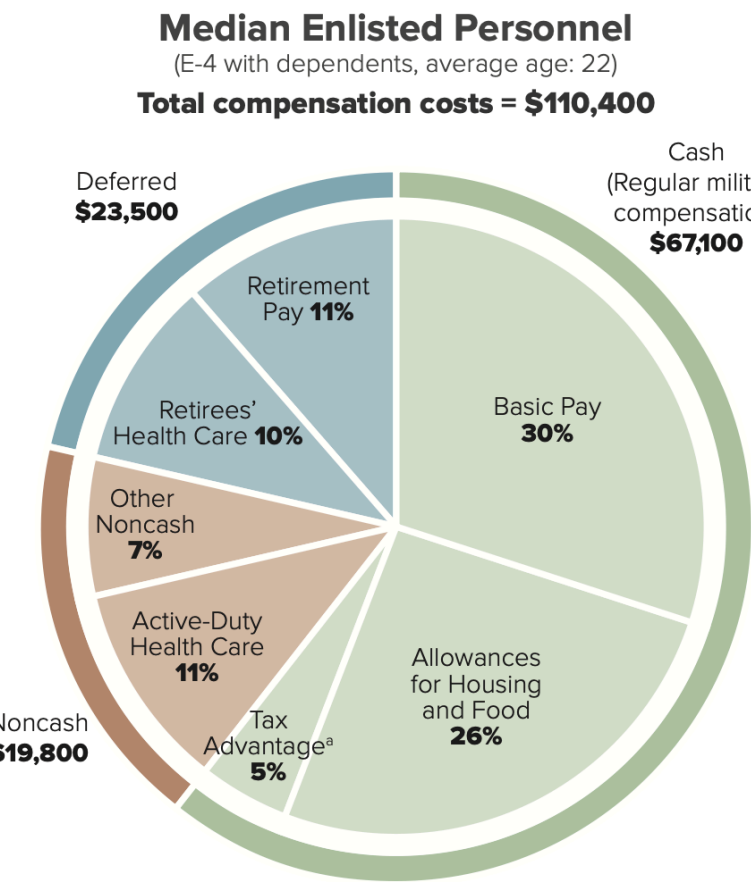
Thousands of nominal dollars per recipient



In 2019, BAH payments for an E-5 recipient averaged about \$19,500 (in 2019 dollars). Those payments would have been roughly 30 percent smaller if they had grown at the same rate as the consumer price index for rent.

Two changes were instrumental in the growth of average BAH payments: a different method was used to set payments than under the previous program, and out-of-pocket housing expenses for service members were reduced.

BAH Accounts for a Sizeable Portion of Military Cash Pay



In 2023, the basic allowance for housing accounted for about one-third of regular military compensation (RMC) for a median enlisted person (an E-4 with dependents) and about one-fifth of RMC for a median officer (an O-3 with dependents).

