

# **A Primer on Basic Allowance for Housing for the Uniformed Services**

**July 2002**

## **Introduction**

**The purpose of this “primer” on the Basic Allowance for Housing (BAH) program is to explain to members how their housing allowances are determined. We have sought to write for a broad audience and to cover the entire process. We have focused on what we believe to be the most important aspects of the program based on feedback obtained from service members and housing office professionals during our visits to installations throughout the country. We welcome comments on how this document can be made more useful to both members and housing officials.**



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## Basic Allowance for Housing

### **Purpose and Goal**

The purpose of the Basic Allowance for Housing (BAH) program is to provide fair housing allowances to service members. Since the goal is to help members cover the costs of housing in the private sector, rental-housing costs in the private sector are the basis for the allowance. Members receive a housing allowance when government quarters are not available. DoD determines the correct housing allowance to enable members to afford suitable rental housing within a reasonable distance of their duty location. The allowance is set based on geographic duty location, pay grade, and dependent status.

### **Benefits of BAH Versus Other Methods**

The BAH program measures rental-housing costs in the civilian market rather than measuring how much members spend on housing. This approach prevents the "Death Spiral" in allowances seen with the old Basic Allowance for Quarters and Variable Housing Allowance (BAQ/VHA) program. The cause of the downward spiral was that many members scrimped on housing and then reported low housing expenditures. This drove down already low allowances. In general, junior members with limited income often were forced to accept inadequate housing and, in turn, reported lower costs on their housing surveys, which would cause their housing allowances to drop even further. A similar, but opposite, effect occurred for some senior officer/enlisted grades. They often spent a greater share of their income for more costly housing and reported higher expenses, thereby "inflating" their reported costs and their allowances.

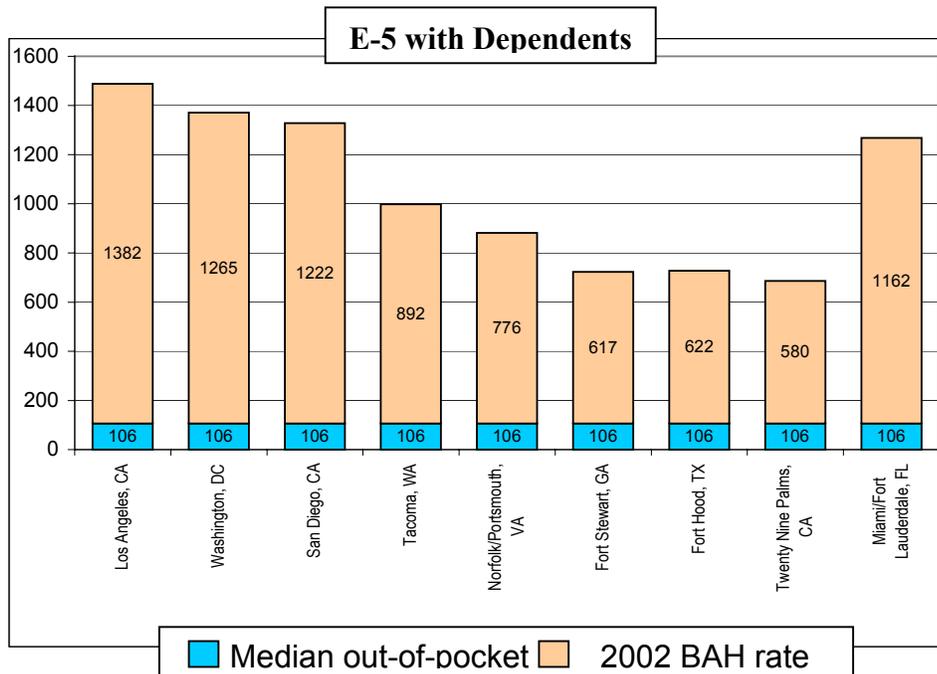
The Department of Defense and the Services designed the Basic Allowance for Housing program to provide more accurate housing allowances by basing them on the market price of rental housing (rather than member-reported rents). This new method ensures a better correlation between allowance payments and rental prices.

