

# IDSAs

## *Special Feature*

# Nature, Quantum & Components of Defence Expenditure and Defence Pensions

*IDSAs Team*

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## **S***ummary*

IDSAs was tasked by the 7th Central Pay Commission in July 2014 to conduct a study on the “Nature, Quantum & Components of Defence Expenditure and Defence Pensions”. The Terms of Reference (TORs) required IDSAs to:

- Analyse the nature, quantum and components of Defence Expenditure from 1995-96 to 2013-14 with a specific focus on salary versus non-salary component. How this compares with similarly placed countries may also be analysed in detail.
- Further, in this non-salary component, the expenditure on modernisation of armed forces and upgradation may separately be highlighted.
- The impact of the implementation of the Fifth and Sixth Pay Commissions' recommendations on the pattern and composition of defence expenditure, time frame in which the additional expenditure on salaries and emoluments, in relative terms, was absorbed.
- Analyse the quantum and components of expenditure on defence pension from 1995-96 to 2013-14. How this compares with similarly placed countries may also be focused upon.
- The manner in which defence pensioners' liabilities are financed in similarly placed countries may be focused upon.
- Compare the salary structure of personnel in the Indian Defence Forces with those in similarly placed countries, preferably in purchasing power parity (PPP) terms.
- Analyse the relationship of Defence Expenditure with the Central Government Expenditure and the GDP from 1995-96 to 2013-14.

# Chapter 1

## Introduction

## **INTRODUCTION**

1.1 The Institute for Defence Studies and Analyses (IDSA) is a non-partisan; autonomous body dedicated to objective research and policy relevant studies on all aspects of defence and security. Research at the Institute is driven by a comprehensive agenda and by the need to provide impartial analyses and policy recommendations.

1.2 IDSA was tasked by the 7<sup>th</sup> Central Pay Commission vide Work Order Number 7<sup>th</sup> CPC/62/Studies/IDSA/2 dated 16-07-2014 for conducting a study on “Nature, Quantum & Components of Defence Expenditure and Defence Pensions. The Terms of Reference (TORs) require IDSA to

- Analyse the nature, quantum and components of Defence Expenditure from 1995-96 to 2013-14 with a specific focus on salary versus non-salary component. How this compares with similarly placed countries may also be analysed in detail.
- Further, in this non-salary component, the expenditure on modernization of armed forces and upgradation may separately be highlighted.
- The impact of the implementation of the Fifth and Sixth Pay Commissions’ recommendations on the pattern and composition of defence expenditure, time frame in which the additional expenditure on salaries and emoluments, in relative terms, was absorbed.
- Analyse the quantum and components of expenditure on defence pension from 1995-96 to 2013-14. How this compares with similarly placed countries may also be focused upon.
- The manner in which defence pensioners’ liabilities are financed in similarly placed countries may be focused upon.
- Compare the salary structure of personnel in the Indian Defence Forces with those in similarly placed countries, preferably in purchasing power parity (PPP) terms.
- Analyse the relationship of Defence expenditure with the Central Government expenditure and the GDP from 1995-96 to 2013-14.
- Analyse the Defence expenditure of the neighbouring countries from 1995-96 to 2013-14.

## **MEHODOLOGY**

1.3 A team was formed at IDSA to carry out this study. The team after deliberations decided that the importance and the usage of the data by the 7<sup>th</sup> CPC for its report requires that the data be collected from primary sources in the public domain: country specific websites or alliance websites e.g. European Defence Agency etc. and United Nations (UN) websites and the data for Indian Defence Expenditure will be collected from Defence Services Estimates (DSE) Vol I. Controller General of Defence Accounts (CGDA) was requested for greater detailed information on Pension & Pay and Allowances beyond those available in DSE Vol I to carry out detailed analysis. Economic Survey and Union Budget (of the relevant years) would be the source documents for GDP and Central Govt expenditure.

## Comparison with Similarly Placed Counties and Neighbouring Countries

1.4 The TORs also required the study to compare India's defence expenditure with similarly placed counties and analyse the Defence expenditure of the neighbouring countries. This required objective selection of the countries at the initial stage itself so as to focus the efforts on the specifically selected countries. These countries were shortlisted by taking the list of top defence spending countries for the year 2013 by two of the internationally recognised institutes i.e. Stockholm International Peace Research Institute (SIPRI) and International Institute for Strategic Studies (IISS).

Table 1

<b>LIST OF COUNTRIES BY MILITARY EXPENDITURE (IN BILLION US \$)</b>				
<b>Rank</b>	Stockholm International Peace Research Institute (SIPRI) 2013, based on current market exchange rates		International Institute for Strategic Studies (IISS) 2013, using average market exchange rates	
	<b>Country</b>	<b>Amount</b>	<b>Country</b>	<b>Amount</b>
	<b>World total</b>	<b>1747</b>	<b>World total</b>	<b>1595.1</b>
1	USA	640.0	USA	600.4
2	CHINA	188.0	CHINA	122.2
3	RUSSIA	87.8	RUSSIA	68.2
4	SAUDI ARABIA	67.0	SAUDI ARABIA	59.6
5	FRANCE	61.2	UK	57.0
6	UK	57.9	FRANCE	52.4
7	GERMANY	48.8	JAPAN	51.0
8	JAPAN	48.6	GERMANY	44.2
9	INDIA	47.4	INDIA	36.3
10	SOUTH KOREA	33.9	BRAZIL	34.7
11	ITALY	32.7	SOUTH KOREA	31.8

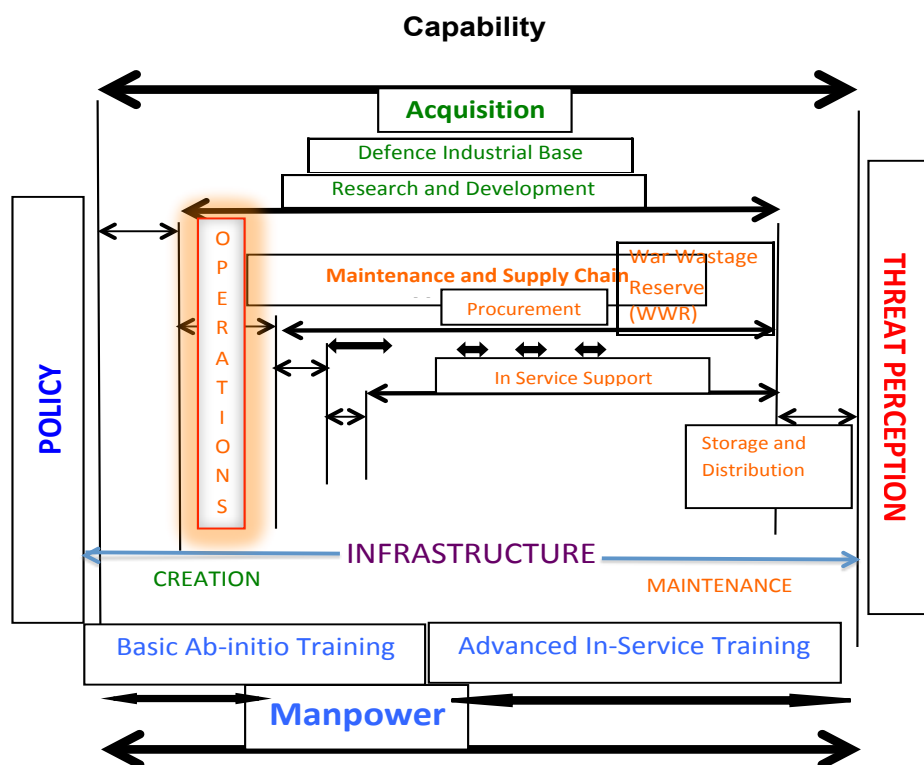
1.5 Brazil and Italy feature only in one list, to restrict the number of countries to manageable number of 10 (Ten) and also include Pakistan, Saudi Arabia, Brazil & Italy were excluded.

**CHAPTER – 2**  
**Defence Expenditure**

## Defence Expenditure

2.1 All countries developed, developing, under-developed, rich or poor, stable democracies or any other form or kind of regime have an insatiable need for resources for development and the wellbeing of their people. Development of the country & prosperity of its people need a peaceful environment for economic activity to thrive and generate resources for the Government to enable it to collect revenue and spend for the general good. While there are well-evolved parameters that measure the state of the economy e.g. GDP, rate of growth of GDP, Per capita income etc., the federal structure of a country is unique and decides what resources the government at the national level can raise and what can it retain. Irrespective of the federal structure, the responsibility of National Defence is always that of the federal or the central government. The defence expenditure is to be met out of these resources and it has to compete against other social, welfare and developmental needs. The debate is never Bread vs. Guns as both are needed but what is adequate for each within the limited resources. Defence expenditure as a % of the GDP or of the Central Govt expenditure are some of the parameters used to express and compare but what is needed is to be determined by each nation based on its threat perception, the Global and Regional role it perceives for itself in the League of Nations. Each country articulates its threat perception, security strategy and the policy to counter the perceived threat which identifies the ways and means to achieve it both as goal for long term planning and also share it with its citizens so as to mobilise the whole of Government behind the protection of the country's security interests. The military means of achieving the aim requires capabilities illustrated in the figure below. The periodicity at which these are articulated and issued varies and some choose to call it a 'Defence White Paper' or 'National Security Strategy'.

Figure 1



Before we look at the Defence expenditure of each of the selected ten countries, an idea of what is their threat perception, their strategy to prepare for the perceived threat and the role they expect to play on the global or regional arena. These documents are very comprehensive and elaborate but for the purpose of this study **select excerpts have been summarised and are given in the succeeding paragraphs.**

### **CHINA WHITE PAPER 2013<sup>1</sup>**

2.2 The global trends toward economic globalization and multi-polarity are intensifying, cultural diversity is increasing, and an information society is fast emerging. The balance of international forces is shifting in favour of maintaining world peace, and on the whole the international situation remains peaceful and stable. Meanwhile, however, the world is still far from being tranquil. There are signs of increasing hegemonic, power politics and neo-interventionism. Local turmoil occurs frequently. Hot-spot issues keep cropping up. Traditional and non-traditional security challenges interweave and interact. Competition is intensifying in the international military field. International security issues are growing noticeably more abrupt, interrelated and comprehensive. The Asia-Pacific region has become an increasingly significant stage for world economic development and strategic interaction between major powers. The US is adjusting its Asia-Pacific security strategy, and the regional landscape is undergoing profound changes.

2.3 China still faces multiple and complicated security threats and challenges. The issues of subsistence and development security and the traditional and non-traditional threats to security are interwoven. Therefore, China has an arduous task to safeguard its national unification, territorial integrity and development interests. Some country has strengthened its Asia-Pacific military alliances, expanded its military presence in the region, and frequently makes the situation there tenser. On the issues concerning China's territorial sovereignty and maritime rights and interests, some neighbouring countries are taking actions that complicate or exacerbate the situation, and Japan is making trouble over the issue of the Diaoyu Islands. The threats posed by "three forces," namely, terrorism, separatism and extremism, are on the rise. The "Taiwan independence" separatist forces and their activities are still the biggest threat to the peaceful development of cross-Straits relations. Changes in the form of war from mechanization to informationization are accelerating. Major powers are vigorously developing new and more sophisticated military technologies so as to ensure that they can maintain strategic superiorities in international competition in such areas as outer space and cyber space.

2.4 The fundamental tasks of China's armed forces are consolidating national defence, resisting foreign aggression and defending the motherland. With a borderline of more than 22,000 km and a coastline of more than 18,000 km, China is one of the countries with the most neighbours and the longest land borders. Among all China's islands, more than 6,500 are not larger than 500 square meters each. China's island coastline is over 14,000 km long. China's armed forces defend and exercise jurisdiction over China's land borders and sea areas, and the task of safeguarding border and coastal security is arduous and complicated.

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<sup>1</sup> The Diversified Employment of *China's* Armed Forces. Information Office of the State Council. The People's Republic of *China*. April 2013

## **FRANCE WHITE PAPER ON DEFENCE AND NATIONAL SECURITY<sup>2</sup> - 2013**

2.5 The White Paper describes national defence and security strategy that rests on two essential and complementary pillars: France will preserve its sovereignty, by making sure it retains resources to act and influence events; and it will contribute to international security, by ensuring its action enjoys national and international legitimacy.

2.6 The level of risk and violence in the world is not decreasing and that defence spending is rising sharply in many regions, particularly in Asia, the risks and threats that France must face up to are continuing to diversify: traditional threats of force, given the ambiguous nature of the development of military power by some states; the threat to our own security posed by weak states unable to exercise their responsibilities; risks or threats amplified by globalisation: terrorism; threats to French nationals abroad; cyber-threats and organised crime; the spread of conventional weapons; the proliferation of weapons of mass destruction and the risk of pandemics and technological and natural disasters. Faced with these risks and threats, the military operations in which France has been involved in recent years show that military action remains an important part of our security.

2.7 The White Paper confirms the relevance of the concept of national security as a way of responding to these developments. Going beyond mere protection of the territory and the population against external aggression attributable to States, this concept embodies a larger ambition, i.e. the need to manage all the risks and threats, direct or indirect, likely to have an impact on the life of the nation. The holistic approach is based on the combination of five strategic functions: knowledge and foresight, protection, prevention, deterrence and intervention. Protection, deterrence and intervention are closely linked and structure the action of the defence and national security forces. Their implementation entails a capacity to know and anticipate the risk and threats to which we are exposed, even if strategic surprises remain possible. They also require an upstream capacity to prevent crises that could negatively impact our environment. The defence and national security strategy cannot be conceived outside the framework of the NATO and France' engagement in the EU.