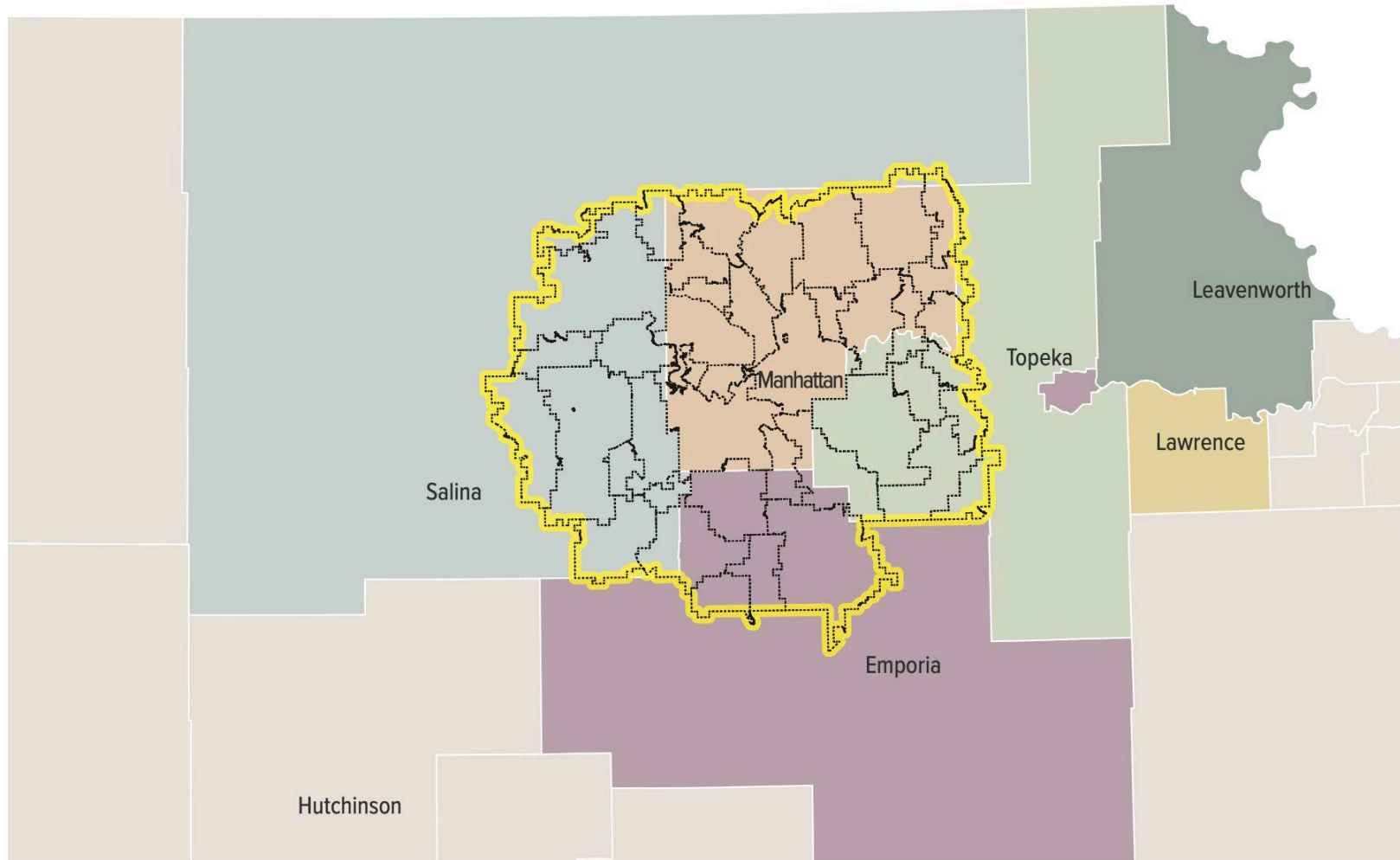
a. DoD's estimate of the benefit a service member receives from the tax-free allowances for food and housing. That amount represents a cost to the federal government in terms of lost tax revenues.

CBO's Approach

CBO Examined What Similar Civilians Paid for Rent in Each Military Housing Area

- CBO used data from the American Community Survey (ACS) for 2017 to 2019 to identify the type of housing that similar civilians rented and what they paid for rent (including utilities).
 - CBO analyzed data separately for each of the more than 300 military housing areas (MHAs).
- CBO focused on E-5s with dependents, the largest single group of BAH recipients.
 - CBO also looked in detail at E-6s with dependents and found similar results.
- CBO identified similar civilians in two different ways:
 - Those with similar age and education.
 - Those with similar income.
- CBO matched MHAs with the geographic areas in the ACS by using zip-code-equivalent areas and weighting techniques.

Geographic Areas From the Census Mapped Onto the Fort Riley, Kansas, Military Housing Area



The census-defined geographic areas in the American Community Survey microdata do not align one-to-one with the MHAs defined by the Department of Defense. Several census-defined areas usually feed into an MHA.

