

Special Commentary — November 1, 2024

Are We Prepared? Military Families Face Financial Strain

Summary

- In a report we wrote last November in commemoration of Veterans & Military Families Month, we found that household income among active-duty military families has lagged behind household income in the civilian sector for more than a decade. Elevated rates of joblessness and under-employment among military spouses is a major reason for the widening income gap.
- We focus on indicators of financial stress among military families in this year's report. More than 30% of military families indicated in 2023 that they were either "finding it difficult to get by" or "just getting by." Unreimbursed expenses related to permanent-change-of-station moves have led to financial hardship for many military families.
- According to the DoD, 65% of active-duty service members could cover at most three months of emergency expenses in 2022, while 12% had no emergency savings at all. Military families are less likely than their civilian counterparts to fully pay off their credit card debt every month. Compared to civilian families, a lower proportion of military families are food secure, with 10% of military families reporting their food security as being "very low."
- High levels of financial stress among military families may pose a risk to the readiness of the U.S. armed forces. Survey data show that only one-third of military family members are likely to recommend military service, down significantly from 55% as recently as 2016. If the armed forces are not able to adequately recruit and retain service members, military preparedness could be negatively affected in coming years.
- The Department of Defense and Congress have created a variety of resources in an effort to reduce financial strain experienced by military families. Service members received a 5% pay increase in 2024, the largest boost in more than 20 years, and the housing allowance was also increased.
- One year of outsized pay increases will do little to narrow the income gap on a sustained basis. Until steps are taken to address the chronic joblessness and under-employment of many military spouses, some of the families that honorably serve the country likely will continue to feel financial stress.

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Past Reports:

[Beyond the Call of Duty: Lagging Military Family Income](#) (2023)

[The Labor Market Remains Solid for America's Vets](#) (2022)

[Labor Market Contributions: Saluting America's Veterans and Military Families](#) (2021)

Does Lagging Income Growth Lead to Financial Stress Among Military Households?

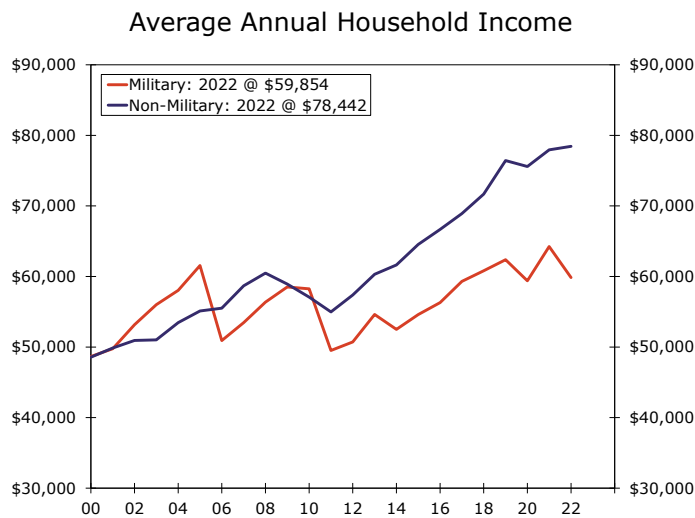
Over the past three years, we have published annual reports in recognition of Veterans & Military Families Month, which is commemorated in November. We have focused on issues faced by current service members and their families, as well as by those who have honorably served in the past. In 2023, we analyzed the income differences between active-duty military households and their civilian counterparts. As shown in [Figure 1](#), average annual household income between the two cohorts was more or less similar in the 2000s. However, a gap has opened up in recent years, and the annual income earned by the average active-duty household currently lags behind the comparable amount for the average civilian household by nearly \$19K (24%).

Income among military families has lagged income in the civilian sector in recent years.