In 2002, BAH covered all but 11.3 percent of average housing costs. In 2003, BAH covers all but 7.5 percent. These out of pocket costs were as high as 22 percent prior to starting the BAH program. However, the Department is committed to eliminating them by 2005.

### **Out-of-Pocket Expenses**

BAH is designed to be fair for all service members in all locations in the United States. Although housing costs and BAH rates vary by location, average out-of-pocket costs are designed to be the same for members of the same rank with typical rental expenses. The typical service member in a given grade and dependent status who arrives at a new duty station will have the same monthly out-of-pocket costs regardless of the location. For example, if the out-of-pocket cost for a typical E-5 with dependents is \$106, the typical (median) E-5 with dependents can expect to pay \$106 out-of-pocket for housing if assigned to Miami, New York, San Diego, or any duty location in the United States.

In the following chart, the height of each bar represents the local median cost of housing, which equals the sum of median out-of-pocket cost and BAH.



However, for a given individual, the actual out-of-pocket expense may be higher or lower than the typical. For example, a service member who chooses a bigger or more costly home than the median will spend more out-of-pocket. The opposite is true if a service member chooses to occupy a smaller or less costly home. Only for the member with median costs do we say that out-of-pocket expense is the same for a given pay grade and dependent status in any given location.

### Rate Protection

Rate protection ensures that decreases in a housing market do not affect members. Rate protection operates on both an individual and geographic level.

#### Individual Rate Protection

Individual rate protection prevents decreases in housing allowances, as long as the status of a service member remains unchanged. This means that service members are entitled to the 1 January published BAH rate or the amount of housing allowance they were paid on 31 December, whichever is larger. Rate protection continues until the status of a service member changes due to:

- ◆ Permanent Change of Station (PCS)
- ◆ Reduction in paygrade
- ◆ Change in dependent status

Note that the definition of change of status does not include promotions. Also, note that BAH distinguishes between with-dependents and without-dependents, not the number of dependents.

In other words, after a service member arrives at a new duty station, rate protection applies. The service member will receive any published increase, but no decrease, in BAH. When new BAH rates take effect at the given duty station, rate protection guarantees that the service member's typical out-of-pocket costs may be less, but never more, than upon arrival.

#### Geographic Rate Protection

Until 2005, when the transition from the old Basic Allowance for Quarters and Variable Housing Allowance (BAQ/VHA) to BAH is complete, BAH rates will not decrease at any location. After that, however, BAH rates will follow the increases and decreases of market rental costs. However, individual rate protection will still apply.

## Data Collection

### Types of Data Collected

In computing BAH, we include local price data of:

- ◆ rental housing
- ◆ utilities (including electricity, gas, oil, water, & sewer)
- ◆ renter's insurance

We employ a contractor to collect the data annually for approximately 400 Military Housing Areas (MHAs) in the United States, including Alaska and Hawaii. DoD and the Services define these MHAs by sets of ZIP Codes.

Data collection occurs in the spring and summer when housing markets are most active. Rental costs are collected on apartments, townhouses/duplexes, and single-family rental units of varying bedroom sizes. The different types of units are referred to as “profiles” or “anchor points.” The contractor collects representative housing costs in specific neighborhoods

The six standard housing profiles used as anchor points for BAH are:

Profile	Abbr.	Grade With Dependents	Grade Without Dependents
1 Bedroom Apartment	1br APT		E-4
2 Bedroom Apartment	2br APT		O-1
2 Bedroom Townhouse	2br TH	E-5	O-1E
3 Bedroom Townhouse	3br TH	E-6	O-3E
3 Bedroom Single Family Detached House	3br SFD	W-3	O-6
4 Bedroom Single Family Detached House	4br SFD	O-5	

### Rental Data Sources & Validation

Current, valid rental costs are crucial to accurate BAH rates. We use data from multiple sources to provide a "checks and balances" approach. This ensures reliability and accuracy. We obtain current residential vacancies from local newspapers and real estate rental listings. We also contact apartment and real estate management companies to identify units for rental pricing.