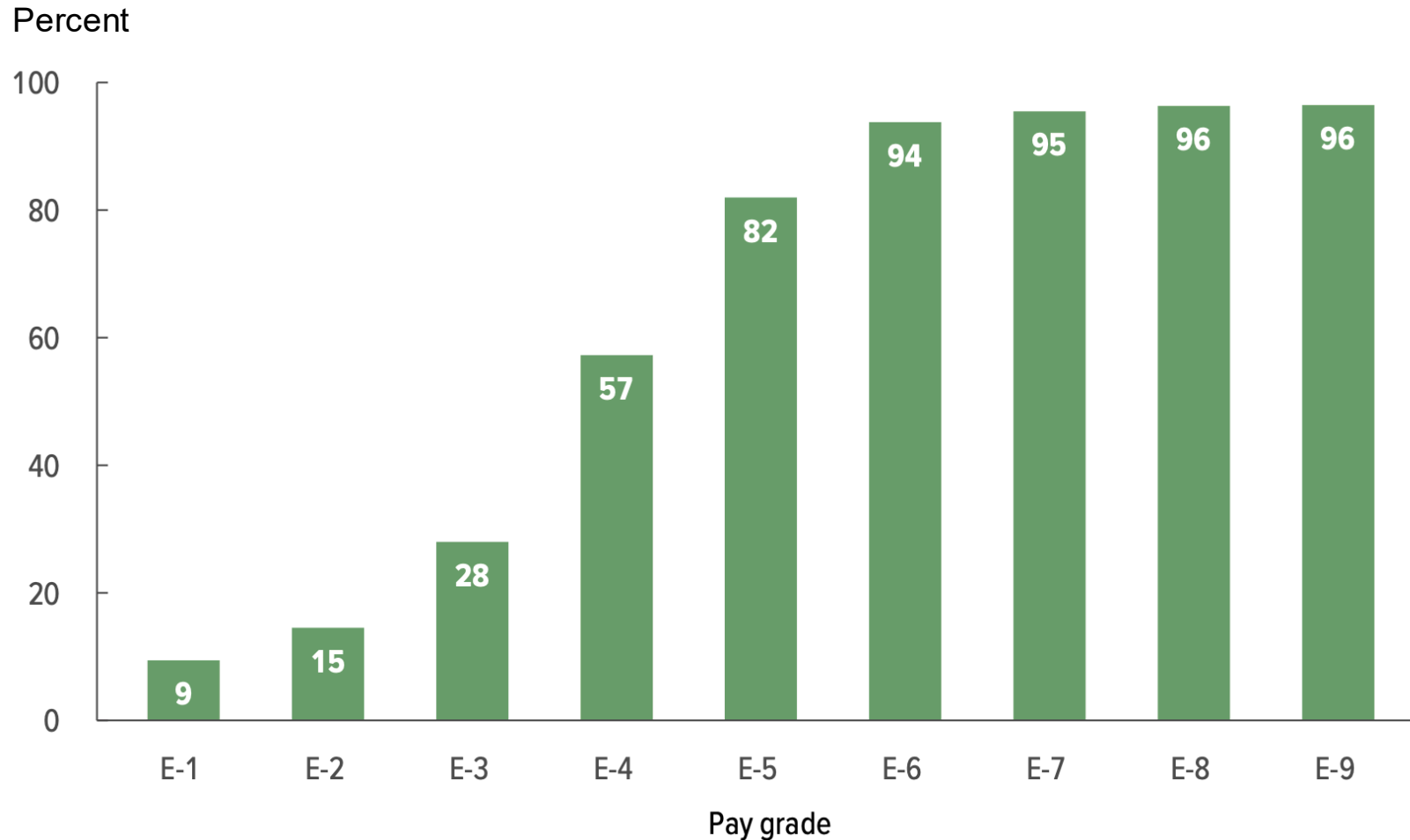
For example, the MHA for Fort Riley, Kansas—which has a population of about 150,000 people—includes parts of four census-defined areas that have a total population of nearly 500,000 people.

CBO assigned people to MHAs on the basis of census mappings.