2.8 Protecting the national territory, our fellow citizens and the continuity of the Nation's essential functions are core to France's defence and national security strategy. French armed forces must be able to respond to the diversity of threats and crisis situations. They must be able to engage in coercive operations where the goal of neutralising the adversary's political-military platform calls for a very high-level technological response; they must also be able to engage in crisis management operations aimed at restoring conditions for normal life and involving control of large areas over a long period. In intermediate or temporary situations, our forces must also adapt to the emergence of "hybrid threats", where certain non-state adversaries might combine asymmetrical means of action with state-level resources or high-tech capabilities.

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<sup>2</sup> French White Paper On Defence And National Security - 2013



## **GERMANY DEFENCE POLICY GUIDELINES<sup>3</sup>**

2.9 Germany had released a security-strategy document in 1994 and followed it up after 12 years with a white paper in 2006. In 2011 they have issued defence policy guidelines, “Safeguarding National Interests – Assuming International Responsibility – Shaping Security Together”. As per this document a direct territorial threat to Germany involving conventional military means remains an unlikely event. Over the past few years the strategic security environment has continued to change. Globalisation has led to power shifts between states and groups of states as well as to the rise of new regional powers. Today, risks and threats are emerging above all from failing and failed states, acts of international terrorism, terrorist regimes and dictatorships, turmoil when these break up, criminal networks, climatic and natural disasters, from migration developments, from the scarcity of or shortages in the supply of natural resources and raw materials, from epidemics and pandemics, as well as from possible threats to critical infrastructure such as information technology. The greatest challenges today lie less in the strength of other states than in their weakness. Failing and failed states cause threats such as civil war, regional destabilisation, humanitarian crises and related phenomena including radicalisation and migration movements that help create safe havens and retreats for international terrorism and organised crime. International terrorism remains a major threat to the freedom and security of our country and our allies. Germany’s place in the world is characterised above all by our interests as a strong nation in the centre of Europe and by our international responsibility for peace and freedom. German security policy is committed to the values and principles of the free and democratic order of the German constitution and international law.

2.10 Ensuring security today means keeping the consequences of crises and conflicts at bay and taking an active part in their prevention and containment. To ensure its security, assert its sovereignty and demonstrate its willingness to defend itself, Germany is prepared to use the complete spectrum of national policy instruments. This includes the employment of armed forces. The involvement of the armed forces as stipulated in the constitution will continue to be an indispensable basis of German security policy. Military operations have far-reaching political consequences. In each individual case, there must be a clear answer to the question of whether German interests and the related fulfilment of international responsibility require and justify an operation and what the consequences of non-action would be. Germany’s citizens can be certain that the available national forces, assets and capabilities will be used to deliver fast and effective help – be it in natural disasters, after large-scale emergencies or to protect vital infrastructure from threats of all kinds.

2.11 Responsibility for the protection of its citizens goes beyond the borders of Germany. In case of imminent danger abroad, it must be possible to rescue and evacuate German citizens in the best possible way by the employment of German forces alone. Germany’s security objectives and interests can only be pursued in cooperation with its partners. The UN, NATO and the EU are the international framework of German security and defence policy. Therefore, the strategic requirements set by the North Atlantic Alliance and the European Union also have an

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<sup>3</sup> Defence Policy Guidelines MAY 2011

impact on the form of military service, the task, scope, structure, equipment and organisation of the armed forces.

## **INDIA**

2.12 India has never put in public domain a comprehensive document whether a ‘White Paper’, a ‘National Security Strategy’ or a document by any other name. The Government publishes an ‘Annual Report of the Ministry of Defence’ and this report for 2013-14 elaborates the security environment<sup>4</sup>, “India’s security environment is defined by a complex interplay of regional and global imperatives and challenges. The size and the strategic location of the country places us at the centre of a security dynamic, impacted concurrently by the positive forces of regional and global connectivity on the one side and by the consequences arising from unpredictability, instability and volatility in parts of immediate and extended neighbourhood, on the other.

2.13 As India seeks to achieve transformative national growth and development internally, we pursue a robust defence strategy and policies, which aim to address the wide spectrum of conventional and non-conventional security challenges faced, by the country. Guided by the principle of building strength through the principles of Strategic autonomy and self-reliance, India seeks to enhance her own capabilities and also to pursue a constructive engagement with neighbours and partner countries in the regional and global community to promote peace and stability”.

2.14 Concurrently, India remains engaged with the regional and global community through a network of cooperative, constructive and mutually beneficial relationships, in a manner, which would serve national interests and also contribute to the larger interests of global peace and stability.”

## **PAKISTAN<sup>5</sup>**

2.15 Pakistan has never issued any document outlining either its security environment, threat perception or its security strategy. In a historic and an unprecedented document, the first ever of its kind in Pakistan it has issued its ‘National Internal Security Policy’ (NISP) on 25 February 2014, which has been formulated to protect the national interest of Pakistan by addressing critical security issues as well as the concerns of the nation. It outlines that national Security aspects need a comprehensive approach to deal with full spectrum of internal and external concerns to the state but the paper focuses on internal security as in some parts of the country hostile terrorist networks have also challenged the writ of the state. It brings out that from 2001 to 2013 there were 13897 terrorist incidents in Pakistan and the number of suicide attackers was 373 (the number pre 2007 and post 2007 is 15 & 523 and 358 and 13198 respectively). It quantifies that more than 50000 Pakistanis were affected or lost their lives due to these terrorist attacks and 5272 Armed forces personnel and police officers have lost their lives. The document estimates that the

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<sup>4</sup> Annual Report 2013-14 Ministry of Defence Government of India

<sup>5</sup> National Internal Security Policy 2014 – 2018 issued by Ministry of Interior, Government of Pakistan, <http://nacta.gov.pk> accessed on 29 Oct 2014

country's economy has lost 78 Billion US \$ in the last 10 years. It gives an implementation plan from 2014 to 2018.

The issuance of the above paper underlines the primacy of their concern.

## **DEFENSE OF JAPAN ANNUAL WHITE PAPER 2014<sup>6</sup>**

2.16 The security environment surrounding Japan has become increasingly severe, being encompassed by various challenges and destabilizing factors, which are becoming more tangible and acute. Opaque and uncertain factors such as issues of territorial rights and reunification remain in the vicinity of Japan. There is also an increase in the number of so-called “grey-zone” situations, that is, neither purely peacetime nor contingencies, over territory, sovereignty and maritime economic interests, etc. In addition, there are clearer trends for neighbouring states to modernize and reinforce their military capabilities and to intensify their military activities. As such, security issues and destabilizing factors in the Asia-Pacific region including the area surrounding Japan are becoming more serious.

2.17 The global security environment sees more extensive and deeper mutual interdependence among nations as a result of rapid globalization and technological innovation. However, at the same time, there is a growing risk that unrest or a security problem in a single country or region could immediately develop into a security challenge or destabilizing factor for the entire international community. The multi-polarization of the world continues as a result of shifts in the balance of power due to the economic development and extension of political influence of countries such as China, India and Russia, etc. and the relative change of influence of the United States. The international competition for energy and natural resources, and food, etc., is expected to become increasingly severe, as demand for energy, etc., by emerging countries with growing economies and a larger middle class rises. Against this backdrop, there is a possibility for more “grey-zone” situations and regional conflicts in the future, some of which are caused by more obvious and intrusive policies and activities to change or deny the existing regional and international order and to secure economic interests. The proliferation of weapons of mass destruction (WMD) and ballistic missiles which can be used as means to deliver WMD, international terrorism, and failed states, among other things, continue to pose imminent security challenges. Securing the stable use of global commons such as sea, air, outer space and cyberspace is becoming a significant challenge for the international community.

2.18 As the security challenges and destabilizing factors are diverse and wide-ranging, it is difficult for a single country to deal with them on its own. It is increasingly important for countries that share common interests for stability and peace to actively respond together in close coordination. Civil-military cooperation is also important to overcome these challenges the international community today faces diverse, complex and multi-layered security challenges and destabilizing factors. These challenges could even occur simultaneously or compound one another. In addition to deterrence and handling of armed conflicts, the roles of military forces in responding to these challenges are becoming so diverse that they include a broad spectrum of activities from the conflict prevention to reconstruction assistance. Moreover, as the opportunities for military forces to play such an important role are increasing, comprehensive responses are required that combine military capacity with

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<sup>6</sup> Defense Of Japan 2014 Annual White paper

other capacities such as diplomacy, law enforcement and justice, intelligence and the economy.

## **THE MILITARY DOCTRINE OF THE RUSSIAN FEDERATION** <sup>7</sup>

2.19 World development, at the present stage, is characterized by a weakening of ideological confrontation, lowering of the level of economic, political, and military influence of certain states (groups of states) and alliances and an increase in the influence of other states with ambitions for all-embracing domination, multipolarity, and the globalization of diverse processes. Many regional conflicts remain unresolved. There is a continuing tendency towards a strong-arm resolution of these conflicts, including in regions bordering on the Russian Federation. The existing international security architecture (system), including its international-legal mechanisms, does not ensure equal security for all states. That said, despite the decline in the likelihood of a large-scale war involving the use of conventional means of attack and nuclear weapons being unleashed against the Russian Federation, the doctrine identifies about 11 areas of military dangers to the Russian Federation and the main external military dangers identified are:

- a) The desire to endow the force potential of the North Atlantic Treaty Organization (NATO) with global functions carried out in violation of the norms of international law and to move the military infrastructure of NATO member countries closer to the borders of the Russian Federation, including by expanding the bloc.
- b) The deployment of troop contingents of foreign states on the territories of states contiguous with the Russian Federation and its allies and also in adjacent waters;
- c) Territorial claims against the Russian Federation and its allies and interference in their internal affairs;
- d) The violation of international accords by individual states, and also noncompliance with previously concluded international treaties in the field of arms limitation and reduction;
- e) The use of military force on the territories of states contiguous with the Russian Federation in violation of the UN Charter and other norms of international law;
- f) The spread of international terrorism;

2.20 Military conflicts, the doctrine goes on to state will be distinguished by speed, selectivity, and a high level of target destruction, rapidity in manoeuvring troops (forces) and firepower, and the utilization of various mobile groupings of troops. Possession of the strategic initiative, the preservation of sustainable state and military command and control, and the securing of supremacy on land, at sea, and in the air and outer space will become decisive factors in achieving objectives. Military actions will be typified by the increasing significance of precision, electromagnetic, laser, and infrasound weaponry, computer- controlled systems, drones and autonomous maritime craft, and guided robotized models of arms and military equipment. Nuclear weapons will remain an important factor for preventing the outbreak of nuclear military conflicts and military conflicts involving the use of conventional means of attack (a large-scale war or regional war). In the event of the outbreak of a military conflict involving the utilization of conventional means of attack (a large-scale war or regional war) and imperilling the very existence of the state, the possession of nuclear

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<sup>7</sup> "The Military Doctrine of the Russian Federation" approved by Russian Federation presidential edict on 5 February 2010

weapons may lead to such a military conflict developing into a nuclear military conflict.

## **THE 2012 DEFENSE WHITE PAPER SOUTH KOREA<sup>8</sup>**

2.21 Although the threat of a large-scale war has diminished since the end of the Cold War, traditional sources of conflict such as territorial disputes, competition for natural resources, religious and ethnic conflicts, and separatist and irredentist movements persist, posing a serious threat to global security. In addition, transnational and non-military threats such as the proliferation of Weapons of Mass Destruction (WMD), terrorism, cyber terrorism, piracy, and environmental disasters continue to increase, adding to the complexity of the international security environment already plagued by a global economic downturn. Despite financial pressures, countries in Asia continue to increase their military strength to counter potential threats, while maritime territorial disputes over islets between the major Asian powers are intensifying. International competition over natural resources is emerging as a new variable in the global security environment. Advancements in information technology are leading to various forms of cyber terrorism whose resultant damage is rapidly increasing in magnitude. Cyber-attacks are emerging as a new security threat as the entities that carry them out are becoming more organized, targeting national security related agencies and key national information networks. Securing sea-lanes has become another security issue due to the increase in pirate activities.

2.22 Northeast Asia is a region where the interests of military and economic powers such as the United States, Japan, China, and Russia intersect. Countries in Northeast Asia are undertaking efforts towards mutual cooperation while at the same time keeping each other in check, in order to secure a position of regional ascendancy as well as to fulfil national interest. However, disagreements over perceptions of history and distortions of history textbooks, as well as sovereignty disputes over islets between China and Japan, and Japan and Russia, remain as potential elements that could increase security tensions in Northeast Asia. In addition, maritime demarcation disputes including the scope of Economic Exclusive Zones (EEZ) are also potential sources of conflict, as countries in the region continue to adhere to a position that put forward their own national agendas.

2.23 Following its third generation power succession, North Korea has focused on solidifying the regime and internal unity, while maintaining its large conventional military forces, developing and increasing the number of its weapons of mass destruction to include nuclear weapon, and continuing armed provocations thereby posing a significant threat to the security of the Republic of Korea. It is highly likely that the security environment of the Korean Peninsula, Northeast Asia, and the world will rapidly change over the next few years. It will be an important period in which the whole nation must come together to forge a staunch security posture.

