

Navy Family Housing: Costs, Benefits, Solutions

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Overview

The Navy has a dual system for providing shelter to military families. One-quarter of Navy enlisted families in the United States live in base housing, paying no rent or utilities. The other three-quarters live in private housing and receive tax-exempt allowances that cover about 80 percent of housing and utility costs.

From our analyses¹ for the Deputy Assistant Secretary of the Navy (Installations and Facilities), we find:

- It costs the military far more to house families on-base than in the private sector.
- Servicemembers value the base housing far short of its cost.
- The military encourages personnel to select the high-cost, on-base option.
- The need for additional base housing is overstated.

Cost and benefit comparison

It costs the government about \$15,000 to house one Navy family on-base for a year. Of this total, \$13,000 comes from the Navy budget, and \$2,000 comes from the Department of Education in the form of school impact aid. In contrast, families who live off-base cost the government \$8,000 a year, including \$200 from school impact aid. Most Navy families appear to value the benefits of current base housing at between \$8,600 to \$10,700 a year, which is greater than the average allowance rate, but far less than the cost of providing the housing.

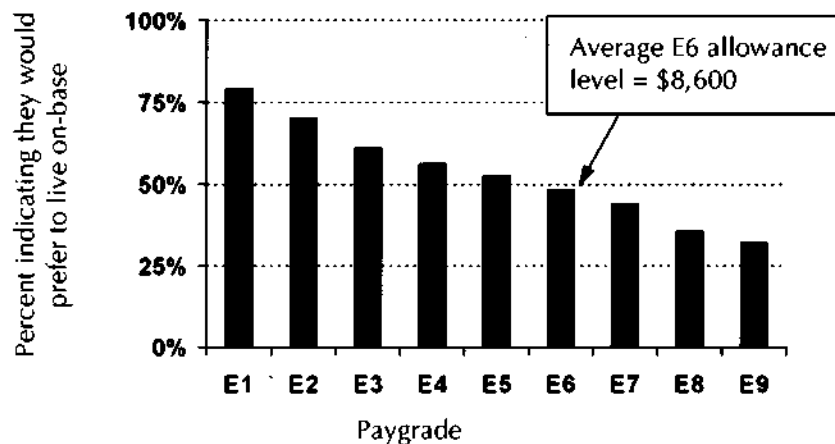
Figure 1 shows the preferences of enlisted sailors for on-base family housing by paygrade. The data are based on responses from the 1995 VHA survey and estimates of the number of personnel already living on-base. As paygrade increases, preferences for base housing decrease. There are two reasons why this happens: Sailors in higher

1. This document summarizes CNA Research Memorandum 97-26. Memoranda 97-25 and 97-27 contain additional housing analyses.

paygrades receive larger housing allowances, and their higher basic pay makes it easier to afford out-of-pocket expenses.

Most sailors at the E6 paygrade and above prefer allowances to on-base family housing. Last year, the average E6 sailor received \$8,600 in housing allowances; most value that money more than the comparable base housing, even though they pay an average \$2,050 out-of-pocket each year to live off-base.

Figure 1. Family housing preferences by paygrade^a



a. Estimates include preferences of families currently living both on- and off-base.

Would an \$8,600 annual allowance also induce most sailors in the lower paygrades to prefer off-base housing? Not necessarily, because they may not be able to afford the associated out-of-pocket expenses. However, if offered \$10,650 in allowances (the equivalent of an E6 home with no out-of-pocket cost), it is likely that most sailors in all paygrades would prefer private sector housing. This amount is probably a good upper-bound estimate of the value that most sailors place on base housing. Some sailors, like the one-third of current E9s, would still prefer base housing, but higher allowances would help encourage many of those servicemembers to move off-base, too.

Confirming the upper-bound estimate, examination of housing patterns at some military developments in San Diego shows that servicemembers value those homes at between \$9,400 and \$11,500 per year.

Current incentives are to build more housing

The military encourages service personnel to select the higher-cost, on-base housing option. The different subsidy levels given for on- and off-base living ensure there will be long waiting lists for base housing. Many believe these waiting lists indicate a high demand for base housing, but in fact they indicate a need for higher allowances—a goal that would be cheaper and more equitable than the current system.

The military has begun to address this issue by raising allowances for some junior paygrades. However, it is prohibited from fully adjusting all allowances. This is part of the reason why the military still resorts to the inefficient practice of building more and better base housing.

What to do?

As a general rule, the Navy should exit from the family housing business. Stopping the funding for base housing would save \$300 million a year. That savings could raise allowance levels to cover 93 percent of current servicemember housing costs. If the Navy sold its existing family housing or could capture the education impact aid savings, it could eliminate servicemembers' current out-of-pocket costs altogether. Such an increase in allowances would improve the quality of life and financial well-being of the vast majority of servicemembers.