We consult with real estate professionals in each MHA to confirm market rental prices and obtain additional data. Where available, we also contact fort/post/base housing referral offices and installation leadership. We tap the local housing office knowledge and gain insights into the concerns of our members. (Please refer to the [Installation Input in Data Collection Process](#) section for more details.)

Properties are subjected to screening (please refer to the Quality Assurance section) and validation processes. During telephone interviews, we:

- ◆ Establish the availability and location of each unit in the survey sample
- ◆ Verify the current rental rates
- ◆ Identify any utility inclusions in the rental rates
- ◆ Determine if discounts are available when signing a year's lease

We do not include inadequate units in determining allowances, such as

- ◆ Mobile homes
- ◆ Efficiency apartments
- ◆ Furnished units
- ◆ Income-subsidized complexes
- ◆ Age-restricted facilities
- ◆ Seasonal units

We gather enough data to attain a statistical confidence level of 95% or higher.

### **Utilities**

In each MHA, we contact the major local utility provider and collect their service fees and utility rate data. We gather rate information for both the current season and the most extreme heating and cooling seasons for each MHA. We also obtain scheduled rate increases from the utility provider.

The Bureau of the Census conducts an annual American Housing Survey (AHS). We use data from the AHS to determine consumption of utilities for each dwelling type. From the National Oceanic and Atmospheric Administration (NOAA) we gather climate information for each area. Once we have consumption and climate data for each area, we apply the appropriate local rates to calculate average monthly utility expenses.

In sum, we base the utility portion of BAH on service fees, utility rates, and consumption data for different housing types. All data is sensitive to geography and climate.

### **Renter's Insurance**

The renter's insurance portion of BAH covers the value of household contents. These values are correlated with selected incomes and dwelling types.

### **Quality Assurance**

We recognize the importance of accurate rates and make every effort to obtain maximum reliability. At each step in the process, we:

- ◆ Employ numerous levels of quality assurance
- ◆ Analyze statistics to spot problems
- ◆ Apply common sense tests to the data

For example, we employ a multi-tiered screening process when we select specific units to measure. We ensure that the units are acceptable, and that they are located in neighborhoods where members would typically choose to reside. We obtain input on suitable housing and unacceptable areas from Military Housing Offices (MHOs) and installation leadership. We also use an income screening

process to identify appropriate neighborhoods. We then eliminate locations where the typical civilian income is not comparable to members' incomes. For comparison purposes, civilian salary equivalents are compared to each paygrade's Regular Military Compensation, which consists of basic pay, average BAH, BAS, and the tax advantage that comes with BAH and BAS being untaxed.

As another quality assurance step, DoD and the Services conduct on-site evaluations at selected locations. These reviews confirm the reliability and accuracy of the rental data. During these visits, we also evaluate the criteria used for screening neighborhoods and areas.

## Local Input in the Data Collection Process

### Tapping Local Expertise

DoD and the Services value local expertise in the data collection process. We contact the local military housing referral office (MHO) and command leadership at each installation to provide them the opportunity to contribute to the BAH data collection effort. The expertise and knowledge of the referral office is crucial, and the information they provide is critical to the process.