2.24 The government has defined the objectives of national security as ‘maintaining peace and stability on the Korean Peninsula, guaranteeing the people’s

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<sup>8</sup> 2012 Defense White Paper

safety and establishing a foundation for national prosperity, and increasing the nation's international influence and advancing its status.'

## **UNITED KINGDOM<sup>9</sup> THE NATIONAL SECURITY STRATEGY**

2.25 Britain today is both more secure and more vulnerable than in most of her long history. More secure, in the sense that it does not currently face, as it has so often in the past, a conventional threat of attack on British territory by a hostile power. But more vulnerable because it is one of the most open societies, in a world that is more networked than ever before. These new threats can emanate from states, but also from non-state actors: terrorists, home-grown or overseas; insurgents; or criminals. The security of its energy supplies increasingly depends on fossil fuels located in some of the unstable parts of the planet. Nuclear proliferation is a growing danger. Its security is vulnerable to the effects of climate change and its impact on food and water supply. Geographically Britain is an island, but economically and politically it is a vital link in the global network. Britain's ability to meet these current and future threats depends crucially on tackling the budget deficit. Its national security depends on its economic security and vice versa. An economic deficit is also a security deficit.

2.26 In order to protect its interests at home, it must project its influence abroad. As the global balance of power shifts, it will become harder for it to do so. But Britain should be under no illusion that its national interest requires its continued full and active engagement in world affairs. It requires its economy to compete with the strongest and the best and the entire government effort overseas must be geared to promote its trade, the lifeblood of its economy. But Britain's international role extends beyond the commercial balance sheet, vital though it is.

2.27 Britain's national interest requires it to stand up for the values the country believes in – the rule of law, democracy, free speech, tolerance and human rights. To do so requires Britain to project power and to its unique network of alliances and relationships – principally with the USA, but also as a member of the EU and NATO, and a permanent member of the UN Security Council. Britain must also maintain the capability to act well beyond its shores and work with its allies to have a strategic presence wherever it needs it. The main priorities for resources and capabilities will be to:

- Protect operational counter-terrorist capabilities in intelligence and policing, and the necessary technologies to support them, while still delivering some efficiency gains in these areas
- Develop a transformative programme for cyber security, which addresses threats from states, criminals and terrorists; and seizes the opportunities which cyber space provides for its future prosperity and for advancing our security interests
- Focus cross-government effort on natural hazards, including major flooding and pandemics, and on building corporate and community resilience
- Focus and integrate diplomatic, intelligence, defence and other capabilities on preventing the threat of international military crises, while retaining the ability

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<sup>9</sup> A Strong Britain in an Age of Uncertainty: The National Security Strategy 2010

to respond should they nevertheless materialise.

## USA<sup>10</sup> NATIONAL SECURITY STRATEGY

2.28 The two decades since the end of the Cold War have been marked by both the promise and perils of change. The circle of peaceful democracies has expanded; the spectre of nuclear war has lifted; major powers are at peace; the global economy has grown; commerce has stitched the fate of nations together; and more individuals can determine their own destiny. Wars over ideology have given way to wars over religious, ethnic, and tribal identity; nuclear dangers have proliferated; inequality and economic instability have intensified; damage to our environment, food insecurity, and dangers to public health are increasingly shared; and the same tools that empower individuals to build enable them to destroy. United States of America will continue to underwrite global security—through its commitments to allies, partners, and institutions; it recognize that no one nation—no matter how powerful—can meet global challenges alone.

2.29 Its recovery from the most devastating recession that it faced since the Great Depression, includes rebuilding an infrastructure that will be more secure and reliable in the face of terrorist threats and natural disasters, providing a quality education for the children; enhancing science and innovation; transforming its energy economy. Building this stronger foundation will support America's efforts to shape an international system that can meet the challenges of our time.

2.30 It will secure the world's most dangerous weapons; continue fighting war against a far-reaching network of hatred and violence. America will disrupt, dismantle, and defeat religious extremism through a comprehensive strategy that denies them safe haven, strengthens front-line partners, secures its homeland, pursues justice through durable legal approaches, and counters a bankrupt agenda of extremism and murder with an agenda of hope and opportunity.

2.31 It will continue to deepen its cooperation with other 21st century centres of influence—including China, India, and Russia—on the basis of mutual interests and mutual respect. To adversarial governments, it offers a clear choice: abide by international norms, and achieve the political and economic benefits that come with greater integration with the international community; or refuse to accept this pathway, and bear the consequences of that decision, including greater isolation. It will pursue engagement among peoples—not just governments—around the world.

2.34 It will strengthen its military to ensure that it can prevail in today's wars; to prevent and deter threats against the United States, its interests, and its allies and partners; and prepare to defend the United States in a wide range of contingencies against state and nonstate actors. America will continue to rebalance its military

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<sup>10</sup> National Security Strategy May 2010

capabilities to excel at counterterrorism, counterinsurgency, stability operations, and meeting increasingly sophisticated security threats, while ensuring that the force is ready to address the full range of military operations.

2.35 Remaining a vibrant 21st century economic power also requires close cooperation between and among developed nations and emerging markets because of the interdependent nature of the global economy. America—like other nations—is dependent upon overseas markets to sell its exports and maintain access to scarce commodities and resources. Thus, finding overlapping mutual economic interests with other nations and maintaining those economic relationships are key elements of its national security strategy.

2.36 Development is a strategic, economic, and moral imperative. America is focusing on assisting developing countries and their people to manage security threats, reap the benefits of global economic expansion, and set in place accountable and democratic institutions that serve basic human needs.

2.37 The ideas, values, energy, creativity, and resilience of its citizens are America's greatest resource. It will support the development of prepared, vigilant, and engaged communities and underscore that its citizens are the heart of a resilient country. To achieve the world we seek, the United States must apply our strategic approach in pursuit of four enduring national interests:

- **Security:** The security of the United States, its citizens, and U.S. allies and partners.
- **Prosperity:** A strong, innovative, and growing U.S. economy in an open international economic system that promotes opportunity and prosperity.
- **Values:** Respect for universal values at home and around the world.
- **International Order:** An international order advanced by U.S. leadership that promotes peace, security, and opportunity through stronger cooperation to meet global challenges.

### **Defence Expenditure as a Per cent age of the GDP and Central Govt Expenditure**

2.38 It may be seen from Table No 1 that for the same year, the two institutions have given a different figure for the Defence expenditure of the selected countries. The reason for this difference is the definition of 'Defence Expenditure'. Each country projects what it considers its defence expenditure and probably no two countries are alike. For example against a figure of 47.4 and 36.3 Billion US \$ as India's defence expenditure for 2013 -14 indicated by these two institutions, what we call defence expenditure is 33.41 Billion US \$. The Budgetary allocations of the Ministry of Defence are contained under Eight Demands for Grants. Six budgetary demands (Army, Navy, Air Force, Ordnance Factories, DRDO (all 5 Revenue) and Capital Budget (for the 5 demands included in the revenue) **are commonly known as Defence Budget**. Civil expenditure of the MoD (comprising of MoD Secretariat, Defence Accounts Department, Canteen Stores Department, Defence Estates Organisation, Coast Guard Organisation and Jammu and Kashmir Light Infantry etc.) and Defence Pensions are the other two demands and are not included in the Defence Budget. **The World Bank also gives the figures for relationship of the defence expenditure with GDP & Central Government expenditure of each country.**



World Bank uses SIPRI data for defence expenditure. SIPRI reckons, “Military expenditures as per NATO definition, which includes all current and capital expenditures on the armed forces, including peacekeeping forces; defence ministries and other government agencies engaged in defence projects; paramilitary forces, if these are judged to be trained and equipped for military operations; and military space activities. Such expenditures include military and civil personnel, including retirement pensions of military personnel and social services for personnel; operation and maintenance; procurement; military research and development; and military aid (in the military expenditures of the donor country). Excluded are civil defence and current expenditures for previous military activities, such as for veterans' benefits, demobilization, conversion, and destruction of weapons. This definition cannot be applied for all countries; however, since that would require much more detailed information than is available about what is included in military budgets and off-budget military expenditure items. (For example, military budgets might or might not cover civil defence, reserves and auxiliary forces, police and paramilitary forces, dual-purpose forces such as military and civilian police, military grants in kind, pensions for military personnel, and social security contributions paid by one part of government to another.)”

2.39 The detailed country specific defence expenditure figures and its distribution later in the report will be based on what each country considers to be the defence expenditure and the figures as included in their stats and in the respective currencies. To have a comparative view of the figures available as per the World Bank statistics, the figures for defence expenditure as a % of the GDP and as a % of the central Govt expenditure are given in Table no 2 & 3.

Table No 2

Defence expenditure as a % of GDP												
Country name	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
China	2.2	2.1	2.1	2	2.1	2.1	2	2.2	2.1	2	2	2.1
France	2.5	2.6	2.6	2.5	2.4	2.3	2.3	2.6	2.4	2.3	2.3	2.2
Germany	1.5	1.4	1.4	1.4	1.3	1.3	1.3	1.4	1.4	1.3	1.4	1.3
India	2.8	2.7	2.8	2.8	2.5	2.3	2.6	2.9	2.7	2.6	2.5	2.4
Japan	1	1	1	1	1	1	1	1	1	1	1	1
Korea, Rep.	2.3	2.3	2.3	2.5	2.5	2.5	2.6	2.7	2.5	2.6	2.6	2.6
Pakistan	4.4	4.4	4.3	4.2	3.7	3.5	3.5	3.3	3.4	3.3	3.5	3.4
Russian Federation	4	3.9	3.5	3.6	3.5	3.4	3.4	4.2	3.9	3.7	4	4.2
United Kingdom	2.5	2.6	2.4	2.4	2.3	2.3	2.4	2.6	2.5	2.4	2.4	2.3
United States	3.2	3.6	3.8	3.8	3.8	3.8	4.2	4.6	4.7	4.6	4.2	3.8

Table No 3

Defence expenditure (% of central government expenditure)												
Country name	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
China				15.3	17.9	11.6	16.1					
France*	5.4	5.5	5.6	5.4	5.3	5.3	5.2	5.3	4.8	4.9	4.8	
Germany*	4.6	4.5	4.5	4.4	4.4	4.5	4.6	4.5	4.4	4.5	4.7	
India	18	17.8	19	18.5	16.8	15.6	15.1	17.5	16.7	18.4	15.7	
Japan				6.1	6.2	6.4	6	5.3	5.4	5.2	5.2	
Korea, Rep.	14.6	13	13.1	13.3	12.9	13.1	13.6	13.4	13.7	13.6		
Pakistan	26	26.2	29.6	28.7	25.8	23	19.3	20.2	19.6	18.7	18.5	19.5
Russian Federation	17.9	17.1	16.4	17.9	17.9	14.6	15.7	13.6	14.1	14.7	15.3	
United Kingdom*	6.7	6.6	6.3	5.9	5.9	5.9	5.8	5.7	5.6	5.6	5.3	
United States	16.3	17.6	18.6	18.7	18.6	18.5	18.8	18.1	18	18.2	17.6	16.5

\*The comparative low % is explained later in this chapter

2.40 A table giving the GDP as per the World Bank figures in Billion US \$ in respect of the select countries for the period 1995 to 2013 is attached as Annexure 'A' to this report. Country specific defence expenditure as reported by each country will be analysed in succeeding paragraphs.

## CHINA

2.41 As per the policy enunciated by the Chinese Govt, defence expenditure should grow in line with the demands of national defence and economic development. The past two years increase, has primarily, as per them, been used for the following purposes:

- Increasing the salaries and benefits of servicemen. Along with the rise of the income of civil servants and the living standards of both urban and rural residents, China has increased the relevant allowances and subsidies of servicemen to ensure the parallel improvement of their living standards.
- Compensating for price rises. With the rise of the prices of food, building materials, fuel, etc., China has accordingly increased the boarding subsidies and other funds closely related to servicemen's life as well as the expenses on education, training, petroleum, oils and lubricants for the armed forces, and improved the working and living conditions of border and coastal defence forces, units in remote and tough areas, and grass-roots units.
- It has augmented the input into military informationization and moderately increased the funds for equipment and supporting facilities, so as to raise the defence capabilities in conditions of informationization.