When we drilled down further, we learned that the widening gap in household income was due largely to spousal income. Active-duty military personnel who are single earned roughly the same, on average, as their civilian counterparts in 2022 ([Figure 2](#)). However, household income among married service members is considerably lower than married civilian households. Not only is the incidence of part-time employment among military spouses higher than among civilian spouses, but the unemployment rate among the former is astronomical. According to Blue Star Families, a non-profit organization that advocates for military families, the jobless rate among military spouses stood at 22% in 2022.¹

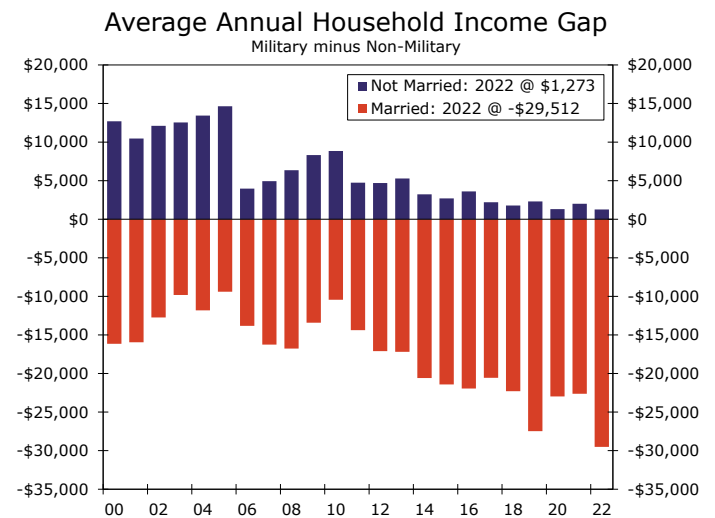
If average income among active-duty military households has lagged behind average civilian household income in recent years, are there more signs of financial stress among the former relative to the latter? Is there a financial "penalty" associated with military service and, if so, are there any consequences associated with that "penalty"? In a follow-up to last year's report, we evaluate financial stress among the nation's active-duty military families.

Figure 1



Source: U.S. Department of Commerce and Wells Fargo Economics

Figure 2



Source: U.S. Department of Commerce and Wells Fargo Economics

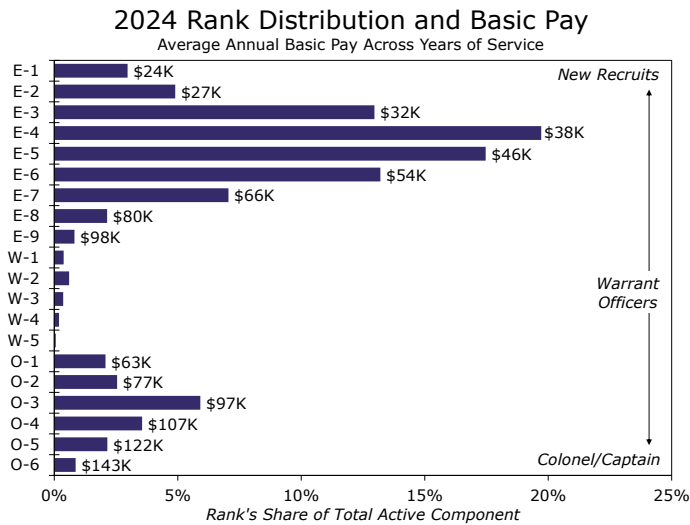
How Much Do Service Members Get Paid?

Let's start by discussing how active-duty service members are compensated. The overall pay that a service member receives depends on pay grade, years of service and family size. The total amount of pay, known as "regular military compensation" (RMC), is composed of basic pay (BP), a basic allowance for housing, a basic allowance for subsistence and the income tax advantage that accrues to a service member due to their status as exempt from federal income taxes. For example, the BP this year of an E-2 service member (e.g., a private 2nd class in the Army) who is not married, has no dependents and has served for less than two years is only \$27K ([Figure 3](#)). But adding in the allowances and the federal income tax advantage brings the RMC of that individual up to \$57K. The BP of an O-4 (e.g., a major in the Air Force, Army or Marine Corps) with 10 years of service and a family size of four is about \$104K, with an RMC in excess of \$154K.

The Department of Defense (DoD) targets an RMC for service members that would be in the 70th percentile for comparable wages and salaries in the civilian sector, as research has determined the Armed Forces can compete effectively with civilian firms on recruitment and retainment at that compensation level.² RMCs for enlisted personnel currently span the 84-90th percentile of comparable civilian wages and salaries, while RMCs for officers are in the 70-80th percentile. These relatively high levels of RMC are consistent with [Figure 2](#), which shows that unmarried service members generally receive the same amount of compensation, if not a bit more, than their civilian counterparts. However, the large gap in average *married* household income of active-duty service members relative to married civilian households suggests that the former is potentially more financially stressed than the latter.