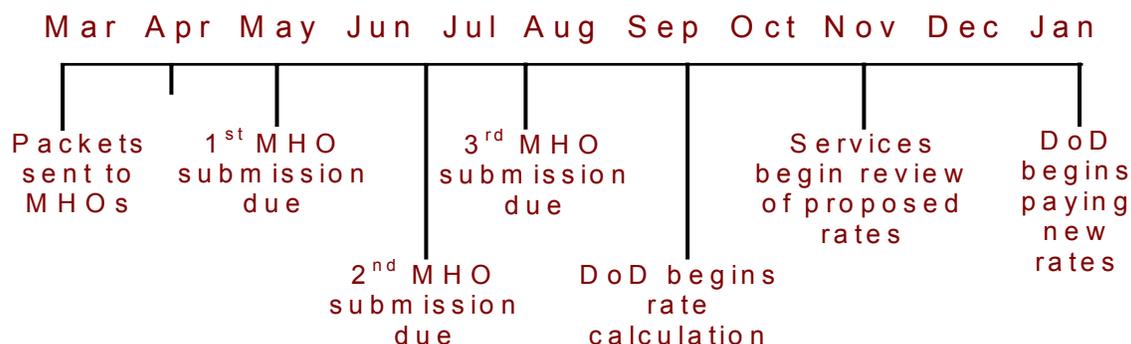
Housing referral offices and installation leadership have the opportunity to:

- ◆ Provide local rental housing referrals, excluding any inadequate units
- ◆ Identify specific geographic areas that contain unacceptable housing

To determine BAH rates, DoD:

- ◆ Conducts telephone interviews of the rental listings provided by MHOs
- ◆ Excludes unacceptable housing areas from the survey
- ◆ Conducts on-site reviews at selected locations
- ◆ Prescribes BAH rates based on data input and DoD housing standards policy

### Typical Data Collection Timeline



### Geographically Separated Activities

In some instances, a geographically isolated command (such as a recruiting office or a MEPS station in a remote location) does not have a housing referral office. These remote offices may submit data on their own behalf during the data collection process. They may also collaborate with the closest MHO. However, they should request approval to do so through their chain of command to Service headquarters. Final approval is obtained from each Service's Military Compensation office. (Refer to the FAQ [Where can I obtain more information?](#) for contact information.)

### Individual Service Member Input

The BAH process does not require input from individual service members. Service members with questions or issues regarding BAH rates should submit questions through their chain of command to their Service Compensation Representative. (Refer to the FAQ [Where can I obtain more information?](#) for contact information.)

## Rate Computations

### Housing Profiles and Standards

The Services have agreed to housing standards that allow members to receive a BAH that correlates to what civilians who earn comparable amounts would pay for housing. That is, we use housing standards to link housing costs with a particular paygrade. Of course, members are free to choose where to live and in what type of dwelling. The standards are necessary to enable the Services to forecast BAH costs for budgeting purposes. Actual member choices, however, do not influence the *determination* of rates.

We determine standard profiles for each anchor point shown below. For these paygrades, the local median housing cost of that profile is the local median housing cost for the particular paygrade. Local median costs for other paygrades are determined by interpolating (or ‘filling in’) between the anchor points. The standards for E-4 personnel (both with and without dependents) are the minimum and apply to grades E-1 to E-3. To interpolate rates for non-anchor grades, we calculate the difference between anchors and add a percentage of that difference to the lower anchor rate.

For example: From the housing standards table, we can determine that an E-7 with dependents should receive an allowance for a three-bedroom townhouse, plus 36% of the difference between the next lowest profile, a 3 bedroom townhouse, and the next higher, a 3-bedroom SFD. To calculate the BAH for an E-7 with dependents, we first identify the rate for the neighboring anchor points: the E-6 with dependents and the W-3 with dependents. Second, we calculate the dollar difference between the two anchor points. Next, we apply the specified percentage to the lower anchor point to determine the dollar difference, which we add to the lower anchor point.