Table No 4

China's GDP and Defence Expenditure (Billion Yuan)				
Year	Defence Expenditure	% Increase over previous year	GDP	% Increase over previous year
2000	120.8		9921.46	
2001	144.2	19.37	10965.52	10.52
2002	170.8	18.45	12033.27	9.74
2003	190.8	11.71	13582.28	12.87
2004	220	15.30	15987.83	17.71
2005	247.5	12.50	18493.74	15.67
2006	297.9	20.36	21631.44	16.97
2007	355.5	19.34	26581.03	22.88
2008	417.9	17.55	31404.54	18.15
2009	495.1	18.47	34090.28	8.55
2010	533.3	7.72	40151.28	17.78
2011	602.8	13.03	47310.40	17.83
2012	669.2	11.02	51894.21	9.69
2013	720.2	7.62		
2014	808.2	12.22		

Table No 5

China's Official Defence Expenditure and its share in Govt. (Central & Local) Expenditure and GDP			
Year	Defence Expenditure as % of National Govt. Expenditure	Defence Expenditure as % of Central Govt. Expenditure	Defence Expenditure as % of GDP
2000	7.6	21.9	1.2
2001	7.6	25	1.3
2002	7.7	25.2	1.4
2003	7.7	25.7	1.4
2004	7.7	27.9	1.4
2005	7.3	28.2	1.3
2006	7.4	29.8	1.4
2007	7.1	31.1	1.3
2008	6.7	31.3	1.3
2009	6.5	32.5	1.5
2010	5.9	33.4	1.3
2011	5.5	36.5	1.3
2012	5.3	35.7	1.3

Source: China Statistical Yearbook (2000-2012) and Xinhua (2012-2014)

Table No 6

% SHARE OF CHINA'S DEFENCE EXPENDITURE UNDER MAJOR OBJECTIVE HEADS					
	2006	2007	2008	2009	2010
Personnel	33.99	33.76	33.47	34.04	34.86
Operations & Maintenance	32.66	34.05	33.24	33.73	31.88
Procurement & Construction	33.35	32.19	33.29	32.23	33.25
TOTAL	100	100	100	100	99.99

Source: United Nations Report on Military Expenditures, "China", <http://www.un-arm.org/MilEx/CountryProfile.aspx?CountryId=42>

Note:

**Personnel expenses** cover salaries, allowances, food, clothing and bedding, insurance, welfare benefits and pensions for officers, non-ranking officers, enlisted men and contracted civilians and retired officers supported by the military. Consolidated Tables are placed at Annexure 'B' & 'C' of this report.

## FRANCE

2.41 France has sought to remain a leading military power by acquiring a small-scale version of a superpower arsenal with three distinct elements:

- An independent nuclear deterrent based on a "triad" of submarines, bombers, and ballistic missiles;
- Conventional land and air forces, manned largely with conscripts, for the defence of the French homeland and Central Europe; and
- A largely professional Rapid Action Force (established in 1983) and a blue-water Navy for intervention in overseas crises of limited scope and intensity, mainly in France's former African colonies, the Middle East, and the Persian Gulf.

2.42 The European approach to contain the impact of the financial crisis that had befallen the world in September 2008 was to lower public spending and the defence budgets across all European countries manifested this and France was no exception. The primary strategy adopted by them was to reduce the manpower. The figures tabulated below illustrate this.

Table No 7

FRANCE (Expenditure figures in Million Euros)							
Year	Defence Expenditure	% Change Over Previous Year	Personnel Expenditure	% Change Over Previous Year	No of Military Personnel	No of Civilian Personnel	
2006	43457		23901		354400	84500	
2007	44273	1.88	24350	1.88	355800	82600	
2008	45362	2.46	25499	4.72	347200	79200	
2009	39190	13.61	18877	25.97	243000	72600	
2010	39237	0.12	18690	-0.99	223600	67500	
2011	38445	-2.02	18793	0.55	227700	65800	
2012	39105	1.72	19207	2.20	218200	65600	

2.43 Their long-term vision as enunciated in the 2013 white paper is that France will continue to devote substantial resources to defence. Defence spending will amount to €364 billion (2013 value) for the 2014-2025 period, including €179 billion (2013 value) for 2014-2019, the period covered by the next military programme act. This appropriation as per the white paper will allow the construction of a new armed forces model that meets the requirements of French strategy and is adapted to defence and national security requirements, while being consistent with the Government's objective of restoring the balance of public accounts and hence preserving our sovereignty and strategic autonomy.

2.44 The analysis of the French defence expenditure is tabulated below and a comprehensive table of the three selected European countries is placed at Annexure 'D' to this report.

Table No 8

Defence Expenditure Analysis- FRANCE						
PERCENTAGES						
OF DEFENCE EXPENDITURE						
Year	Defence Expenditure As A % of GDP	Defence Expenditure As A % of Total* Expenditure	Personnel Expenditure	Operation & Maintenance Expenditure	Investment Equipment Procurement and R & D	Infrastructure/ Construction
2012	1.93	3.4	49.1	16.9	30.6	3.4
2011	1.93	3.44	49.4	19.8	28.2	2.7
2010	2.01	3.58	48	19.03	30	3.13
2009	2.01	3.58	48	22.68	27	2.17
2008	2.04	3.67	56	18.66	21	3.70
2007	2.34	4.47	55	18.99	22	4.03
2006	2.43	4.54	55	17.83	23	3.76

## GERMANY

2.45 Germany is the strongest economy in the European Union and post the 2008 financial crisis, like the other European countries chose the path of lower public spending as the route for recovery. Germany too has cut back on the number of military personnel, but since it had a smaller base, it appears to have replaced the military personnel with civilian Govt employees. As per their latest defence guidelines Germany faces no direct territorial threat involving conventional military means.

2.46 In addition Germany houses some US Army & Air force bases with a large strength of close to 60000. As per US plans to rationalize US troops overseas based on threat perception, even after this withdrawal the strength of US troops in German bases will still be over 40000 personnel. These two factors have enabled Germany to review its defence expenditure. (Details given in Annexure 'D' to this report)

Year	Defence Expenditure	% Change Over Previous Year	Personnel Expenditure	% Change Over Previous Year	No of Military Personnel	No of Civilian Personnel
2006	30565		17422.05		249067	49342
2007	31090	1.72	17099.5	-1.85	245271	43470
2008	31735	2.07	17106	0.04	251616	36296
2009	36108	13.78	18177	6.26	246982	36951
2010	33492	-7.24	17835	-1.88	246244	30984
2011	33781	0.86	17613	-1.24	247342	30984
2012	32490	-3.82	15077	-14.40	191721	95189

PERCENTAGES						
OF DEFENCE EXPENDITURE						
	Defence Expenditure as a % Of GDP	Defence Expenditure as a % Of Total* Expenditure	Personnel Expenditure	Operation & Maintenance Expenditure	Investment Equipment Procurement and R & D	Infrastructure/ Construction
2012	1.23	2.73	46.4	31.31	19.70	2.60
2011	1.30	2.88	52.1	23.17	20.30	4.40
2010	1.34	2.88	53.0	20.57	21.00	4.94
2009	1.34	2.88	50.0	27.75	17.00	4.50
2008	1.50	3.15	54.0	21.38	21.00	4.22
2007	1.28	2.92	55.0	25.49	15.00	4.05
2006	1.32	2.88	57.0	23.75	16.00	3.77

## JAPAN

2.47 The Japanese constitution which came in to effect from 03 May 1947 renounces war and **Article 9 of the constitution states**, “Aspiring sincerely to an international peace based on justice and order, the Japanese people forever renounce war as a sovereign right of the nation and the threat or use of force as means of settling international disputes. In order to accomplish the aim of the preceding paragraph, land, sea, and air forces, as well as other war potential, will never be maintained. The right of belligerency of the state will not be recognized.” Ministry of Defence and the Self Defence Force (SDF) celebrated their 60<sup>th</sup> anniversary this year. The developments in the recent past have resulted in the formation of a National Security Council in 2013 and Japan’s first ever National Security Strategy (NSS) and, in accordance with the NSS, new National Defence Program Guidelines (NDPG) and Medium Term Defence Program (MTDP) were approved. On July 1, 2014, Prime Minister, using a cabinet decision to reinterpret the article, and so bypassing Parliament and the requirement for a referendum on a change to the Constitution, empowered Japan’s Self-Defence Forces, to take action against other countries. The basic orientation for the development as per the Govt is to ensure Japan’s survival and protect its people, in order to resolutely secure the lives and peaceful livelihood of the Japanese people, and contribute even more proactively to the peace and stability of the international community.

2.48 Some changes in the budget allocations and expenditure may therefore be expected in the coming years. The defence expenditure and its relationship with the GDP and Govt expenditure are given in table no 11 and 12 and greater details are provided in Annexure ‘E’ to this report.

Table no 11

JAPAN (Figures in 100 Million Yen)							
	Defence Expenditure	No of Uniformed SDF Personnel	No of Civilian Personnel (Includes MoD Including The Ministers)		Defence Expenditure	No of Uniformed SDF Personnel	No of Civilian Personnel (Includes MoD Including The Ministers)
2002	49397	239900	12250	2009	47028	247746	22473
2003	49265	239900	12250	2010	46826	247746	22241
2004	48764	239900	12250	2011	46625	247446	21989
2005	49143	239900	12250	2012	46452	247172	21715
2006	47906	260250	12250	2013	46804	247172	21435
2007	47815	240400	12250	2014	47838	247160	21283
2008	47426	230300	12250				

Table No 12

Defence Expenditure Analysis (Japan)					
	PERCENTAGES				
	OF DEFENCE EXPENDITURE				
	Defence Expenditure as a % Of GDP	Defence Expenditure as a % Of Govt. Expenditure	Personnel Expenditure	Operation & Maintenance Expenditure	Investment Equipment Procurement and R & D
2002	1.00	9.57	45.09	28.82	26.09
2003	1.00	9.96	45.04	28.84	26.12
2004	0.98	9.81	44.41	29.36	26.24
2005	0.97	9.96	43.88	29.02	27.10
2006	0.94	10.26	44.54	30.03	25.44
2007	0.92	10.04	43.95	31.81	24.53
2008	0.97	9.51	44.15	32.21	23.64
2009	1.01	7.05	44.17	19.87	35.96
2010	1.01	8.76	44.53	19.70	35.77
2011		8.56	44.86	20.14	35.00
2012		8.95	44.56	20.32	35.12
2013		8.65	42.51	22.00	35.49
2014		8.45	43.75	20.35	35.90

### US forces in JAPAN

2.49 In 2008 there were about 48000 US service members based in Japan, including those aboard vessels of the 7th Fleet. In addition, there were about 3510 U.S. civilian personnel and family members of servicemen and civilians. U.S. military in Japan traces its origin to the post-war arrival of Allied Forces. The outbreak of the Korean War in 1950 made Japan an important strategic base for the U.S. during the Cold War confrontation, which prompted the two countries to conclude the bilateral security treaty maintaining U.S. forces in Japan. Under Article V of the Treaty of Mutual Cooperation and Security, U.S. Forces, Japan's (USFJ) area of responsibility is the land areas of the Japanese archipelago and the adjoining sea areas out to 12 nautical miles. Under Article VI, the U.S. is given use of facilities in Japan for maintaining regional security. U.S. bases in Japan are extremely important for the U.S. to maintain its military presence in the Asia-Pacific region and beyond. Japan's share of Stationing of USFJ-related Cost for FY 2012 was (¥572.8billion/\$7.16 Billion) and in 2014 the expenditure is expected to be ¥449.4 Billion.



Table No 13

<b>Expenditure to be incurred in FY 2014 by Japan for the smooth and effective stationing of U.S. forces in Japan</b>	¥ Billion
Expenses related to programs for communities near bases	123.8
Cost-sharing for the stationing of U.S. forces in Japan	190.7
Rental cost of facilities, compensation expenses, etc.	134.9
Source 2014 Defense Programs and Budget of Japan- Overview of FY 2014 Budget Request- Ministry of Defense Japan	449.4

### SHARING OF EXPENDITURE US FORCES

2.50 When a country allows U.S. forces to be stationed on its territory in peacetime, the two countries usually conclude a Status of Forces Agreement (SOFA) to define the legal status of the military personnel. US Forces are stationed in three of the countries selected for this study, and have permanent bases. Germany and Japan expenditure has already been covered. Before we move to South Korea next the sharing of this expenditure has been tabulated for better appreciation.

Table No 14

Segment	Japan	South Korea	Germany
Base rental	Japan contributes	South Korea contributes small amount	U.S. contributes
Lighting, heating water, etc.	*1 Japan contributes	U.S. contributes	U.S. contributes
Deployment of facilities	*1 Japan contributes	Both South Korea and U.S.	U.S. contributes
Labour cost burden	*1 Japan contributes	Both South Korea and U.S.	*2 U.S. contributes
*1 As a general rule contributed by the Japan side but limits are set on the coverage. *2 The German side is covering the compensation paid to workers who lose their jobs when the stationed forces withdraw. (Source: U.S. Department of Defence, <i>2004 Statistical Compendium on Allied Contributions to the Common Defence</i> , and Ministry of Finance Japan's Budget Bureau.)			

2.51 Some of the US Forces facilities are built on Private owned land and as per an agreement these facilities are to be shifted to alternate locations at Japanese cost and this amount is not included in Japan's Defence budget.

## SOUTH KOREA

2.52 United States and South Korea have been allies since the United States intervened in the Korean Peninsula in 1950 and fought to repel a North Korean takeover of South Korea. On October 1, 1953, the parties to the conflict signed an armistice agreement, the United States and South Korea signed a Mutual Defence Treaty, which provides that if either party is attacked by a third country, the other party will act to meet the common danger. The United States maintains about 28,500 troops in the ROK.

2.53 Ever since the coming of age of the South Korean Economy in early 1990s, South Korea has provided financial support through a series of Special Measures Agreements (SMAs) to offset the cost of stationing U.S. forces in Korea. In January 2014, Korea and US agreed to terms for the next five-year SMA, covering 2014-2018. Under the new agreement, Korea will raise its contribution by 6% to 920 Billion Korean won (\$867 million) in 2014 and then increase its annual payments at the rate of inflation.