Details of CBO's Analysis

- Costs of rental housing include utility costs.
- CBO focused on BAH payments to service members stationed in the United States who live off-base or in on-base housing that is operated by private-sector companies through public–private partnerships.
- CBO did not report findings for military housing areas with fewer than 35 observations in the American Community Survey, resulting in a sample with 232 MHAs for civilians with similar age and education levels and 135 MHAs for civilians with similar income.
- CBO's sample included civilians who were married, had dependent children, or both and who were employed full time.
 - Civilians who were similar to E-5s in age and education were ages 23 to 28 and had a high school diploma or some college education.
 - Civilians who were similar to E-5s in income were ages 18 to 45 and had income equal to regular military compensation plus or minus 10 percent. (CBO calculated local RMC rates by replacing the national average BAH payment with MHA-specific BAH rates.)
 - The sample included civilians who rented all types of housing that were available, except studio apartments, boats, RVs, and tents (none of which were common in most MHAs).

Share of Enlisted Service Members Who Received BAH in 2019



Senior enlisted personnel were more likely than junior personnel to receive BAH because a larger share of them were married and because senior personnel who are single are generally not required to live in housing owned or operated by the government.

DoD's Standard for E-5s With Dependents Is a Two-Bedroom Townhouse or Duplex

Military Housing Standards and the Pay Grade Associated With Each Type of Housing

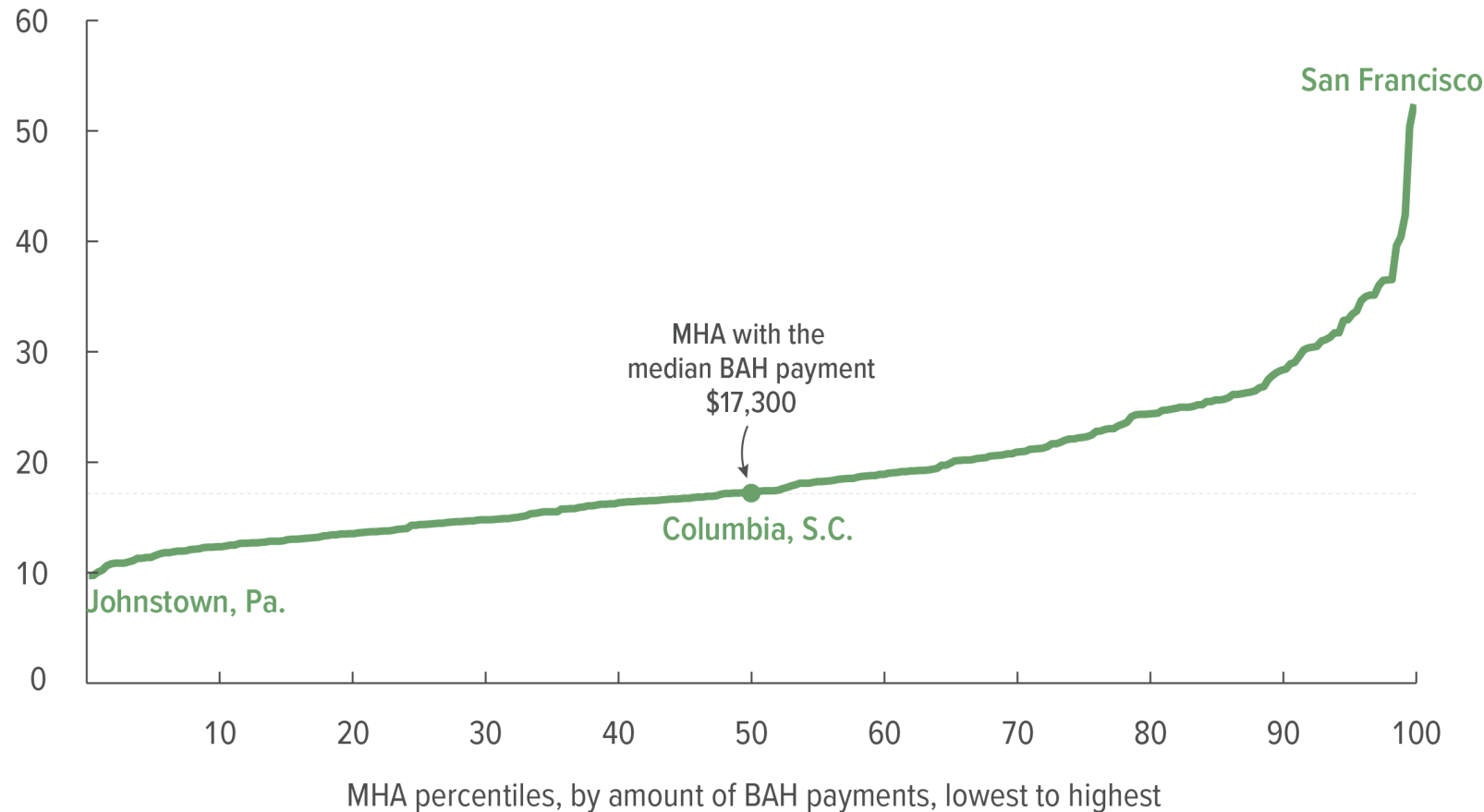
Housing type (anchor point)	With dependents	Without dependents
One-bedroom apartment	n.a.	E-4
Two-bedroom apartment	n.a.	O-1
Two-bedroom townhouse or duplex	E-5	O-1E ^a
Three-bedroom townhouse or duplex	E-6	O-3E ^a
Three-bedroom single-family house	W-3	O-6
Four-bedroom single-family house	O-5	n.a.