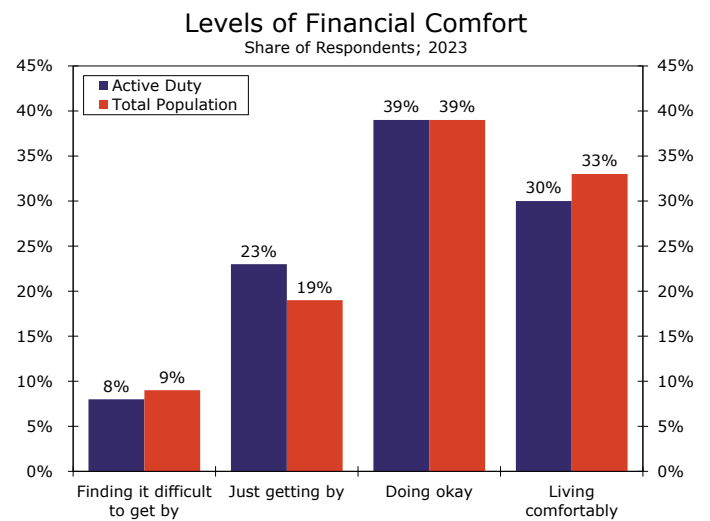
The DoD targets compensation to be in the 70th percentile in the civilian sector.

Figure 3



Source: U.S. Department of Defense and Wells Fargo Economics

Figure 4



Source: Blue Star Families and Wells Fargo Economics

Indicators of Financial Stress Among Military Households

The data indicate they indeed are. Blue Star Families' latest edition of the [Military Family Lifestyle Survey](#) shows that 31% of military families were either "finding it difficult to get by" or "just getting by" in 2023—more than the comparable 28% rate for the overall American population ([Figure 4](#)). Moreover, survey data from the DoD suggest that financial stress among military families has intensified since the pandemic. The share of active-duty respondents reporting their financial condition as "worse off" compared to 12 months ago was 36% in 2022, compared to roughly 34% of all U.S. households.³ As shown in [Figure 5](#), the share of active-duty respondents feeling "worse off" financially has been consistently above the overall American population, except in 2020.

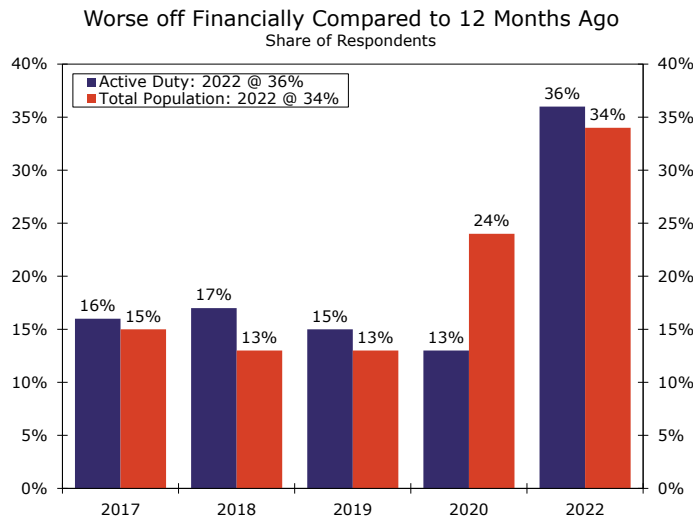
Survey data suggest that financial stress among military families has worsened since the pandemic.

Some of the stress differential is attributed to the younger age profile of the active-duty population relative to the civilian population, as young families are generally less wealthy and have fewer assets to deploy in times of financial strain than older households.⁴ That said, family composition plays an integral role. Married active-duty service members with children were more likely to report that they faced "some difficulty" or were "not comfortable" financially (42%) than single service members without children (37%) in 2022. The most financially stressed group was single active-duty members with children (52%). These data suggest that marriage still offers some economies of scale for military families when raising children, but having children in the first place can pose a significant financial challenge.

