



Coast Guard Flag Voice 29

BASIC HOUSING ALLOWANCE FREQUENTLY ASKED QUESTIONS (FAQs)

In our continuing effort to help everyone better understand the new BAH, and especially how it may effect them individually, I've reproduced the FAQs from the Per Diem Committee's web site: Where Can I look up my rates and learn more about Basic Allowance for Housing?

Go to the Per Diem Committee's web site: <http://www.dtic.mil/perdiem/bah.html>

I looked up the 1999 BAH amount for my grade and ZIP Code and it's less than I got in 1998--am I going to lose money?

No. BAH rate protection will keep individuals from having reductions in housing allowances, as long as they maintain "uninterrupted eligibility" for BAH. This means individuals will be entitled to the 1 January, 1999 rate for their grade and location, or the housing allowance they were being paid on 31 December 1998, whichever is larger.

Can I ever lose rate protection?

Rate protection continues, indefinitely, provided the member retains "uninterrupted eligibility." Eligibility is interrupted when the individual incurs a change in status, defined as 1) a PCS move, 2) a decrease in grade, or 3) change in dependency status. Promotions are specifically excluded in the definition of a change in status. Again, let me get this straight. What could cause my housing allowance to fall?

Three separate circumstances may lead to a reduction in your housing allowance; each involves a change in your status that interrupts your eligibility for the allowance, and then, only if the published allowance for your grade and location is less than what you are getting now.

First, and most common, a decrease will occur when you PCS to a location where the cost of housing is less than your current duty station. At the new duty station you will get a lower housing allowance, but you should be no worse off, because housing will cost less there.

Second, if you are demoted, your housing allowance will revert to the then current published table of allowances for your lower grade. Promotions will not lower your housing allowance.

Third, if you have a change in your dependency status (from with dependents to without dependents, or vice versa), your housing allowance will be determined by your new dependency status and the then current published table of allowances for your grade.

Does rate protection keep me from getting rate increases?

No. Individuals are always entitled to the larger of: (a) the January 1 published BAH for their grade and location; or (b) the housing allowance they were being paid December 31. If, in a given year, I lose rate protection, am I protected from further decreases in the following year(s)?

Yes. Individuals are always entitled to the larger of: (a) the January 1 published BAH for their grade and

location; or (b) the housing allowance they were being paid December 31.

Is there some mistake?

I just arrived PCS here, and my BAH rate is less than other members with the same grade!

No, there is no mistake. This must be a place where the annually published BAH rates have fallen. The other members of your grade benefit from BAH rate protection--as will you, if the rate falls at any time in the future.

How can you say it's fair that another person, at my location, with the same grade, gets higher BAH?

The justification for rate protection acknowledges that when a member arrives PCS at a new duty station, he or she makes a fixed commitment to housing (lease or mortgage) based on market conditions at the time of arrival. If, after that time, the housing market weakens, it is unlikely that their lease or mortgage will fall, so housing allowances are protected. In any given year, the published BAH in an area reflects the current housing market conditions, and, for newly arriving members, the allowances are appropriate for adequate housing at that time.

Will I see big changes in housing allowances in January 1999?

No, we will move to the new system gradually. Congress has given us the authority to phase in the new allowances over a 6-year period. We intend to accomplish the change in 3 or 4 years, using this transition period to ease into the new system.

What is "transition"?

January 1, 1999 marks the second of a multi-year transition to the new BAH program. The transition methodology employs a careful balance between competing goals. On the one hand, a desire to move quickly to higher allowances in locations where the rates rise, and on the other, a desire to minimize the adverse impact in locations where the rates fall.

What advantage does BAH offer over the old VHA/BAQ system?

DoD and the Services developed BAH to improve and enhance housing allowances for all members, taking into account complaints with the old VHA program.

Basic Allowance for Housing Compared to VHA/BAQ:

Problem: VHA/BAQ -- Remedy: BAH

P- Member gets less money when new published rates are lower.

R- Rate Protection -- When new rates are published, (1 Jan) no individual will see a decrease in the BAH they are receiving.