Table No 15

SOUTH KOREA (Figures in 100 Million Won)									
Year	Defence Expenditure	% Change Over Previous Year	No of Military Personnel	No of Civilian Personnel	Year	Defence Expenditure	% Change Over Previous Year	No of Military Personnel	No of Civilian Personnel
2002			686000	4500	2009	285326	7.07	655000	4500
2003	177070		686000	4500	2010	295627	3.61	655000	4500
2004	191540	8.17	687700	4500	2011	314030	6.23	655000	4500
2005	211030	10.18	681000	4500	2012	329580	4.95	655000	4500
2006	225190	6.71	681000	4500	2013	343450	4.21	655000	4500
2007	244970	8.78	681000	4500	2014	357056	3.96	655000	4500
2008	266490	8.78	681000	4500	2015	374560	4.90		

2.54 Republic of Korea (ROK) has risen from the Korean War in less than 60 years to become one of the world's leading economic powers. They are in the process transforming their Armed Forces into an 'Advanced Elite Military' in order to continuously safeguarding their security and prosperity. In the face of continuous provocations by North Korea, it has carried out a comprehensive review of its security posture to adopt a 'combat mission-oriented advanced military' posture. It has recently established a new Northwest Islands Defence Command to enhance its military response capabilities pertaining to the North-western Islands region. It has also established the ROK Cyberspace Command, which has significantly strengthened its ability to conduct counter cyber warfare. It has also continued to revise and develop its 'Defence Reform Basic Plan' to realize their vision for a multi-functional and highly efficient form of national defence.

Table No 16

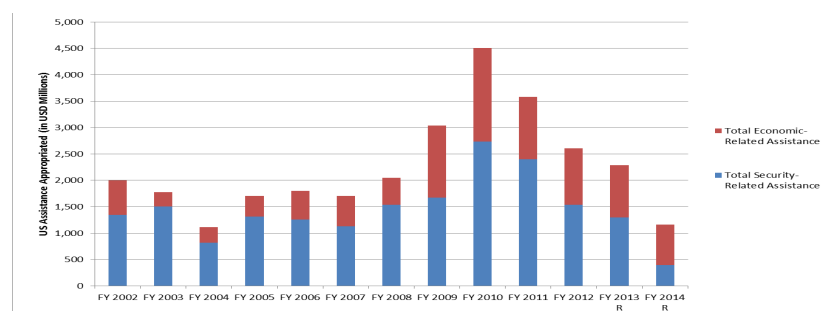
Defence Expenditure Analysis (South Korea)					
PERCENTAGES					
Of Defence Expenditure					
Year	Defence Expenditure as a % of GDP	Defence Expenditure as a % of Govt. Expenditure	Personnel Expenditure	Operation & Maintenance Expenditure	Investment Equipment Procurement and R & D
2003	2.19		44.16	24.06	31.78
2004	2.19		43.29	24.88	31.83
2005	2.29		40.73	24.68	34.59
2006	2.33		40.70	33.51	25.79
2007	2.35		39.58	33.15	27.27
2008	2.41		43.84	27.34	28.82
2009	2.48		41.75	28.05	30.19
2010	2.52	14.69	41.00	28.21	30.79
2011	2.36	14.96			
2012	2.39	14.77			
2013	2.40	14.54			
2014	2.38	14.44	36.05	34.52	29.43
2015	2.35	14.5	36.1	34.5	29.4

2.55 The economy after a slow down in 2008 & 2009 has recovered well and the increase in the share of Defence expenditure as a % of the GDP has made substantially increased the availability resources for the accomplishing the planned strategy. The detailed figures are placed as Annexure 'F' to this report.

## PAKISTAN

2.56 Pakistan since 1947 has been generous recipient of US assistance. The assistance is provided under both categories i.e. Economic & Security related. The reasons for US providing security related assistance has kept changing and so have the levels year to year for decades as US geopolitical interests in the region have shifted. The quantum of assistance since 2002 is shown in the graph below.

Graph No 1



Source: Annual Congressional appropriations, as reported and categorized by Alan Kronstadt of the Congressional Research Service.

2.57 Saudi Arabia has also been providing approximately 1 Billion US \$ in aid to Pakistan since early 1980s<sup>11</sup> in return for security assistance in the form of Ground troops. In March 2014, Saudi Arabia has given \$1.5bn<sup>12</sup> to bolster the falling foreign currency reserves and help cement security ties between the two countries. Such assistance does not get reflected in the Pakistan's Defence Budget.

Table No 17

PAKISTAN (All Figures Rs (Pakistan) in Crores)				
YEAR	Defence Expenditure	% Change over Previous Year	Defence expenditure as a % of GDP	Defence expenditure as a % of General government final consumption expenditure
2008-09	34211.94		2.82	24.64
2009-10	37799.76	10.49	2.69	24.65
2010-11	44450	17.59	2.60	24.98
2011-12	50932.16	14.58	2.62	24.22
2012-13	57018.3	11.95	2.64	23.13
2013-14	62952.34	10.41	2.61	20.66
2014-15	71961	14.31		

2.58 The figures therefore may not represent the actual defence expenditure. The distribution figures for one year give the share of various elements in each Service's budget and relative share of each service of the Defence expenditure. A comprehensive Table of Pakistan Defence Budget is annexed as Annexure 'G' to this report

<sup>11</sup> Saudi Arabia in the 1980s: Foreign Policy, Security, and Oil pp 41 by William B. Quandt

<sup>12</sup> Financial Times 14 Mar 2014 By Farhan Bokhari

Table No 18

<b>DISTRIBUTION OF 2009-10 DEFENCE BUDGET AMONGST THE SERVICES Pakistan (Rs in Crores)</b>								
	ARMY	% Of ARMY Expenditure	AIR FORCE	% Of AIR FORCE Expenditure	NAVY	% Of NAVY Expenditure	OTHERS (DP Establishment/IS Os/Accounts Organs	% Of OTHERS Expenditure
Employee Related Expenses	9901	58.10	1477	16.59	981	24.51	1480.13	18.84
Operating Expenses	3061	17.97	1673	18.80	468	11.69	4537.19	57.75
Physical Assets	2551	14.97	4849	54.49	2221	55.47	1391.96	17.72
Civil Works	1527	8.96	901	10.12	333	8.33	447.16	5.69
Total	17040		8900		4003		7856	
<b>% Share of the Defence Expenditure</b>	<b>45.08</b>		<b>23.55</b>		<b>10.59</b>		<b>20.78</b>	

## RUSSIA

2.59 The Russian military had been starved of fund since the disintegration of the erstwhile Soviet Union. As the economy recovered and stabilised, urgent need for re-equipment of the military was not in dispute, as the forces had not been provided of new military hardware since the early 1990s. The decision to increase military expenditure and its share of GDP was taken in 2008. In the aftermath of the brief war with Georgia, it was decided to undertake a far-reaching reform of the armed forces and to accelerate their re-equipment with new armaments. In December 2010 the president signed a new, State Armaments Programme referred to as GPV-2020<sup>13</sup> for the ten-year period 2011 to 2020. This programme was based on the optimistic economic forecast embodied in the concept of socio-economic development of Russia to 2020. This envisaged an annual average rate of growth of GDP of about 6.5 per cent. But since the international financial crisis the Russian economy has grown at a more modest pace and to 2020 an average rate of growth of 4-5 per cent now appears much more likely. Notwithstanding the slowdown in the economy, the growth of defence expenditure is expected to continue as indicated in the draft three-year budget for the years 2013 to 2015 presented to the Russian parliament in September 2012.

<sup>13</sup> Gosudarstvennaya programma vooruzheniya (State Armaments Program 2011-2020)

Table No 19

RUSSIA (Figures in Billion Roubles)			
Year	Defence Expenditure	Increase in amount over previous year	% Change over previous year
1999	115.59		
2000	191.73	76.13	65.86
2001	247.70	55.98	29.20
2002	295.39	47.69	19.25
2003	355.69	60.30	20.41
2004	430.00	74.31	20.89
2005	581.14	151.15	35.15
2006	681.80	100.66	17.32
2007	831.88	150.07	22.01
2008	1040.86	208.99	25.12
2009	1188.17	147.31	14.15
2010	1276.51	88.34	7.43
2011	1515.96	239.45	18.76
2012	1814.10	298.14	19.67
2013	2105.50	291.40	16.06

2.60 The expenditure on National Defence<sup>14</sup> the nomenclature used in the Federal Budget for Defence Expenditure comprises of expenditure on:

- Armed Forces of the Russian Federation;
- Modernization of the Armed Forces of the Russian Federation and military units;
- Preparedness activity and military training for civilians;
- Preparedness activity for economics;
- Preparation for, and participation in, ensuring collective security and peace-making activity;
- Nuclear weapons complex;
- Implementation of international commitments in the field of technical military cooperation;
- Applied research in the field of national defence;
- Other matters related to national defence;

2.61 The share of defence expenditure and its distribution over major heads is tabulated in table no 20 below and the details are placed at Annexure 'H' to this report.

<sup>14</sup> Budgetary Code of The Russian Federation

Table No 20

Defence Expenditure Analysis - Russian Federation							
	PERCENTAGES						
			Of Defence Expenditure				
Year	Defence Expenditure as a % of GDP	Defence Expenditure as a % of Govt. Expenditure	Personnel Expenditure	Operation & Maintenance Expenditure	Investment Equipment Procurement and R & D	Research & Development	Infrastructure/ Construction
2013	3.17	8.33					
2012	2.9	7.83	52.2	19.4	15.9	5.6	6.9
2011	2.79	7.58	37.6	24.6	20.5	9.8	7.5
2010	2.84	7.30	47.4	17.5	17.3	3.8	14.0
2009	3.06	7.54	51.0	23.9	23.4	0.2	1.4
2008	2.52	7.35	35.4	22.8	23.4	9	9.4
2007	2.5	7.27	32.3	30.5	17.9	10.4	8.9
2006	2.53	7.98	32.4	31.4	17	9.7	9.5
2005	2.69		31.5	26.9	24.8	10.5	6.3
2004	2.53		35	30.2	16.4	10.9	7.5
2003	2.69		38.4	31.1	12.5	10.2	7.8
2002	2.73		38.1	35.6	10.2	8.9	7.2
2001	2.77		38.5	31.5	12.6	9.9	7.5
2000	2.62		35.4	37.6	11.2	9	6.8

## UK

2.62 Geographically Britain is an island, but economically and politically it is a vital link in the global network. 10% of British citizens live permanently overseas. It's a country whose political, economic and cultural authority far exceeds its size. It has only 1% of the world's population but is the sixth largest economy in the world. Its economy is trade and services dependent. Its national security depends on its economic security and vice versa. An economic deficit is also a security deficit. So their 2010 Strategic Defence and Security Review has resulted in some tough choices to bring the defence budget back to balance.

2.63 The international financial crisis of 2008 had an adverse impact on the economy and like the other European neighbours it had to cut back on public spending and defence allocation like the other heads of public spending had to be conservative despite the realisation that British Forces today are equipped to fight in cold war era and the equipment has been found wanting in their overseas deployments in recent past.

Table No 21

UNITED KINGDOM (Expenditure figures in Million Euros)						
Year	Defence Expenditure	% Change over Previous Year	Personnel Expenditure	% Change over Previous Year	No of Military Personnel	No of Civilian Personnel
2006	47314		18926		177230	98050
2007	50312	6.34	19622	3.68	192670	90600
2008	42005	-16.51	17106	-12.82	194330	85730
2009	39596	-5.74	13650	-20.20	197780	85180
2010	43403	9.61	14724	7.87	192300	83060
2011	43696	0.68	14519	-1.39	185690	77010
2012	42251	-3.42	14702	1.26	175370	65400

2.64 The cut back in the budget as seen in the absolute figures and as a percentage of GDP & Govt expenditure has been absorbed by the Personnel, Investment/Acquisition and infrastructure as may be seen in Table no 22 below.

Table No 22

Defence Expenditure Analysis- UNITED KINGDOM						
PERCENTAGES						
Year	Defence Expenditure as a % of GDP	Defence Expenditure as a % of Total* Expenditure	Of Defence Expenditure			
			Personnel Expenditure	Operation & Maintenance Expenditure	Investment Equipment Procurement and R & D	Infrastructure/ Construction
2013	2.13	4.52	33.4	41.00	23.40	2.20
2012	2.22	4.58	34.80	39.60	23.60	2.00
2011	2.5	5.15	33.20	39.00	21.70	6.00
2010	2.56	5.03	34.00	37.72	26.00	2.23
2009	2.56	5.03	34.00	36.79	26.40	2.34
2008	2.53	4.89	41.00	31.30	26.00	1.97
2007	2.49	5.58	39.00	33.52	25.00	2.31
2006	2.5	5.54	40.00	32.84	24.00	2.73

\*NOTE: The EU member countries quote relationship with 'Public Spending' instead of Government Expenditure. E.g. Britain's GDP for 2012 is £ billion 1546.7 & its total spending is £694.4 billion Source GDP: OBR EFO supp. economy tables Spending: HM Treasury PESA. Detailed expenditure at Annexure 'D'.



Table No 23\*

<b>Public Spending Chart Fiscal Years 2004 to 2014 £ billion</b>			
Year	GDP	Total Spending	% of GDP
2004	1,202.4	455.1	37.8
2005	1,254.3	491.8	39.2
2006	1,328.6	523.5	39.4
2007	1,405.8	549.4	39.1
2008	1,433.9	582.2	40.6
2009	1,393.9	633.8	45.5
2010	1,458.5	673.1	46.2
2011	1,508.8	694.2	46.0
2012	1,529.9	694.4	45.4
2013	1,583.9	673.9	42.5
2014	1641	714.0	43.5
Data Sources GDP: Measuring Worth - UK GDP Spending: Archived HM Treasury PESA			
<b>Pension, Health care, Education, Defence, Welfare, protection, Transport, General Govt, Other, Interest</b>			

## USA

2.65 America has been unwavering in its commitment to the security of its people, allies and partners. For over a decade it has taken the lead in spearheading the global war on terror and pursued the source of these threats whichever corner of the world it exits. During this period it has had to face an international financial crisis that originated from its financial markets and because of global linkages of the economies spread to Europe. While most European nations adopted the conservative approach of reduced public expenditure which saw a reduction in the absolute amounts of defence budgets, American defence budget reflected its commitment to its national defence strategy and continued to increase both for the traditional defence expenditure and the amount it spent on global war on terror & overseas contingency operations. The moderation in expenditure is seen only post 2012.