n.a. = not applicable.

a. Officers who were enlisted service members before entering the officer ranks.

There Is Wide Variation in BAH Payments for E-5s With Dependents Around the United States

Thousands of 2019 dollars

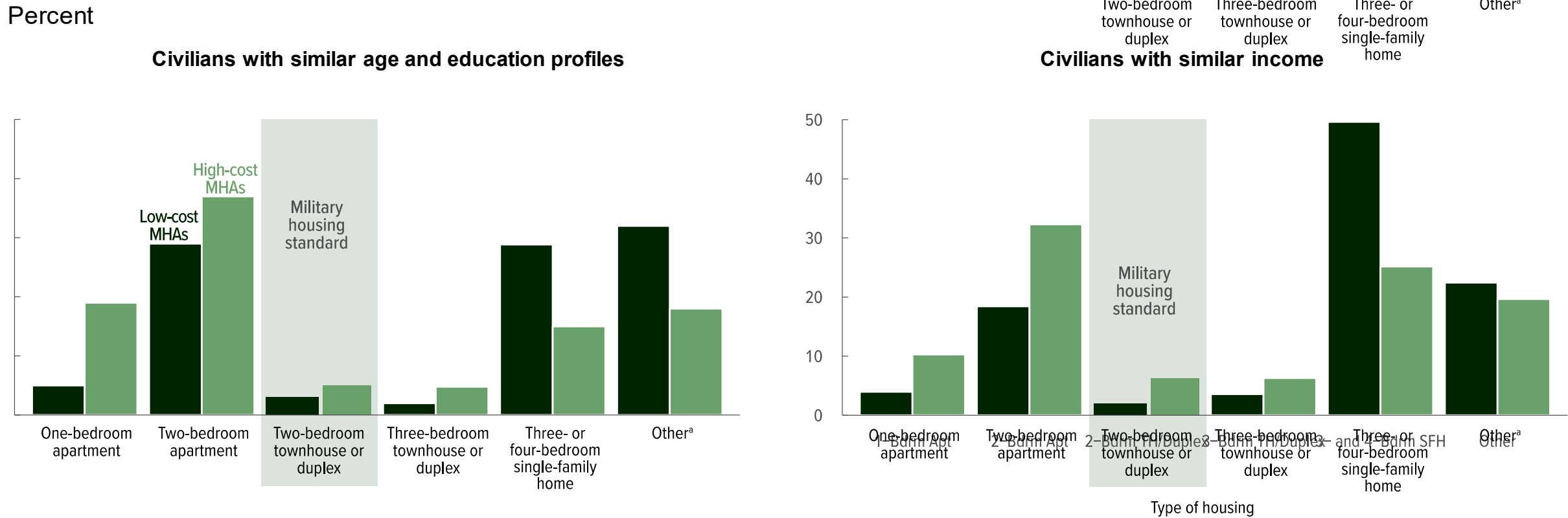


BAH payments for E-5s with dependents varied substantially among military housing areas in 2019, but in more than 90 percent of MHAs, they were less than \$30,000.