P- Creeping growth in out-of-pocket costs.

R- We de-linked growth in housing allowances from the pay raise, which historically lagged behind housing inflation. Instead BAH is linked to housing cost growth, putting an end to out-of-pocket creep.

P- The so-called Death Spiral: When low allowances force members into inadequate housing, and they report low costs on the VHA survey, which, in turn, drives the allowances further down.

R- Fairer, more accurate measurement of housing costs, based on housing costs in each area--not what the member is spending.

P- VHA OFFSET

R- BAH is a flat rate. Members spending less than their housing allowance no longer have their allowance reduced.

P- Geographic/ pay grade inequity.

R- Same dollar amount out-of-pocket for a pay grade at all geographic locations. Same percent* out-of-pocket for every grade. *relative to the nation-wide (NOT local) median cost of housing by pay grade

P- Burdensome annual recertification of actual housing cost.

R- No need to furnish copies of leases or mortgage documents

P- Pay grade rate inversions.

R- Published BAH rates will not decrease with pay grade (after transition)

P- Burdensome annual member survey of housing costs.

R- No VHA survey

P- Drastic changes in any year.

R- Multi-year transition

P- Slow response to housing cost inflation.

R- BAH based entirely on current housing market data

How does BAH eliminate the upward creep in out-of-pocket costs?

The VHA/BAQ housing allowance system was unable to keep up with housing costs and members were being forced to pay larger out-of-pocket costs. In the old system members received a basic allowance for housing (BAQ) and a variable housing allowance (VHA). BAQ was paid at a flat rate worldwide for all members of the same grade and dependency status. Even though VHA rates were tied to housing costs, BAQ rates were adjusted annually equal to the increase in basic pay. Over all, pay raises, in percentage terms, lagged behind housing cost growth, so housing allowances did not keep up with housing costs. In the new system increases in allowances will be tied to housing cost growth, thus protecting members from further erosion of benefits.

How do you compute BAH?

The legislation authorizing BAH specifies that the amount of the BAH for a given pay grade and dependency status in a specific geographic location is the difference between the local median monthly

cost of housing for that pay grade and dependency status and 15 percent of the nation-wide (national) median monthly cost of housing for that pay grade. During the transition period, the formula for computing BAH is more complex than this, involving a combination of old and new methodologies. The legislation also specifies a budget test that may require us to change the 15 percent absorption factor. The current absorption factor is closer to 20 percent. We hope to obtain additional funding in the future that will permit us to lower the percent absorption.

Why doesn't my BAH cover my housing costs?

Based on the BAH legislation, the median member of each grade will have a specified amount of out-of-pocket expense. Unlike housing allowances overseas, that pay actual expenses up to a ceiling, BAH in the United States is (1) based on median cost, not actual expense, and (2) members are expected to pay a portion out-of-pocket. We believe Congress intended to be more generous overseas, to reduce hardship associated with being outside the United States. With the BAH program, Congress consciously halted the inflationary creep in out-of-pocket cost that was a hallmark of VHA/BAQ. We hope to actually reduce out-of-pocket expense in the future, as additional funding becomes available.

How do you define median out-of-pocket cost?

The dollar amount out-of-pocket for each grade is calculated as a fixed percent of the nation-wide (national) median cost of housing for that grade. National median housing costs vary by pay grade, hence lower pay grades will have lower median out-of-pocket costs.

How do I know the new Basic Allowance for Housing will be fair?

The new BAH is designed to be inherently fair because the typical service member of a given grade and dependency status, arriving at a new duty station, will have the same monthly out-of-pocket dollar amount regardless of the location. For example, if the out-of-pocket cost for a typical E-5 with dependents is, say, \$100, the typical (median) E-5 with dependents can expect to pay \$100 out-of-pocket for housing if assigned to Miami, New York, San Diego, Fort Hood, Camp Lejeune, Minot, ND, in fact at all duty locations in the U.S. Once the member arrives, rate protection applies, and the member will receive any published increase, but no decrease in housing allowances. Note that rate protection guarantees that out-of-pocket may be less, but never more, than when they arrived.