Table No 24

USA (Amt in Billion US \$)						
Year	Defence Expenditure	% Change over Previous Year	Global War On Terror, Overseas Contingency Operations & Other Supplements	% Change over Previous Year	No of Military Personnel (In Thousands)	No of Civilian Personnel (In Thousands)
2000	279				1449	698
2001	287.42	3.02	28.77		1451	687
2002	328.18	14.18	16.87	-41.36	1478	687
2003	364.92	11.19	72.54	329.97	1500	688
2004	376.52	3.18	91.09	25.58	1494	690
2005	400.07	6.26	78.84	-13.45	1455	692
2006	410.57	2.62	123.92	57.18	1455	700
2007	431.50	5.10	169.41	36.71	1451	695
2008	479.03	11.02	186.91	10.33	1474	707
2009	513.22	7.14	153.20	-18.03	1493	739
2010	527.92	2.86	163.05	6.43	1506	778
2011	528.23	0.06	158.79	-2.61	1501	807
2012	530.41	0.41	115.08	-27.52	1476	800
2013	495.47	-6.59	82.09	-28.67	1460	773
2014	496.02	0.11	85.19	3.78	1402	791

2.66 America's strength has been its economy and innovation as a foundation of American power. Their technical superiority has brought military superiority that has not only secured America but also underpinned global security for decades. The US Forces bases existence in Germany, Japan & South Korea has enabled them to keep their defence expenditure to the minimum and allowed those economies and societies to prosper. A comprehensive table giving details of its defence expenditure is placed at Annexure 'J' of this report and percentage share of its defence expenditure to GDP, Govt expenditure and major components of its defence expenditure is given in table below.

TABLE NO 25

Defence Expenditure Analysis - USA							
PERCENTAGES							
YEAR	Defence Expenditure as a % of GDP	Defence Expenditure as a % of Govt. Expenditure	Defence Expenditure as a % of GDP By Including Global War On Terror, Overseas Contingency Operations & other Supplements	Of Defence Expenditure			
				Personnel Expenditure	Operation & Maintenance Expenditure	Investment Equipment Procurement And R & D	Infrastructure / Construction Expenditure/Revolving Fund & Others
2000	2.71	14.39		26.45	38.75	33.58	4.19
2001	2.71	13.99	<b>2.98</b>	26.57	34.18	35.74	3.50
2002	2.99	14.91	<b>3.14</b>	26.43	35.94	33.60	4.03
2003	3.17	15.33	<b>3.80</b>	25.74	34.24	36.19	3.84
2004	3.07	14.96	<b>3.81</b>	25.78	33.73	37.31	3.19
2005	3.06	14.71	<b>3.66</b>	25.57	34.54	36.81	3.08
2006	2.96	14.39	<b>3.86</b>	26.57	33.41	36.94	3.07
2007	2.98	14.19	<b>4.15</b>	25.59	33.75	37.08	3.58
2008	3.25	14.46	<b>4.52</b>	24.45	33.77	36.96	4.82
2009	3.56	13.78	<b>4.62</b>	24.48	34.90	35.13	5.50
2010	3.53	13.48	<b>4.62</b>	25.71	34.83	34.56	4.91
2011	3.40	13.45	<b>4.43</b>	26.09	36.75	33.58	3.59
2012	3.28	13.66	<b>3.99</b>	26.71	37.56	32.76	2.97
2013	2.95	12.90	<b>3.44</b>	27.17	39.58	30.84	2.42
2014				27.40	38.87	31.30	2.43

## INDIA

2.67 As brought out earlier we do not have a document in public domain that brings out the threat perception and our strategy to deal with it. But to analyse our defence expenditure, its adequacy and relevance clarity on the threat is needed. Excerpts of a chapter written in a yet to be published book by IDSA has captured the picture.

“India faces formidable security challenges.<sup>15</sup> Most major countries have settled borders, but ours are not. Our entire northern border is unsettled and we have a Line of Control (LoC) and not a border in Jammu and Kashmir (J&K). This means that while it is the normal responsibility of any state to protect its frontiers and its territorial integrity, the responsibility of the Indian state in this regard becomes that much more onerous. The defence burden on our resources becomes even heavier than

<sup>15</sup> “India’s external security environment and its impact on Indian defence” by Mr Kanwal Sibal Former Foreign Secretary

might be the case if we had friendly neighbours with no outstanding territorial issues plaguing our ties with them.

2.68 What makes our security situation particularly tough is the nature of the countries contesting our borders. If our border differences were confined to Nepal or Bangladesh, our concerns would be more manageable. But it is China that either occupies or, what is even more problematic, claims large parts of our country still. China has become a formidable economic power in the last three decades or so, outperforming India decisively. With the massive financial resources at its command, it has developed its military muscle to a degree that now gives it confidence to advance or assert its territorial claims more aggressively than ever before, even in areas of great sensitivity to a large number of its neighbours in the Western Pacific and to the US.

2.69 Unlike in China's case where the effort is to avoid military incidents on the border that could result in casualties on either side, Pakistan has actively sought to disturb the status quo by direct military action, infiltration, cease-fire violations, inciting violence across the border, encouraging separatists in J&K to keep the situation continually on the boil politically and using the instrument of terror against us. It declares openly its "political, moral and diplomatic" support to "freedom fighters" in J&K, seeks external intervention on its behalf against India and works tirelessly to target India at international forums. Our external security environment is almost unique in that we have two powers on our borders that claim our territory; both are nuclear and cooperate with each other against us. Both are in their own way dominated by the military and are either not democratic or dubiously democratic. We have to live with these realities. Which means that we have no choice but to build up a robust defence capability with self-reliance as our goal."

2.70 The terms of reference of this study has sought detailed information on the Indian defence expenditure and relevant TORs are reproduced below and the detailed information in the succeeding paragraphs:

- Analyse the nature, quantum and components of Defence Expenditure from 1995-96 to 2013-14 with a specific focus on salary versus non-salary component.
- In the Non-salary component, the expenditure on modernization of armed forces and upgradation may separately be highlighted.
- The impact of the implementation of the Fifth and Sixth Pay Commissions' recommendations on the pattern and composition of defence expenditure, time frame in which the additional expenditure on salaries and emoluments, in relative terms, was absorbed.
- Analyse the relationship of Defence expenditure with the Central Government expenditure and the GDP from 1995-96 to 2013-14.

2.71 **Defence Expenditure: Relationship with GDP and Central Government Expenditure:** The size of the defence budget is, in principle, the measure of the resources provided for a countries defence by its political executive. The size of the defence budget also serves to identify the relative importance of the Defence Services in comparison to other organs of state. The resources allocated for defence would vary at various times and also vary with the prevalent economic conditions. The data

giving the relationship in percentage terms of the defence budget as a percentage of the GDP and the Central Govt. Expenditure (CGE) is tabulated below.

Table No 26

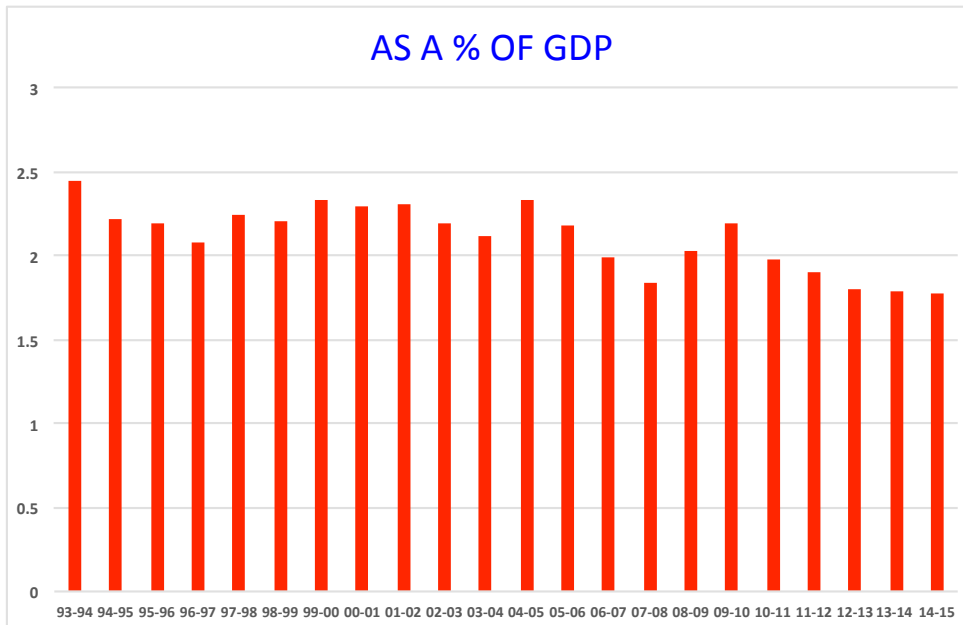
RELATIONSHIP OF INDIA'S DEFENCE EXPENDITURE WITH THE CENTRAL GOVT EXPENDITURE & GDP								
YEAR	AS A % OF THE CENTRAL GOVT EXPENDITURE	AS A % OF GDP	YEAR	AS A % OF THE CENTRAL GOVT EXPENDITURE	AS A % OF GDP	YEAR	AS A % OF THE CENTRAL GOVT EXPENDITURE	AS A % OF GDP
51-52		1.64	73-74		2.46	93-94	14.98	2.45
52-53		1.71	74-75		2.61	94-95	13.92	2.22
53-54		1.66	75-76	20.54	2.85	95-96	14.50	2.19
54-55		1.75	76-77	19.49	2.74	96-97	13.97	2.08
55-56	19.49	1.67	77-78	17.58	2.49	<b>97-98</b>	<b>15.69</b>	<b>2.24</b>
56-57		1.56	78-79	16.19	2.50	<b>98-99</b>	<b>15.13</b>	<b>2.21</b>
57-58		2.01	79-80	18.14	2.67	99-00	15.31	2.34
58-59		1.81	80-81	17.19	2.58	00-01	15.12	2.29
59-60		1.68	81-82	18.31	2.65	01-02	15.05	2.31
60-61	15.56	1.57	82-83	17.73	2.75	02-03	13.95	2.20
61-62		1.66	83-84	17.53	2.75	03-04	14.10	2.12
62-63		2.32	84-85	16.26	2.78	04-05	16.35	2.34
63-64		3.90	85-86	15.04	2.76	05-06	16.07	2.18
64-65		2.95	86-87	16.36	3.23	06-07	14.99	1.99
65-66	22.46	3.07	<b>87-88</b>	<b>17.02</b>	<b>3.25</b>	07-08	13.31	1.84
66-67		2.78	88-89	16.39	3.05	<b>08-09</b>	<b>13.21</b>	<b>2.03</b>
67-68		2.53	89-90	15.17	2.87	<b>09-10</b>	<b>14.29</b>	<b>2.19</b>
68-69		2.55	90-91	14.70	2.63	10-11	13.23	1.98
69-70		2.47	91-92	14.50	2.43	11-12	13.26	1.90
70-71	21.50	2.52	92-93	13.96	2.27	12-13	12.89	1.80
71-72		2.99	93-94	14.98	2.45	13-14	12.81	1.79
72-73		2.94	94-95	13.92	2.22	14-15	12.76	1.78

Note: The years and the figures in Bold represent the years in which the 4<sup>th</sup>, 5<sup>th</sup> & 6<sup>th</sup> pay commission arrears were paid. The detail figures and the source are at Annexure 'K' to the report.

A graphic representation of India's Defence expenditure as a % of the GDP and the CGE for the specific period in focus for this study is given below.