Beyond the costs associated with childcare, military families face unique financial burdens such as frequent permanent-change-of-station (PCS) moves. Although the military provides monetary support and other resources to help alleviate the financial burden of moving, survey data reveal that housing costs are a top contributor to financial stress for military families.⁵ In 2023, 45% of active-duty respondents who completed a PCS move in the past year reported spending \$500 or more over the amount that was reimbursed by the military. The most common unreimbursed moving expenses were temporary lodging, rental vehicles or vehicle shipment and housing deposits. Temporary housing in particular can worsen the financial burden of moving. More than half (57%) of active-

duty respondents reported that they have utilized temporary housing while waiting for permanent housing to become available, with a significant share (36%) staying for 15 days or more.⁶ The DoD provides an allowance that partially reimburses a service member for lodging and meals during a PCS, but reimbursement cannot exceed \$290 per day and only covers up to 14 days, except for certain circumstances.⁷ Considering most active-duty families will experience at least one PCS move in a service member's career, moving costs may provide a disproportionate financial burden to military families in comparison to civilian households.⁸

Figure 5



Source: U.S. Department of Defense, Federal Reserve Board and Wells Fargo Economics

The litany of uncompensated moving expenses is compounded by elevated under-employment. As mentioned previously, the jobless rate among military spouses is around 22%, much higher than the national average of roughly 4%. Data from the American Community Survey show that the share of active-duty spouses with no personal income (i.e., a rough proxy for under-employment/unemployment) was 26% in 2022—lower than its height following the global financial crisis, but roughly in line with its average over the past two decades (Figure 6). Furthermore, military spouses who are employed are more likely to work part-time than their non-military counterparts. According to the Military Family Advisory Network (MFAN), 17.4% of active-duty military spouses worked part-time in 2023, compared to 16.0% of all civilian workers that year.⁹ The relatively high incidence of part-time employment in combination with astronomical joblessness is one of the key reasons that military spouses earn half the income of non-military spouses, on average.¹⁰

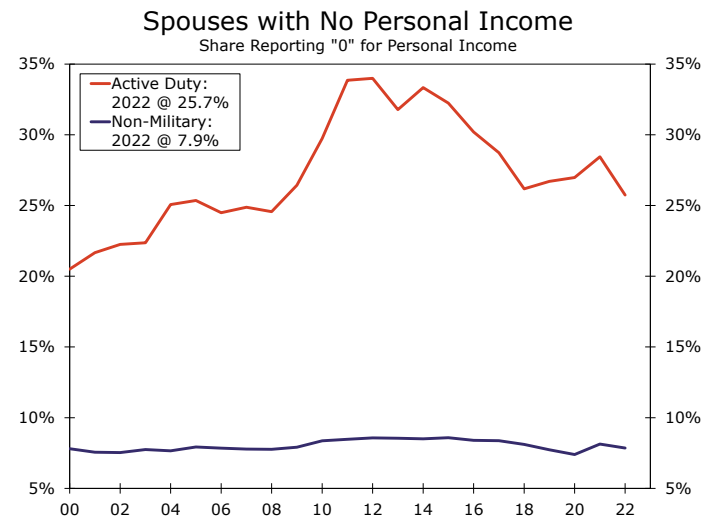
Depressed Saving, Elevated Credit Card Debt and Food Insecurity

The mixture of low spousal income and elevated household expenses leaves many active-duty families with little room to build emergency savings. According to the DoD, 65% of active-duty service members could cover *at most* three months of emergency expenses in 2022, while 12% had no emergency savings at all.¹¹ The lack of savings appears particularly acute among enlistees. According to the MFAN, 45% of active-duty military personnel between the ranks of E1-E3 had less than \$500 in emergency savings in 2023.

With relatively fewer savings on which to lean, active-duty service members utilize credit cards at a higher rate than the general adult population. In 2022, 89% of service members had a credit card, compared to 82% of all U.S. adults. Of those with credit cards, 41% of active-duty military fully paid off their balance each month in 2022, compared to 52% of all U.S. adults. More robust credit card usage has contributed to financial strain among active-duty families, according to Blue Star Families. In 2023, 17% of military families rated "excessive credit card debt" as a top reason for their financial stress; that share is down from 21% in 2021, but far above the 8% reported in 2020 (Figure 7).