The housing standard for those service members (a two-bedroom townhouse or duplex) did not vary among MHAs.

CBO's Findings

Few Civilians Similar to E-5s Chose the Military Standard Unit: Most Rented Smaller Units in High-Cost Areas and Larger Units in Low-Cost Areas



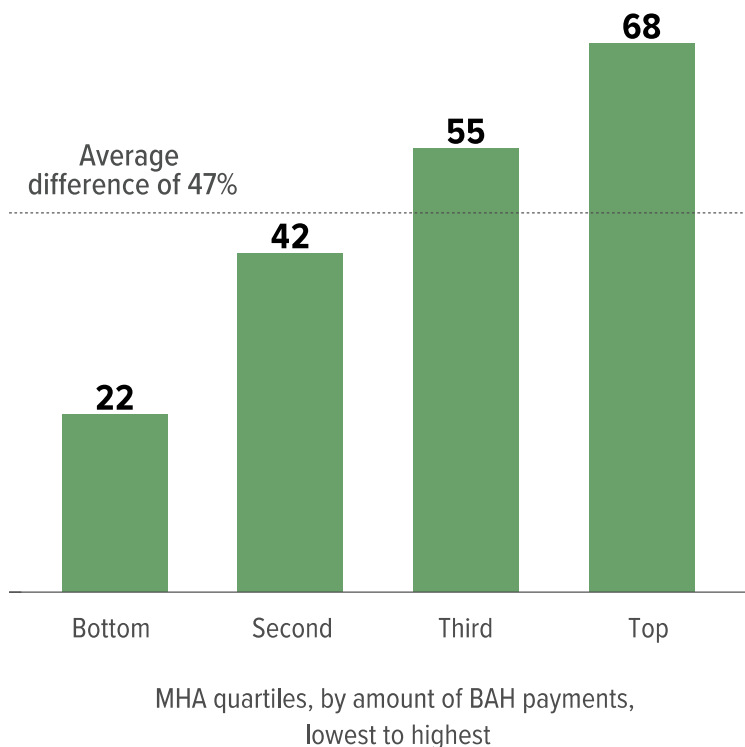
Almost half of civilians with similar age and education levels as E-5s with dependents rented smaller units than the military standard for those service members. Civilians with similar income tended to rent larger units than civilians with similar age and education levels, partly because military pay is higher than the pay of about 90 percent of civilians with similar age and education levels.

a. "Other" includes most types of housing that the military does not use to determine BAH rates, such as three-bedroom apartments or two-bedroom single-family houses. 14

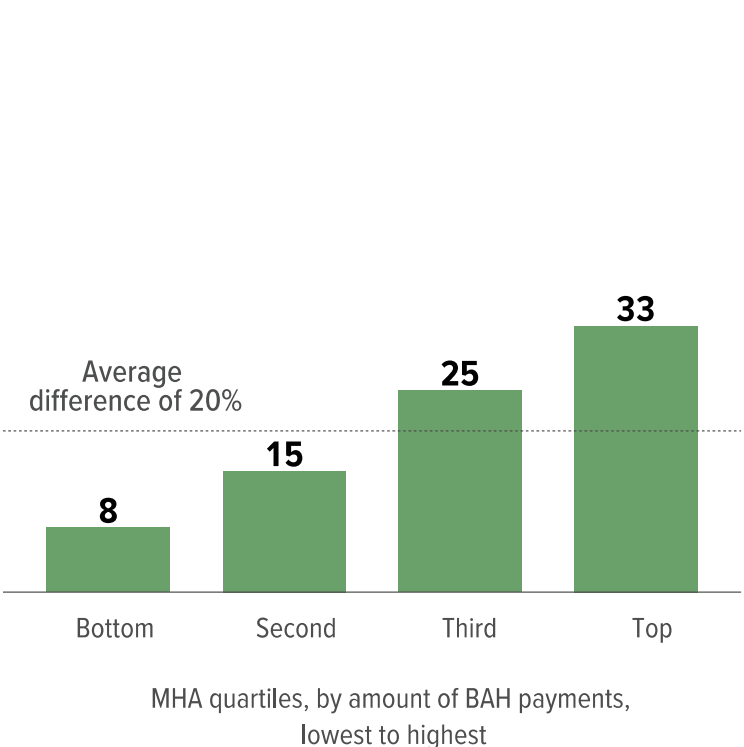
On Average, BAH Exceeded Median Civilian Rent in Low-Cost and High-Cost Areas