Description	Formula	Example
E-6 with dependents local housing cost (3br TH):	A	1000
W-3 with dependents local housing cost (3br SFD):	B	1200
Difference:	C: B – A	1200 - 1000 =
36% of that difference:	D: C x %	200 x .36 = 72
E-7 with dependents interpolation:	A + D	1000 + 72 =

## BAH Housing Standards & Interpolation Between Anchor Points

With Dependents		Calculate local cost difference between anchors. Add % of difference to anchor
Grade	Hsg Type	BAH Interpolation
E-1	2br	Midpoint of 2br APT and 2br TH
E-2	2br	
E-3	2br	
E-4	2br	
E-5	2br TH	Anchor
O-1	2br TH	11%
O-2	2br TH	98%
E-6	3br TH	Anchor
W-1	3br TH	1%
E-7	3br TH	36%
O-1E	3br TH	44%
W-2	3br TH	52%
E-8	3br TH	75%
O-2E	3br TH	93%
O-3	3br TH	98%
W-3	3br SFD	Anchor
E-9	3br SFD	16%
W-4	3br SFD	22%
O-3E	3br SFD	26%
W-5	3br SFD	48%
O-4	3br SFD	58%
O-5	4br SFD	Anchor
O-6	4br SFD	Same as O-5
O-7	4br SFD	Same as O-5

Without Dependents		Calculate local cost difference between anchors. Add % of difference to anchor
Grade	Hsg Type	BAH Interpolation
E-1	1br APT	Same as E-4
E-2	1br APT	Same as E-4
E-3	1br APT	Same as E-4
E-4	1br APT	Anchor
E-5	1br APT	67%
O-1	2br APT	Anchor
E-6	2br APT	7%
W-1	2br APT	31%
E-7	2br APT	53%
O-2	2br APT	83%
O-1E	2br TH	Anchor
W-2	2br TH	19%
E-8	2br TH	20%
O-2E	2br TH	44%
E-9	2br TH	51%
W-3	2br TH	54%
O-3	2br TH	64%
O-3E	3br TH	Anchor
W-4	3br TH	9%
O-4	3br TH	40%
W-5	3br TH	45%
O-5	3br TH	63%
O-6	3br SFD	Anchor
O-7	3br SFD	Same as O-6

### Setting the Rates

After rental, utility, and insurance data are collected and median housing costs calculated, DoD and the Services:

- ◆ Determine the national median housing costs for each profile or anchor point
- ◆ Review the local median housing costs for each MHA
- ◆ Appraise MHA and profile-specific utility and renter's insurance data
- ◆ Prescribe BAH rates based on data input and DoD housing standards policy

To calculate BAH rates, we:

- 1) Determine the total housing costs for each MHA for all the anchor points
- 2) Subtract the national median out-of-pocket expense from each anchor point in each MHA
- 3) Calculate (using the Housing Standards table above) a separate BAH rate for each of twenty-seven distinct pay grades that correspond to military ranks for members with and without dependents.

The law specifies the amount of BAH to be paid in a geographic location. Currently (2002), it is the local median monthly housing cost minus 11.3% of the nation-wide median monthly cost of housing for that pay grade. We are gradually decreasing this percentage, with the goal that, in 2005, the average member will have no out-of-pocket costs.

For example, the following calculations are performed for each anchor point:

	Low Cost City A	High Cost City B
A: Local Median Housing Cost For Selected Grade	\$599	\$929
B: National Median Housing Cost For Selected Grade	\$743	\$743
C: Planned Out-of-pocket Expense (Mandated Percentage of B)	\$84	\$84
D: BAH = A-C	\$515	\$845

Out-of-pocket expenses for the median member in each location are equal.

## Frequently Asked Questions

### **Why doesn't BAH cover all my housing costs? Or my mortgage payment?**

One of the common misconceptions regarding BAH is that it was intended to cover all of a service member's housing costs. The original BAH law stated that the allowance could cover no more than 80% of housing costs. Accordingly, the average service member had at least 20% in out-of-pocket expenses. In 2000, the Secretary of Defense committed to reducing the average out-of-pocket expense for the median member to zero by 2005. In 2002, it is 11.3%. Continuing, we expect 7.5% for 2003, 3.5% for 2004 and 0% for 2005.