Does the transition period affect calculation of median out-of-pocket cost?

Yes. Until the conclusion of the transition period (Jan 2003) BAH rates will be based on a combination of the new and the old rate setting methodologies. Until that time, there will be geographic discrepancies in median out-of-pocket costs, however this variance will decrease yearly, achieving an estimated 98 percent of the adjustment by 2001.

Why is my actual out-of-pocket expense more than you say it should be for my grade?

For a given individual, actual out-of-pocket expense may be greater or lower than the typical, based on the actual choice of housing. For example, if a member chooses a bigger or more expensive residence than the median, that person will have larger out-of-pocket expenses. The opposite is true for an individual who chooses to occupy a smaller or less expensive residence. Only for the median member,

do we say out of pocket expense is the same for a given pay grade and dependency status any location in the United States.

What happened to the VHA Offset?

We eliminated it. No longer will a member, whose actual housing expense is less than housing allowance, see his or her housing allowance reduced. This will be a major benefit to anyone who chooses to economize on housing. For example, military members will no longer be penalized for being "sharers," or married to other members, the groups hardest hit by offset. Each member will receive the full amount of housing allowance allotted for his or her grade and dependency status.

What happened to the annual required VHA certification of actual housing expenses?

We eliminated the requirement. The elimination of VHA Offset also eliminates the need for an annual requirement to recertify housing expenses, thus removing a substantial reporting burden for members and administrative personnel. Please note that members will still be asked to report information (certify their dependents) when they first arrive at each new duty station

What happened to the annual voluntary VHA Housing survey?

We eliminated it.

Without the VHA survey, what is your source of data?

We obtain current data from multiple sources, employing a "checks and balances" approach to ensure reliability and accuracy. Current residential vacancies, identified in local newspapers and real estate rental listings, are an important, but not our only, source of data. Vacancies are selected at random, and subjected to a multi-tiered screening process to ensure accuracy and reliability. Telephone interviews establish the availability and exact location of each residential unit sampled. We designed the sample to obtain a statistical confidence level of 95% or higher. We also employ yellow page listings of apartments and real estate management companies to identify units for rental pricing. It is not uncommon for us to consult real estate professionals in a locality to obtain important confirmation and additional sources of data. Where available, we contact fort/post/base housing referral offices, to tap local military expertise and gain insights into the local concerns of our members. In 1999, we intend to expand this housing referral element of our data collection. Finally, DoD and the Services conduct on-site evaluations at various locations to confirm and ensure reliability and accuracy of the cost data. Future enhancements include examining potential uses of the Internet as well as housing data available from other government agencies.

How do you know the new method of measuring housing cost will be more accurate?

The BAH employs a civilian-based method of measuring comparable housing costs that is superior to the old VHA housing survey that measured members' spending on housing. First, members don't have to put up with the hassle of the annual VHA surveys. More importantly, BAH eliminates the so-called, "Death Spiral." Under VHA/BAQ, members who scrimped on housing, and then reported low housing expenditures, only reinforced, or drove down, already low allowances. This mainly occurred among the most junior members, whose limited disposable (after-tax) income may have forced them to accept

inadequate housing and then report low costs on the member survey. The Services also recognized that the VHA/BAQ created a similar, but opposite, bias for some senior officer/enlisted grades. Under the old system, if a member opted to use a greater share of disposable income for bigger or more expensive housing, relative to the local market, and reported this expenditure on the VHA survey, it tended to "inflate" reported costs and thus allowances. Basic Allowance for Housing eliminates both these low-end and high-end biases.

What steps do you take to ensure reliability and accuracy of the data?