Percentage by Which BAH for E-5s With Dependents Exceeded Median Rental Costs of Similar Civilians, 2017 to 2019

Civilians with similar age and education profiles



Civilians with similar income



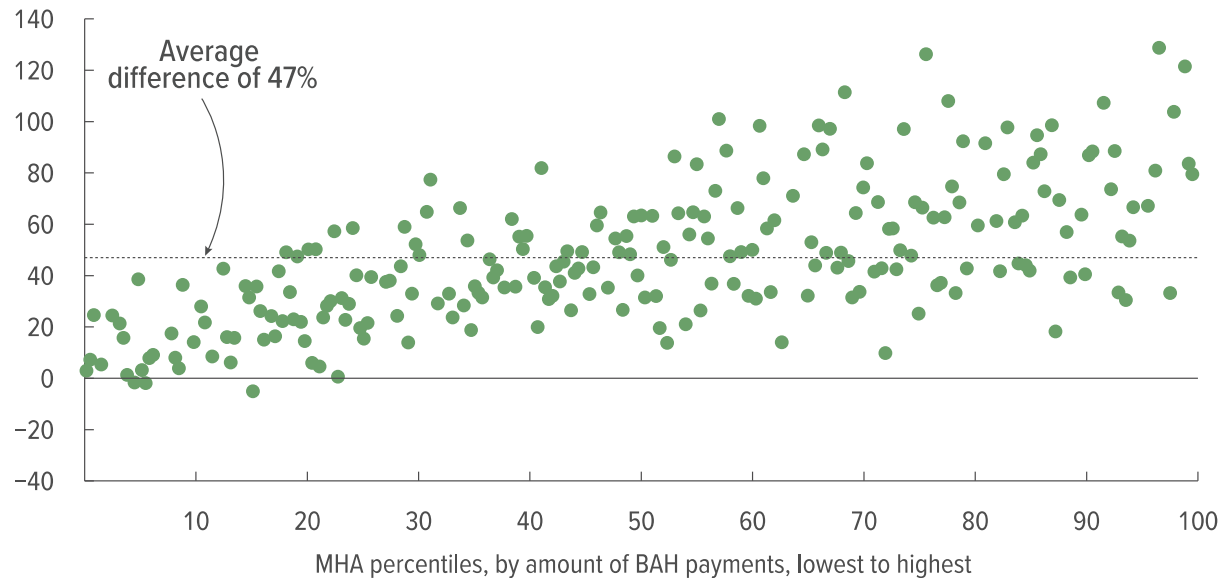
Within individual military housing areas, BAH for E-5s with dependents was usually larger than the median rental costs of both categories of similar civilians. The largest differences were in the one-quarter of MHAs with the highest BAH payments.

Percentage differences were also larger in MHAs where rental costs were most expensive and smaller in MHAs where large numbers of service members were stationed.