As noted previously, the actual out-of-pocket expense for an individual may be higher or lower than the typical, based on his/her actual choice of housing. For example, if a service member chooses a bigger or more costly residence than the median, he or she will have larger out-of-pocket expenses. The opposite is true if a service member chooses to occupy a smaller or less costly residence. Only for the member with median costs do we say that out-of-pocket expense is the same for a given pay grade and dependent status in any location in the United States.

By design, BAH does not consider mortgage costs. Homeowners' monthly mortgage payments do not necessarily relate directly to rent, so we do not use them in the calculations. Mortgage payments are affected by:

- ◆ Expected appreciation in the value of the residence
- ◆ Amount of down payment
- ◆ Opportunity costs of interest from down payments
- ◆ Settlement costs
- ◆ Tax savings due to the deduction of interest payments

In contrast, BAH reflects current rental market conditions, not the historical circumstances surrounding existing mortgage loans.

### **Why is BAH based on my duty station rather than where I live?**

BAH compensates members for typical housing costs within a reasonable commuting distance of their duty location. Once the duty station is known, the BAH is fixed, regardless of where the member chooses to live. If the location of the member's residence were used as a basis for the entitlement, members who commute from lower cost areas would have lower BAH rates, even though their commuting expenses were higher. The BAH rate is determined by the duty station so that members may live near their duty location, but they remain free to live where they choose. Actual member choices, remember, do not influence the *calculation* of rates.

The opportunity for service members to choose their off-base housing is important to DoD. Each member has the freedom to decide how to allocate his or her income (including housing allowance) without a penalty for deciding to conserve some dollars on rent to pay other expenses.

One such choice that members frequently make is to "trade-off" a longer commute to work for either a larger or less expensive house in an outlying area. For example, two members assigned to a downtown duty station may make drastically different housing choices. One member may choose to use all of his or her housing allowance to rent an apartment in the city, with a commute time of only 10 minutes to the downtown duty station. The second member might prefer to rent a less expensive three-bedroom house in

an outlying neighborhood and commute to that same downtown duty station from 20 or 30 miles away. Both members are free to choose the situation that best suits them.

### **Why can I get a bigger or better residence on-base/post?**

Two reasons. First, government housing (especially privatized housing) often surpasses typical local community housing in quality and size. Second, family size is the basis for on-base housing assignment. That is, Services house families with more dependents in units with enough bedrooms to meet their family needs. The BAH approach is based on comparing a member's compensation with that of civilians who earn the same. That is, members at higher grades are entitled to more bedrooms and larger dwelling types. The only distinction is with or without dependents, not the number of dependents.

### **Is square footage a factor in BAH?**

BAH rates reflect the typical square footage of rental housing in each MHA; that is, BAH rates and square footage are specific to each location. Typical housing square footage varies so greatly across the country that nation-wide standards should not be formulated. For example, a typical one-bedroom apartment in New York City is much smaller than a one-bedroom apartment in Pocatello, Idaho.

### **How do you define a "reasonable" commuting distance?**

Generally within twenty miles or one hour's drive in rush hour traffic. The goal is that members receive a BAH that is sufficient to permit them to live a reasonable distance from their duty station. Of course, members are free to choose a neighborhood that suits their individual needs.

It should be noted that Military Housing Areas often contain several military installations or activities, and, therefore, multiple cities. BAH research includes housing costs for each of the cities in the MHA

### **What is the basis for the current definition of my MHA?**

Military Housing Areas (MHAs) were originally defined using the Defense Enrollment Eligibility Reporting System (DEERS) data. DEERS data provided information on where members at each installation were currently living. This created a data set that naturally excluded undesirable neighborhoods, which members had already avoided. However, DoD and the Services realize that populations, neighborhoods, and housing conditions can change over time. Periodic re-examining of MHA boundaries is an important and on-going part of the BAH process.