The overall fragile financial position has left some military families unable to meet their basic needs. According to MFAN, 75% of enlisted active-duty families were food secure in 2023, compared to 87%

Figure 6



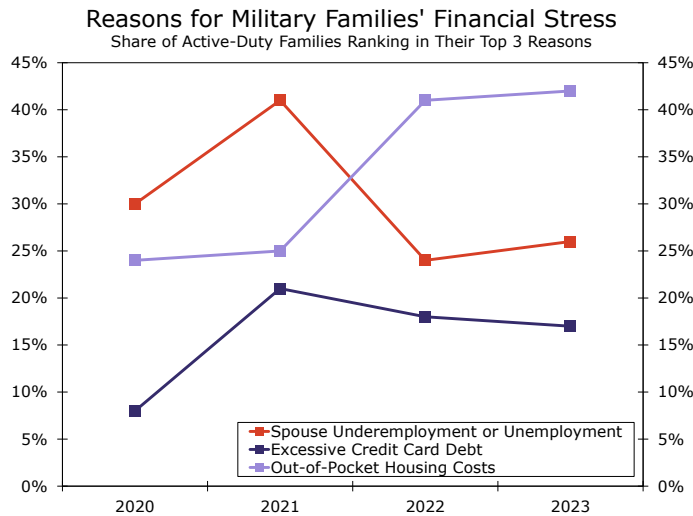
Source: U.S. Department of Commerce and Wells Fargo Economics

The share of active-duty spouses with \$0 of personal income is 26%.

of all U.S. households. Among the remaining quarter of enlisted families facing food *insecurity*, 10% characterized their situation as "very low" food security. The U.S. Department of Agriculture defines "very low" food security as the most severe case, in which one or more household members experience reduced food intake and disrupted eating patterns due to limited money or other resources for food.¹² The MFAN statistic for "very low" food security in 2023 is consistent with separate data from Blue Star Families that show an 11% share among enlisted active-duty families, as well as findings from the National Military Family Association (NMFA) that show an 8% share among military spouses. The comparable figure across all U.S. households was just 5% in 2023 (Figure 8).

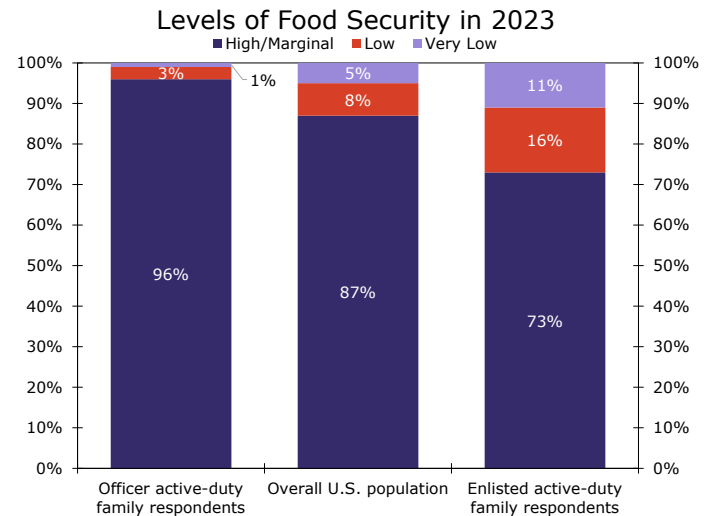
Some military families are unable to meet their basic needs.

Figure 7



Source: Blue Star Families and Wells Fargo Economics

Figure 8



Source: Blue Star Families and Wells Fargo Economics

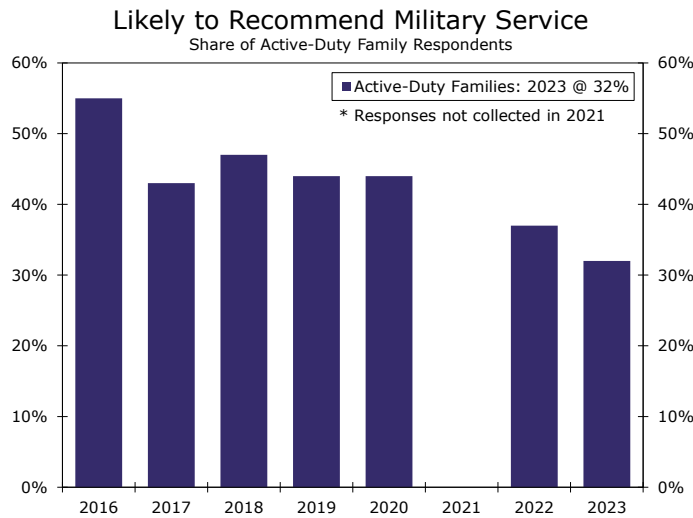
Potential Consequences for National Security