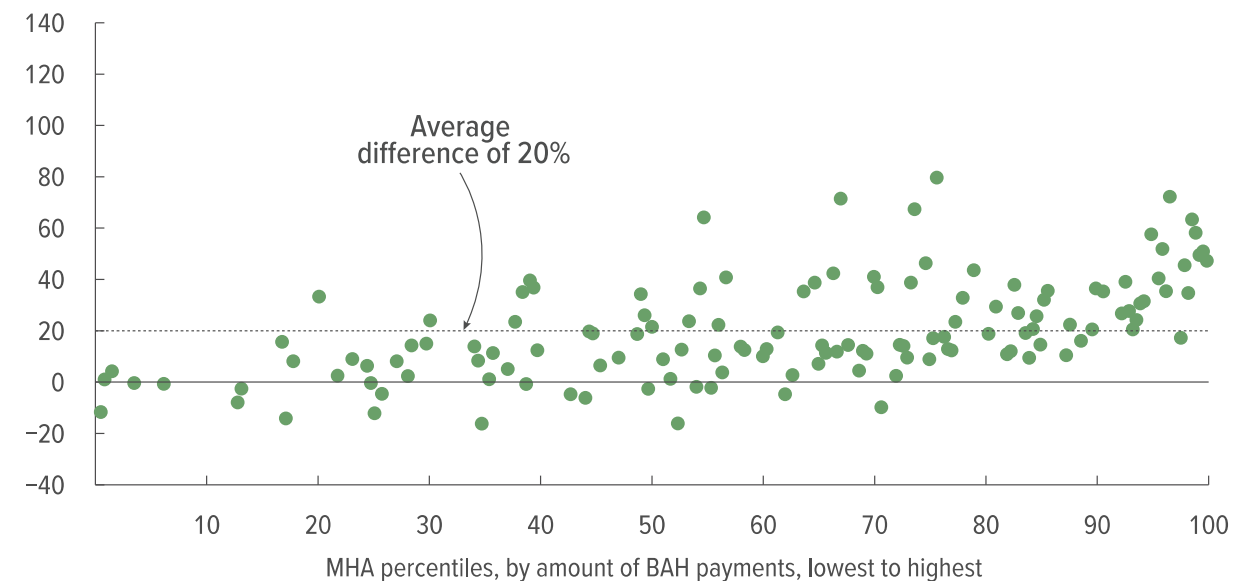
Variation in the Percentage Difference Between BAH for E-5s With Dependents and Median Rental Costs for Similar Civilians, 2017 to 2019

Percent

Civilians with similar age and education profiles



Civilians with similar income



Even within military housing areas with similar BAH rates, the percentage difference between BAH and median civilian rents varied substantially. BAH for E-5s with dependents was lower than the median rental costs of civilians with similar age and education levels in fewer than 5 percent of MHAs and was lower than the median rental costs of civilians with similar income in fewer than 15 percent of MHAs.

Case Study: Housing Choices in Norfolk, Virginia, Mirrored National Trends—Few Civilians Rented the Military Standard Unit

Housing Rented by Civilians Similar to Service Members at Various Pay Grades in Norfolk, Virginia, 2017 to 2019

Percent

Type of housing	E-4 without dependents	E-5 with dependents	E-6 with dependents
Civilians with similar age and education profiles			
One-bedroom apartment	39	8	5
Two-bedroom apartment	27	52	30
Two-bedroom townhouse or duplex	5	7	6
Three-bedroom townhouse or duplex	0	7	13
Three- or four-bedroom single-family house	7	9	24
Other ^a	22	17	22
Total	100	100	100
Civilians with similar income			
One-bedroom apartment	53	6	6
Two-bedroom apartment	33	23	24
Two-bedroom townhouse or duplex	3	8	8
Three-bedroom townhouse or duplex	0	12	8
Three- or four-bedroom single-family house	8	26	34
Other ^a	4	25	21
Total	100	100	100

a. "Other" includes most types of housing that the military does not use to determine BAH rates, such as three- and four-bedroom apartments, mobile homes, and two-bedroom single-family houses. Most housing in that category was larger than the housing standard for E-5s with dependents.

Housing Choices in Norfolk, Virginia, Mirrored National Trends— BAH Usually Exceeded Rents Paid by Similar Civilians

Monthly BAH for Service Members at Various Pay Grades and Median Rental Costs for Similar Civilians in Norfolk, Virginia, 2017 to 2019

2019 dollars

	E-4 without dependents	E-5 with dependents	E-6 with dependents
Monthly BAH payment	1,280	1,520	1,880
Civilians with similar age and education profiles			
Median rental cost	990	1,200	1,320
Percent difference	29	26	43
Civilians with similar income			
Median rental cost	1,080	1,560	1,590
Percent difference	18	-2	18