### **What method do you use to calculate BAH in locations that are not in an MHA?**

BAH is defined for every location in the United States, even though some locations may have no military population, because we must be prepared to pay BAH in case a member or dependent ever establishes eligibility in that location. Collecting rental data for all such locations is not practical. To handle these situations, we combine these areas with other MHAs of similar cost for which we have sufficient rental cost data. Pooling the data in this manner gives us sufficient data to establish 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 (HUD). 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 about 30 CCGs. Each group includes a statistically sufficient quantity of rental cost data to calculate average housing costs by size and type of dwelling for that group of counties. Although half the US counties (about 1,500) are in County Cost Groups, these counties contain less than two percent of military members eligible to receive BAH.

**Where can I obtain more information on BAH?**

For an overview of BAH, visit [www.dtic.mil/perdiem/](http://www.dtic.mil/perdiem/) and [militarypay.dtic.mil](http://militarypay.dtic.mil). You can look up individual rates at this site, calculate your tax advantage, and review additional Frequently Asked Questions regarding the program.

To review the BAH section of the DoD Financial Management Regulation (FMR), read Volume 7A, Chapter 26 at [www.dtic.mil/comptroller/fmr/07a/07AIC14-99.pdf](http://www.dtic.mil/comptroller/fmr/07a/07AIC14-99.pdf)

To review BAH Law, refer to Title 37 USC § 403 at [www4.law.cornell.edu/uscode/37/403.html](http://www4.law.cornell.edu/uscode/37/403.html)

For issues regarding your BAH, contact your Service Compensation Representative through your chain of command:

Service	Name	COM Phone	DSN	E-mail
Air Force	Major Karyn Wright	(703) 695-1113	225-1113	<a href="mailto:Karyn.Wright@pentagon.af.mil">Karyn.Wright@pentagon.af.mil</a>
Army	Major Leslie Gerald	(703) 697-9027	222-5943	<a href="mailto:Leslie.Gerald@hqda.army.mil">Leslie.Gerald@hqda.army.mil</a>
Coast Guard	Cliff Samuels	(202) 267-2210	N/A	<a href="mailto:Csamuel@comdt.uscg.mil">Csamuel@comdt.uscg.mil</a>
Marines	Major Andy Gilmore	(703) 784-9386	278-9388	<a href="mailto:GilmoreAJ@manpower.usmc.mil">GilmoreAJ@manpower.usmc.mil</a>
Navy	Lt Benjamin Bryant	(703) 695-3304	225-3304	<a href="mailto:n130c4@bupers.navy.mil">n130c4@bupers.navy.mil</a>

## Glossary of Terms

**ANCHOR POINT** - A profile for which cost data is collected. BAH rates are calculated for anchor points, then extrapolated for non-anchor point grades.

**APARTMENT (APT)** - A rental unit located in a larger building. Apartment buildings are typically multi-storied, and there are usually common hallways providing entrance to each unit.

**INSTALLATION** - A military fort, post, base, camp, or station.

**MEDIAN** - The 50th percentile; calculated by finding the "middle" value when values are sorted from low to high. Unlike a mean, the median is not strongly influenced by very large or very low values in the set. By definition, half the values will be higher than the median and half will be lower. The median is the customary scientific measure for describing housing costs.

**MILITARY HOUSING AREA (MHA)** - The defined housing area surrounding an installation or activity.

**MILITARY HOUSING OFFICE (MHO)** - A housing referral office at a military installation.

**OUT-OF-POCKET (OOP) EXPENSE** - The portion of a member's housing expense that is not covered by BAH.

**PROFILE** - The various types of housing used in the study. For example, a two-bedroom apartment is a profile. There are six housing profiles.

**SINGLE FAMILY DETACHED (SFD) HOUSE** - A dwelling that is not attached to any other dwellings.

**TOWNHOUSE (TH)** - A rental unit that is attached to similar units. There are common (or shared) walls between the units. Each unit has a separate entrance; that is, there are no common hallways. Typically, townhouses are multi-storied, but may be one story. Duplexes are included with townhouses in this study.

**UTILITIES** - Electricity, heat (such as gas or oil), and water and sewer.