High levels of financial stress among military families may pose a risk to the readiness of the U.S. armed forces. Data on re-enlistment rates (i.e., the percentage of active-duty personnel who are eligible to re-enlist and choose to do so in a given year) are not readily available. However, Blue Star Families conducts a survey in which they ask active-duty family members (i.e., active-duty personnel as well as their family members) if they would recommend military enlistment. The survey data show that the share of positive responses has been trending lower. In 2016, over half (55%) of active-duty family respondents were likely to recommend military service. In the most recent survey (2023), that share dropped to only 32% (Figure 9).

High levels of financial stress among military families pose a potential risk to national security.

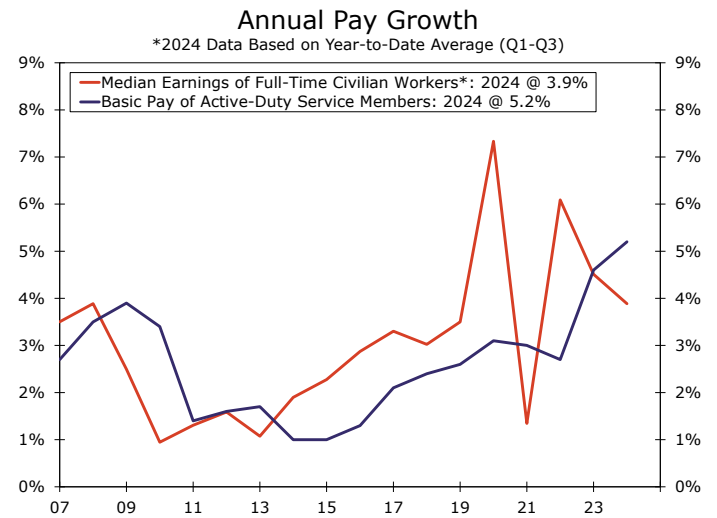
Among those less likely to recommend military service were families who reported spending more on out-of-pocket housing costs as well as those with unemployed spouses, revealing that financial stress likely plays an important role in military service recommendation and re-enlistment. Indeed, separate research conducted by the DoD concluded that service members who experienced higher levels of financial stress were more likely to indicate they were unlikely to stay on active-duty. They were also more likely to report higher dissatisfaction with the overall military way of life and lower perceptions of readiness, for both themselves and that of their unit.¹³ For the nation's all-volunteer force, military families' financial well-being is crucial to maintain the supply of volunteers.

Figure 9



Source: Blue Star Families and Wells Fargo Economics

Figure 10



Source: U.S. Department of Labor, U.S. Department of Defense and Wells Fargo Economics

Efforts to Reduce Financial Strain

In response to mounting financial stress among military families, the DoD and Congress have created a variety of resources. Congress holds the constitutional authority to regulate and fund the U.S. military, primarily through the annual passage of the National Defense Authorization Act (NDAA), which sets the policy and funding priorities for the military. As of 2012, Congress requires the DoD to deliver financial literacy training to service members as they reach various personal and professional life events, such as initial entry training, PCS moves, pre- and post-deployment and transition from military service. Service members also receive educational content to supplement formal training, which is accessible to spouses and dependents. The DoD also provides service members and families with professional financial counseling upon request.

More recently, the 2024 NDAA authorized a 5.2% pay raise for military service members, which is the largest military pay raise in over 20 years. Not only is the basic pay increase larger than the annual growth in median earnings among civilian workers this year (Figure 10), but it is stronger than the current inflation rate. The Basic Allowance for Housing (BAH) was also increased by an average of 5.4% in 2024, after an average increase of 12.1% in 2023, outpacing national shelter inflation.¹⁴

Congress has also acted to address food insecurity among military families by providing supplemental income. In the 2023 NDAA, the Basic Needs Allowance (BNA) was created with the purpose of providing a monthly income supplement for service members whose household income falls below 150% of the national poverty level. Blue Star Families reports that take-up of the BNA was low among its 2023 survey respondents due to a lack of awareness and qualification concerns. Consequently, it is too early to measure the effectiveness of the BNA, but its creation and deployment should help to alleviate food insecurity among military families going forward.