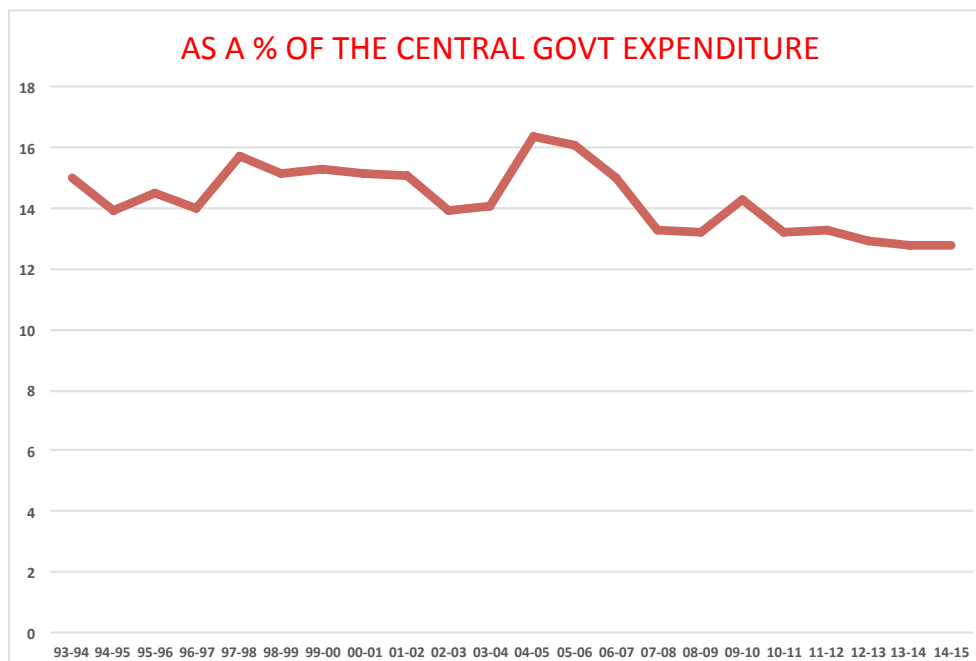
Graph No 2

## INDIAN DEFENCE EXPENDITURE



Graph No 3

## INDIAN DEFENCE EXPENDITURE



2.72 A table giving the absolute values of the Defence budget, Central Government expenditure and the GDP is annexed as Annexure 'K' to this report. **The planning commission approach paper to the 12<sup>th</sup> plan has with reference to Defence**

expenditure stated that the Capital allocation is expected to grow at 15% and the revenue allocation by 7.5%. Defence expenditure is projected to fall from 1.83 % of GDP in the base year to 1.56 % of GDP in the final year. The Medium Term Fiscal Policy Statement presented along with the Union Budget on 10 July 2014 at para 38 states that the total defence expenditure as ratio of GDP is projected to remain at 1.7% in FY 2015-16 and 2016-17 and that Defence Services Revenue expenditure is projected to grow at 7.2%.

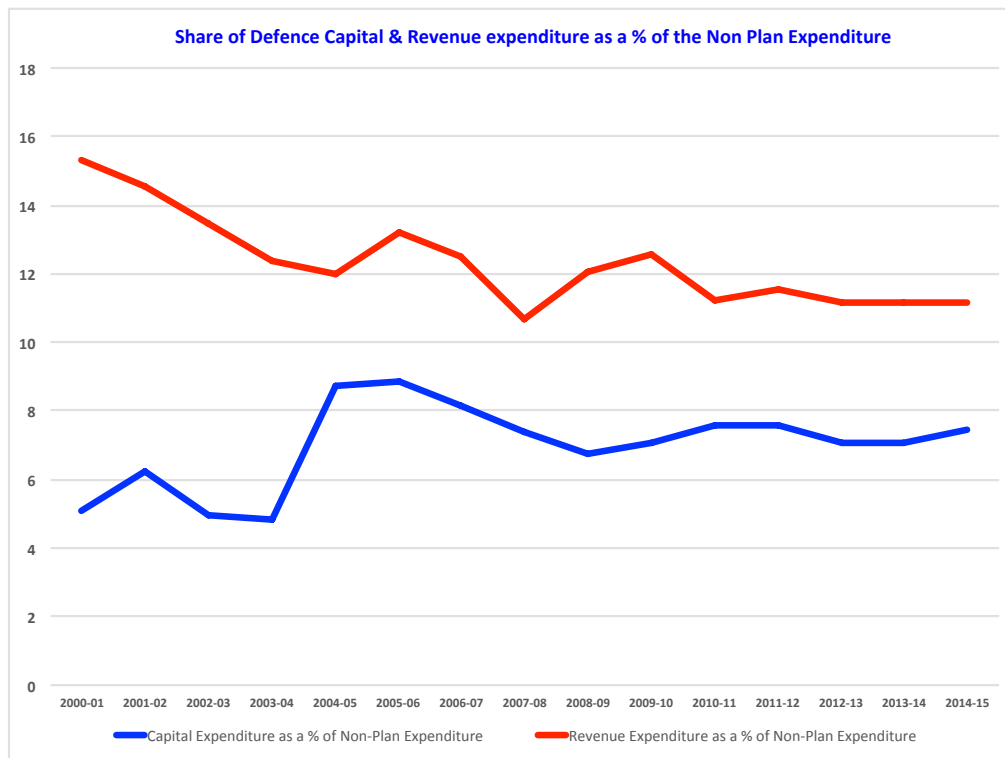
Table No 27

<b>Major Components of Non-Plan Expenditure</b>			
<b>Fin year</b>	<b>Interest + Subsidies + Defence</b>	<b>Interest + Subsidies</b>	<b>Defence</b>
2000-01	72.36	51.93	20.43
2001-02	73.89	53.11	20.78
2002-03	71.91	53.46	18.44
2003-04	65.48	48.27	17.21
2004-05	67.97	47.24	20.73
2005-06	71.41	49.34	22.06
2006-07	70.83	50.15	20.67
2007-08	65.73	47.67	18.06
2008-09	71.65	52.88	18.76
2009-10	68.82	49.15	19.66
2010-11	68.63	49.79	18.83
2011-12	74.22	55.06	19.16
2012-13	75.45	57.21	18.24
2013-14	75.28	57.01	18.27
2014-15	75.44	56.8	18.64

#### Defence and Non Plan Expenditure

2.73 The Non Plan Expenditure (Defence Budget Forms a part of this expenditure) constitutes about 70% of the Total Government expenditure. Items of Expenditure included in this are summarized under major categories and tabulated in the Budget document presented in parliament in the Annexures III to Volume II of the expenditure budget. The three major items of expenditure, which constitute 70 to 75% of the Non Plan Expenditure, are Interest Payments, Subsidies and Defence Expenditure. The share of these three major components of the Non Plan Expenditure, Interest, Subsidies and Defence Expenditure and their % to the Non Plan Expenditure for the last 14 years are tabulated in Table No 27 above. The relative share of the two primary components of the Defence expenditure (Capital and Revenue) of the non-plan expenditure which has also been undergoing change is reflected in the graph below.

Graph No 4



2.74 The summarisation of the data in the table no 26 & 27 and graphs 2 to 4 above suggests that the share of Defence Expenditure as percentage of GDP, Central Government expenditure and Non Plan Expenditure has been reducing and within the defence expenditure, the relative share of the revenue expenditure has been reducing and the share of capital expenditure has been increasing.

Table No 28

Year	Def Exp as % of		% Share of Major Heads Non Plan Expenditure				
	GDP	Govt Exp	Interest + Subsidies + Defence	Interest + Subsidies	Def Rev Exp	Def Cap Exp	Total Def Exp
00-01	2.29	15.12	72.36	51.93	15.33	5.10	20.43
14-15	1.78	12.76	75.44	56.80	11.18	7.45	18.64



## Modernisation and Upgradation of Armed Forces

2.75 The Defence Budget comprises of two major heads, Capital and Revenue. The capital budget is further divided in two broad categories, Modernization (Acquisition and Up gradation of weapon systems and platforms) and Capital Works (infrastructure) as also capital expenditure of DRDO, Ordnance factories). As may be seen from Graph No 4, the percentage share of the Capital Budget of the Non Plan expenditure has gone up. The growth of the capital budget as a percentage of the total Defence Budget is mapped in a table below.

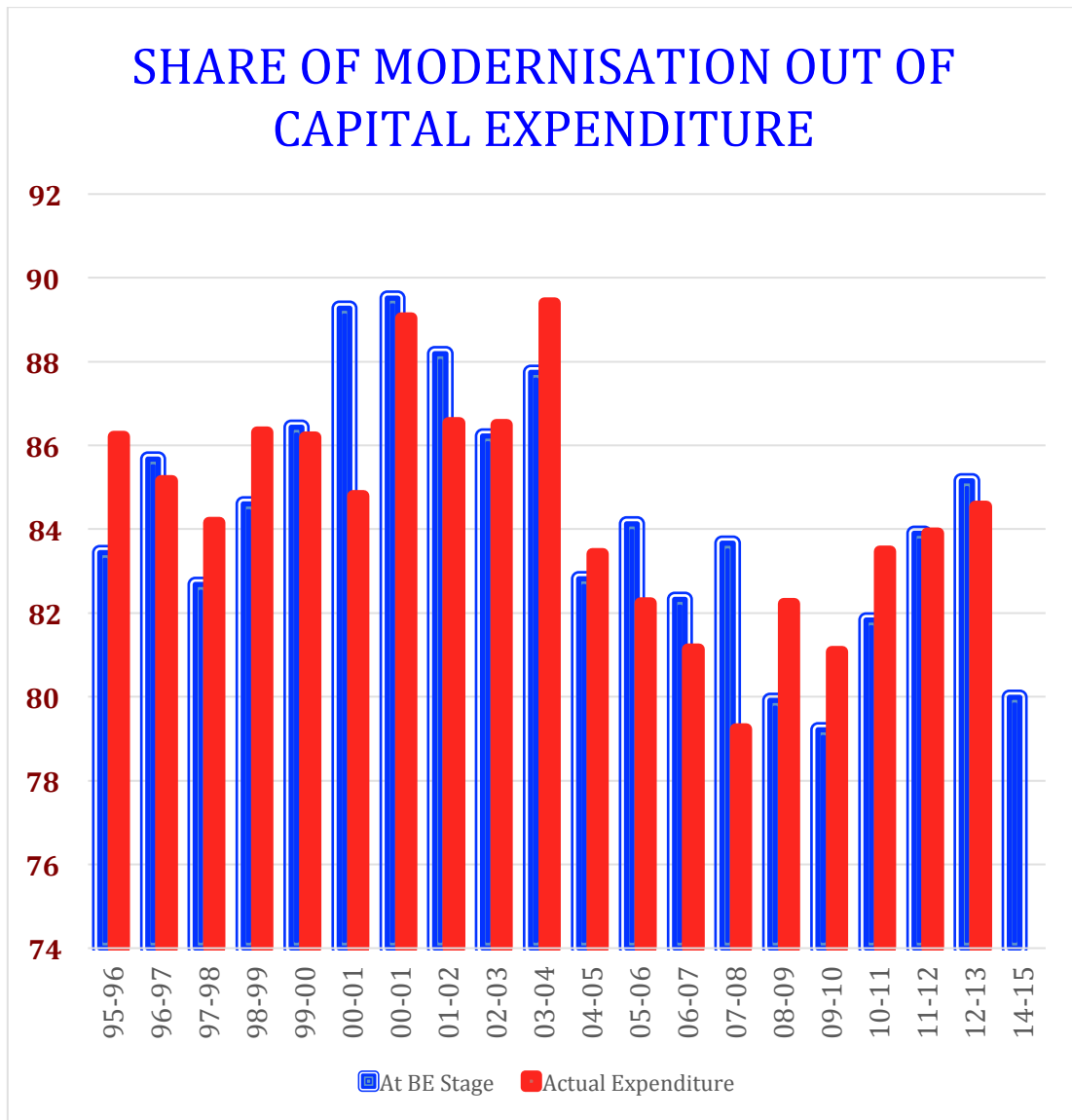
Table No 29

9 <sup>th</sup> Plan	10 <sup>th</sup> Plan					11 <sup>th</sup> Plan	12 <sup>th</sup> Plan
	2002-03	2003-04	<b>2004-05</b>	2005-06	2006-07		For 3 yrs
26.35	26.86	28.07	<b>42.18</b>	40.15	39.56	38.57	40.03

2.76 As may be seen, a major shift occurred in 2004-05 and what brought about this was ‘The Fiscal Responsibility and Budget Management Act (FRBM ACT)’ enacted in 2003. This Act originally required the elimination of revenue deficit and reduction of fiscal deficit to 3% of GDP by 31 Mar 2008. The Union Cabinet approved the bill in Feb 2003, after due process in Parliament; it received the Presidential approval in Aug 2003 and became effective from 05 July 2004. The Act aimed to ensure inter-generational equity in fiscal management and long-term macro-economic stability by achieving sufficient revenue surplus. The Act defines Revenue Deficit as “The difference between revenue expenditure and revenue receipts which indicates increase in liabilities of the Central Government without corresponding increase in assets of that Government”. The financial crisis and the subsequent slowdown had forced the government to abandon the path of fiscal consolidation for a while. In 2012-13 BE, the fiscal deficit was 5.1 % of GDP and, of this, the revenue deficit accounted for 3.4 % of GDP, leaving no more than 1.7 % of GDP (plus some other modest capital receipts) for capital expenditure. The only way the govt. can create the fiscal space is to bring the revenue deficit to zero and limit the fiscal deficit to 3 % of GDP, as provided for in the FRBM Act, so that the amount that is borrowed – is available for capital expenditure. The 2013-14 budget had targeted a fiscal deficit of 4.8 % of GDP for 2013-14 (the target has been achieved and brought down to 4.6% as per the budget speech in Parliament on 17 Feb 2014) and through a correction of 0.6 percentage point each year thereafter, a fiscal deficit of 3.0 % of GDP in 2016-17 is targeted. The Act has been amended for FRBM compliance to shift from the conventional Revenue Deficit to ‘Adjusted Revenue Deficit’ (revenue deficit adjusted to the extent of grants for capital assets). This should, however, be subject to rigid compliance to the definitional requirements of capital assets as well as maintenance of asset records/registers available in public domain. Since the **Defence Capital expenditure although part of the Govt revenue expenditure is not included for ‘Adjusted Revenue Deficit’**. The Capital Budget will not get impacted by the FRBM Act but the Defence Revenue expenditure has and will continue to come under

pressure on this account. A complete data table from which the above figures are extracted is placed as Annexure ‘L’

Graph No 5



2.77 The average percentage share of modernisation in relation to capital budget has on an average been 84% at the BE stage and 85% at actual expenditure stage.