In selecting specific units to measure, we employ a multi-tiered screening process to ensure that the units and neighborhoods selected are appropriate. The first screen considers reasonable commuting criteria, generally defined as 20 miles or 1 hour during rush hour, eliminating units that fall outside these limits. Next we check to see that the selected unit is in a neighborhood in which our members would choose reside. Using the Defense Enrollment eligibility Reporting System (DEERS) data, as a key to where members live, we focus on those neighborhoods in which the top 80% of our members live. The idea here is to avoid sampling slum, high-crime, or undesirable neighborhoods that members have already avoided. Finally, we use an income screening process, to identify appropriate neighborhoods. For example, in pricing 3 and 4 bedroom single-family units, (senior enlisted/officers) we know that member income in these grades is between \$60 and \$100 thousand, so we select 3 and 4 bedroom single family units in neighborhoods where the typical civilian income is in this range. When we price 1 bedroom apartments (junior single enlisted) we focus on neighborhoods where the typical civilian income is consistent with the \$20 to \$30 thousand income level that is typical for these grades. For comparison purposes, civilian salary equals the sum of military basic pay, average BAH, BAS plus tax advantage. We are also investigating how best to incorporate specific school/education and crime measures in the selection of appropriate neighborhoods.

What is included in median housing costs?

Current market rent, average utilities and renters insurance.

How often do you collect housing data?

We collect the data annually, in the spring and summer when housing markets are most active.

What types of residences do you include in your data collection?

Our data include apartments, townhouses/duplexes, as well as single family rental units of various bedroom sizes.

Does family size make a difference?

No. Although the new allowance will distinguish between with-dependents and without-dependents, the with-dependents compensation will be based on comparable civilians using average family size.

In determining the income of comparable civilians do you consider military family income which includes the income of the working spouse (if any)?

No. We believe military members should not be put in a situation where spouses are required to work, so

in considering the military, we use Regular Military Compensation that equals the sum of military basic pay, BAQ, BAS and tax advantage.

Does BAH guarantee that my residence will match what I could get if I lived in government quarters? No. BAH is based on civilian standards, considering the housing choices made by civilians of comparable income.

Exactly what are the civilian housing standards you use?

These are income-based, minimum housing standards used to establish the link between housing cost and pay grade. Of course, members are not limited to the standard, and are free to choose where and how they will live. Actual member choices, however, will no longer influence the calculation of rates. See the "Regular Military Compensation and Housing Standards by Pay Grade With and Without Dependents" table at the Per Diem Committee web site (doesn't reproduce well in Email format).

What are the standards for the grades without standards listed in the table?

Standards are only defined for the pay grades shown. For these grades, the local median cost of the standard is the local median cost for the pay grade. Local median costs for the other pay grades are determined by nonlinear mathematical interpolation. The standards for E-4 are the minimum and apply to grades E-1 to E-3.

Why do you base BAH on my duty location? Why not use my residence location?

The policy decision to use duty location as a basis for entitlement to BAH is based on the desire to compensate members for the typical housing cost within a "reasonable commuting distance" from the member's duty location. Once the duty station is known, the BAH compensation is fixed, regardless of where the member lives. Were we to use the member's residence location as a basis for the entitlement, there is the concern that this would cause members to choose their residence location based on BAH. In some cases, this would lead to the perverse result of members to choosing to live further from their duty station, simply to incur higher BAH. In other cases, when members commute to lower cost hinterlands, members would find their BAH to be lower, even though their commuting expenses are higher. The Services decided to base the entitlement on the duty location, with the full knowledge that members would still be free to live where they choose, but that this decision would not affect their BAH entitlement. Geographically separated families (geographic bachelors) are normally eligible for BAH based on the duty station of the member. The department budgets for support of a certain number of members and families at each location. If a growing number of people decide to leave their families in Washington, or Tampa while the member PCSs to Mt Home or Ft. Hood, that could skew the budget and service support planning for these locations. Also, a fundamental philosophy of military service is that members, with their families, create a better work environment and esprit de corps when they can be active participants in the local base and community. In certain circumstances, with specific approval of the secretary of the Service concerned, a member may be granted an exception to receive BAH based on the dependent's location. For example if a member has a sick child that requires medical attention only available in a certain location (say Walter Reed Clinic in Washington DC), and the member receives PCS orders, the member might leave his family in Washington and request BAH eligibility for that location. Such exceptions do not ordinarily apply to "finishing out the school year" or spousal

employment.