Conclusion

As we documented in last year's report, income growth among military households has lagged behind civilian households for more than a decade. Although the average level of household income among active-duty military families rose 21% between 2011 and 2022, this gain fell well short of the 43% increase enjoyed by civilian households over that period. Moreover, consumer prices, as measured by the personal consumption expenditures (PCE) price deflator, rose 25% over that time. In inflation-adjusted terms, the average military household was worse off in 2022 than 11 years earlier.

The main culprit for the increasing income shortfall between military households and their civilian counterparts over the past decade or so appears to be the high level of unemployment and under-employment among military spouses. Indeed, the overall compensation levels of unmarried active-duty service members generally are higher than their civilian counterparts. Although civilian

The DoD and Congress have created a variety of resources in an effort to reduce financial strain experienced by some military families.

households were able to take advantage of the robust labor market conditions in recent years, military spouses remained largely on the job market sidelines.

The squeeze in real household income in recent years has led to an increasing amount of financial stress among military families. Relative to the overall population, active-duty military families have lower amounts of emergency savings, higher incidences of credit card debt and higher levels of food insecurity. Not only does the financial stress suffered by some military families represent a humanitarian issue, but it could have potential negative consequences for national security. Survey data show that the percentage of military family members who are likely to recommend military service has fallen in recent years. If the armed services are not able to recruit and retain service members, military preparedness could be negatively affected in coming years.

Fortunately, the DoD and Congress have recognized the financial hardships that some military members face, and authorities are taking steps to address the issue. Service members in 2024 received the biggest boost to basic pay that they have received in more than 20 years, and the housing allowance was also increased. That said, the gap in household income between military families and civilian families has widened on trend for more than a decade, and one year of outsized pay increases will do little to narrow the income gap on a sustained basis. Elevated levels of unemployment and under-employment among military spouses remain a major reason for the income gap. Until steps are taken to address this chronic joblessness issue, some of the nation's military families will likely continue to feel financial stress.

Endnotes

1 – "[Military Family Lifestyle Survey: 2023 Comprehensive Report](#)," Blue Star Families, 2023. ([Return](#))

2 – "[Military Families and Financial Readiness](#)," Congressional Research Service, January 12, 2022. ([Return](#))

3 – "[Annual Report on the Financial Literacy and Preparedness of Members of the Armed Forces: Results from the 2022 Status of Forces Survey](#)," U.S. Department of Defense, December 2023. ([Return](#))

4 – The average age of an active-duty military member was roughly 29 in 2022, and over 65% of the armed forces was under the age of 30. In comparison, only 17% of adult civilians were under the age of 30 that year. The minimum age requirement to enlist in the military is 17, so we took the proportion of the total civilian U.S. population aged 17-29 for comparison. ([Return](#))

5 – Roughly half of active-duty family respondents reported housing costs as a top contributor to financial stress in the 2023 Military Family Lifestyle Survey ([Return](#))

6 – See endnote 1. ([Return](#))

7 – "[Temporary Lodging Expenses](#)," U.S. Department of Defense, October 3, 2022. ([Return](#))

8 – According to the 2021 [Active Duty Spouse Survey](#), 81% of spouses experienced a permanent change of station (PCS) move during their spouse's career. ([Return](#))

9 – "[Military Family Support Programming Survey: 2023 Report](#)," Military Family Advisory Network, 2023. ([Return](#))

10 – According to the American Community Survey, military spouses earned \$34K in personal income, on average, in 2022, compared to \$69K among non-military spouses. ([Return](#))

11 – See endnote 3. ([Return](#))

12 – Rabbitt, M. P., Reed-Jones, M., Hales, L. J., & Burke, M. P., "[Household food security in the United States in 2023](#)" (Report No. ERR-337), U.S. Department of Agriculture, Economic Research Service, 2024. ([Return](#))

13 – See endnote 3. ([Return](#))

14 – See endnote 1. ([Return](#))

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