If people choose to live further away to reduce housing their housing expense, does that lower BAH for everyone else?

No. Members' expenses are no longer used to calculate BAH.

Why does someone living in another city gets more BAH than I do, when it seems to me that housing is more expensive here?

Accurately determining if one location has more expensive rental markets than another is a scientific and statistical exercise. Sometimes, individuals rely on limited personal experience or newspaper and magazine articles to make that judgment. The Department of Defense and the Services have concurred that we will rely on Runzheimer International to collect statistically valid housing cost data that we will use to compute BAH. Founded in 1933, Runzheimer is a recognized leader in the field of collecting cost of living data in the United States and around the world. Currently Runzheimer serves over 2000 businesses and governments worldwide and is renowned for its accurate and reliable research.

How do you geographically define a locality?

For the purpose of defining the term, "locality," used as the basis for calculating local housing costs, the Uniformed Services have concurred in aggregating individual ZIP Codes into groups called Military Housing Areas (MHA). An MHA includes rental markets, generally within twenty miles or one hour's drive in rush hour traffic, surrounding a duty station or a metropolitan area. The principal goal of defining an MHA based on reasonable commuting distance is that members ought to receive a BAH sufficient to permit the typical member to live a reasonable distance from his or her duty station. Of course, each member is free to choose a neighborhood that suits individual needs, e.g., amenities, schools, and public transportation. Operationally, an MHA is defined as a collection of ZIP Codes. There are about 350 geographic MHAs in the United States, named for the installation or the nearest city (e.g., Fort Hood, Castle AFB, Washington, D.C., and Denver).

What method do you use to calculate BAH in places without Runzheimer cost data?

BAH is defined for every location in the United States, even though some locations may have no military population. This is because we must be prepared with BAH rates should a member or dependent ever establish eligibility in that location. It is not cost effective to collect Runzheimer data for all such locations. To handle this situation, we combine these areas with other areas of similar cost for which we have Runzheimer cost data. Pooling the data in this manner gives us sufficient data necessary to attain statistically reliable housing costs and BAH rates. We determine comparable housing costs using Fair Market Rents (FMRs) published annually for all counties by the Department of Housing and Urban Development. After grouping or pooling the data, the result is a set of counties with comparable housing costs and BAH rates called a County Cost Group (CCG). There are approximately 30 separate CCGs, each with similar housing cost. Each group includes a statistically sufficient quantity of Runzheimer cost data to calculate average housing costs by size and type of dwelling for that group of counties. Although half the U.S. counties (about 1500) are in County Cost Groups, these counties contain less than two percent of the Uniformed Services' population eligible to receive BAH.

Broadly speaking, how will the new allowance system differ from VHA and BAQ?

Our research permits us to identify some general trends of moving from the current housing allowance system (VHA+BAQ) to the new system (BAH). These changes will be gradual and phased in over the transition period. We can expect (1) increases in housing allowances in high cost housing areas; (2) decreases in housing allowances in medium to low cost housing areas; (3) increases in housing allowance for many enlisted grades; and (4) decreases in housing allowances for many officer grades. VHA offset will be fully eliminated when the new system goes into effect on 1 January 1998.

Who actually collects your data for you?

We employ Runzheimer International to collect the nation-wide housing cost data that we use to compute BAH. Founded in 1933, Runzheimer is a recognized leader in the field of collecting cost of living data in the United States and around the world. Currently Runzheimer serves over 2000 businesses and governments worldwide and is renowned for its accurate and reliable research. Runzheimer's private sector clients include over 60 percent of the Fortune 500 companies. Runzheimer's government clients include the Department of Defense (DoD); the General Services Administrations (GSA); the Department of State; the Office of Personnel Management (OPM); the Internal Revenue Service (IRS) and the Federal Deposit Insurance Corporation (FDIC).

Again, these FAQs and other information on entitlements can be found at the above website.

Regards, FL Ames

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