**Impact of the Implementation of the Fifth and Sixth Pay Commissions’ Recommendations on The Pattern and Composition of Defence Expenditure, Time Frame in Which the Additional Expenditure on Salaries and Emoluments, in Relative Terms, was absorbed.**

Table No 30

(Complete table placed at Annexure 'M')

<b>IMPACT ON DEFENCE BUDGET PAY COMMISSION IMPLEMENTATION</b>			
Year	Revenue Expenditure	Impact on Revenue Budget (increase in %)	% of Capital Expenditure
2013-14	124800	12.15	38.73
2012-13	111277	8.02	38.78
2011-12	103011	11.89	39.73
2010-11	92061	1.54	40.27
<b>2009-10</b>	<b>90669</b>	<b>67.23 (23.69)</b>	<b>36.05</b>
<b>2008-09</b>	<b>73305</b>	<b>35.2</b>	<b>35.82</b>
2007-08	54219	4.94	40.86
2006-07	51669	7.17	39.56
2005-06	48211	9.92	40.15
2004-05	43862	1.53	42.18
2003-04	43203	6.13	28.07
2002-03	40709	6.96	26.86
2001-02	38059	2.20	29.87
2000-01	37238	5.74	24.96
1999-00	35216	17.93	25.19
<b>1998-99</b>	<b>29862</b>	<b>42.22 (14.09)</b>	<b>25.15</b>
<b>1997-98</b>	<b>26174</b>	<b>24.66</b>	<b>25.81</b>
1996-97	20997	15.11	28.84
1995-96	18241	11.05	30.53

2.78 It is seen from Table No 30 that in 1997-98 when the 5<sup>th</sup> Pay Commission was implemented and first instalment of the arrears paid and 1998-99, the years in which second instalment of the arrears was paid, the share of Capital budget as a % of the Total Defence budget dropped and recovered to its normal level in 2001-02. The pattern repeated itself in 2008-09 and 2009-10 when the 6<sup>th</sup> Pay Commission was implemented and the arrears paid in these two years. The share of modernisation expenditure out of this reduced share of capital budget allocation was maintained at its average share in 1997-98 & 98-99, however as seen in Graph no 5, the share of modernisation expenditure in the capital budget dropped below the average of 85% share from 08-09 to 12-13. Since the committed liabilities on account the schemes contracted in the past have to be met first, this may have been a constraint for finalising and contracting new schemes.

TABLE NO 31

<b>IMPACT ON REVENUE EXPENDITURE - PAY &amp; ALLOWANCES EXPENDITURE</b>			
YEAR	Revenue Expenditure	Pay & Allowances	% Share of Pay & Allowances
14-15	127152	75391	59.29
13-14	118730	68384	57.6
12-13	106743	62981	59
11-12	97355	55387	56.89
10-11	86920	49098	56.49
09-10	<b>83827</b>	<b>50978</b>	<b>60.81</b>
08-09	<b>67873</b>	<b>34407</b>	<b>50.69</b>
07-08	51357	21366	41.6
06-07	49270	19823	40.23
05-06	46185	18815	40.74
04-05	42107	17812	42.3
03-04	41012	16484	40.19
02-03	39248	16128	41.09
01-02	36608	15254	41.67
00-01	35230	14742	41.84
99-00	34232	13741	40.14
<b>98-99</b>	<b>28470</b>	<b>12709</b>	<b>44.64</b>
<b>97-98</b>	<b>24468</b>	<b>11120</b>	<b>45.45</b>
96-97	20573	8397	40.81
95-96	18664	7478	40.07

2.79 Pay & Allowances is a major component of the Revenue expenditure, the other components being Operation & Maintenance (stores heads), Transportation, Revenue Works and Misc. expenses. As may be seen in table No 31 that the share of Pay & Allowances, which was 40-41% of the revenue expenditure prior to the implementation of 5<sup>th</sup> Pay commission, increased in the two years when the arrears were disbursed. The share reverted to the range of 40 to 42% post this period. However, post the implementation of 6<sup>th</sup> Pay Commission this share has increased to beyond 56%. Similar trend is seen in individual service budgets also as tabulated below.

Table No 32

<b>PAY &amp; ALLOWANCES AS A % OF EACH SERVICE REVENUE EXPENDITURE (Rs in Crs)</b>									
	ARMY			NAVY			AIR FORCE		
YEAR	Rev Exp	P&A	%	Rev Exp	P&A	%	Rev Exp	P&A	%
14-15	92065	59929	65	12587	5506	44	21207	9972	47
13-14	85251	55030	65	11883	5056	43	19983	9155	46
12-13	76818	49924	65	10824	4697	43	18138	8377	46
11-12	69189	43347	63	10844	4508	42	17322	7532	43
10-11	62683	38511	61	9059	3731	41	15179	6856	45
<b>09-10</b>	<b>60500</b>	<b>40035</b>	<b>66</b>	<b>8618</b>	<b>3972</b>	<b>46</b>	<b>14708</b>	<b>6971</b>	<b>47</b>
<b>08-09</b>	<b>47394</b>	<b>27011</b>	<b>57</b>	<b>7236</b>	<b>2714</b>	<b>38</b>	<b>13243</b>	<b>4681</b>	<b>35</b>
07-08	34179	16753	49	6620	1784	27	10559	2829	27
06-07	32812	15611	48	6393	1615	25	10064	2597	26
05-06	30720	14841	48	6073	1501	25	9393	2473	26
04-05	28687	14100	49	4975	1401	28	8446	2311	27
03-04	28498	13017	46	4617	1293	28	7897	2174	28
02-03	27381	12734	47	4305	1234	29	7562	2160	29
01-02	25890	12019	46	3649	1210	33	7069	2025	29
00-01	24005	11441	48	3740	1231	33	7485	2070	28
99-00	24439	10744	44	3543	1099	31	6250	1898	30
<b>98-99</b>	<b>19746</b>	<b>9831</b>	<b>50</b>	<b>3109</b>	<b>1085</b>	<b>35</b>	<b>5615</b>	<b>1793</b>	<b>32</b>
<b>97-98</b>	<b>16654</b>	<b>8669</b>	<b>52</b>	<b>2477</b>	<b>896</b>	<b>36</b>	<b>5338</b>	<b>1555</b>	<b>29</b>
96-97	13343	6590	49	2084	662	32	4533	1145	25
95-96	12042	5866	49	1639	587	36	4056	1026	25

2.80 Data at Table no 30 brings out that the % share of capital budget in the total defence budget has gone up from around 30% to being either above or close to 40%. Hence the revenue budget share would have reduced. Table no 31 brings out that the share of Pay & Allowances in the Revenue expenditure has substantially gone up. This is true for both the defence revenue budget as a whole as well as for the individual service budget as shown in table No 32 above. The impact of these changes has had to be borne by the other heads of the revenue budget. This is evident from the tabulated data of the major revenue heads of expenditure for each service for the 9<sup>th</sup> to the on-going 12<sup>th</sup> Plan period in table no 33 below. Besides Pay & Allowances the other major head of expenditure is the stores budget. This head accounts for the items of expenditure that may be classified as 'Operations and Maintenance' (O&M). These range from Fuel (Aviation Turbine Fuel (ATF), Petrol & Diesel) to ammunition, clothing, ration, MT to ordnance stores. The impact of reduction in the share of revenue expenditure and the increasing component of Pay & Allowances in the revenue expenditure is a substantially reduced O & M expenditure in the three services.

Table No 33

**ARMY, NAVY and AIRFORCE  
REVENUE EXPENDITURE UNDER  
REVENUE HEADS AS A % OF THEIR  
REVENUE BUDGET OVER PLAN  
PERIODS**

	Plan Period	Pay and Allow	Transportation	Military Farms	Stores	Repair and Refits**	Works	Rashtriya Rifles	Other Expenditure**
<b>ARMY</b>	3 yrs of 12th plan	64.8	2.8	0.5	16.9		7.4	5.3	2.2
	11th plan	60.5	3.1	0.4	19.8		8.6	5	2.6
	10th plan	47.5	4	0.5	31.6		9.4	4.2	2.7
	9th plan	47.6	3.4	0.6	36.6		7.5	2.3	2.1
<b>NAVY</b>	3 yrs of 12th plan	43	3.2		37.9	4.8	8.1		3.1
	11th plan	39.4	2.8		39.4	7.6	7.8		3
	10th plan	26.7	2.6		45.4	12.2	7.8		5.6
	9th plan	33.4	2.5		36.8	**	8.71		18.6
<b>AIR FORCE</b>	3 yrs of 12th plan	46	3.4		38.9		9.7		2
	11th plan	40.7	3.1		44.1		10.6		1.5
	10th plan	27	2.06		60.4		9		1.4
	9th plan	29.4	2.2		59.3		7.5		1.5
** Repair and Refit expenditure of Navy till 2002-03 was included in the head 'OTHER EXPENDITURE'. Hence the total comparable figures for the Navy are 9 <sup>th</sup> Plan (55.4), 10 <sup>th</sup> Plan (63.4), 11th Plan (50), 12th Plan (53.9)									

2.81 While discussing the defence expenditure of the other selected countries, the expenditure has been apportioned under four heads (depending on details available) i.e. Personnel, Operation & Maintenance, Investment/Acquisition and Infrastructure. The details in respect of each country are provided in the respective Annexure of each country but to bring out the difference in the distribution pattern of each country the comparative figure of one year are tabulated in table no 32 below.

Table No 34

<b>DEFENCE EXPENDITURE -REATIONSHIP &amp; PERCENTAGES</b>							
<b>(Figures as per respective countries data)</b>							
	Defence Expenditure as a % of		SPREAD OF DEFENCE EXPENDITURE				YEAR
	GDP	CGE*	PERSONNEL	O & M	ACQ and R & D	INFRA	
CHINA	1.3	35.7 (5.3)	34.86	31.88	33.25		2012
FRANCE	1.93	3.4	49.1	16.9	30.6	3.4	2012
GERMANY	1.23	2.73	46.4	31.31	19.7	2.6	2012
INDIA*	1.8	12.9	41.12	15.26	35.21	8.41	2012-13
JAPAN	0.98	8.95	44.56	22.97	33.24		2012-13
PAKISTAN	2.64	23.13	43.98	25.69	21.32	9	2012-13
RUSSIAN FEDERATION	2.9	7.83	52.2	19.43	21.49	6.88	2012
SOUTH KOREA	2.53	14.44	36.05	34.52	29.43		2014
UNITED KINGDOM	2.3	4.74	33.6	38.2	22.8	2	2012
UNITED STATES	3.28	13.66	26.71	37.56	32.76	2.97	2012

\* Details at Annexure 'O'

2.82 During the presentation to the 7<sup>th</sup> CPC on 10 Feb 15, the commission had raised a question about the wide difference in the % share of expenditure under the head 'PERSONNEL' as seen in table no 34 above. 'Army' is a manpower intensive service while the 'Navy' and the 'Air Force' are weapon platform based services. They are capital intensive and the O&M expenditure in their case is higher. Hence the relative share of 'PERSONNEL' expenditure is also dependent on the relative mix of the strength of these forces as part of the Defence force of the country. This is brought out in Table no 35 below.

2.83 While the strength of the 'Army' is the highest in all the three countries its share varies from 39.30% for the USA to 58.92% of UK and 85.25% in India. The composition is based on the threat perception of each nation and the policy to counter the perceived threats. USA composition is dictated by the 'Expeditionary role' of its Defence Forces. Defence Forces contribution the UK's influence throughout the world by projecting power strategically and through expeditionary operations and its role in the 14 British Overseas Territories ranging from defence, security and safety, to specific key tasks like search and rescue, and hydrographic surveying and charting

and standing commitments like defending UK airspace and aid to civil power dictates its composition. India faces formidable security challenges. The Indian Army<sup>16</sup> along with other armed police forces has responsibility to guard vast geographical boundaries e.g. Pakistan – 3323 Km, China – 3488 Km, Nepal – 1751 Km, Bhutan – 699 Km, Myanmar – 1643 Km and Bangladesh – 4097 Km. Most major countries have settled borders<sup>17</sup>, but ours are not. Our entire northern border is unsettled and we have a Line of Control (LoC) and not a border in Jammu and Kashmir (J&K). This means that while it is the normal responsibility of any state to protect its frontiers and its territorial integrity, the responsibility of the Indian state in this regard becomes that much more onerous and dictates the composition of our defence forces.

Table No 35

STRENGTH OF THE ARMED FORCES AND % SHARE OF EACH SERVICE						
SERVICE	UK		USA		INDIA	
	NO OF PERSONNEL	% OF TOTAL	NO OF PERSONNEL	% OF TOTAL	NO OF PERSONNEL	% OF TOTAL
Navy	27,650	15.03	3,18,400	22.75	60,504	4.40
Marines	7,910	4.30	1,98,200	14.16		0.00
Army	1,08,370	58.92	5,50,100	39.30	11,71,047	85.25
Air Force	40,000	21.75	3,33,000	23.79	142127	10.35
TOTAL	1,83,930		13,99,700		13,73,678	
	Table G4, Maximum numbers of personnel to be maintained for service with the Armed Forces. UK MoD report 12-13 (Annexure 'X')		Table No 1-1: Department of Defense Manpower Totals. (DoD) Defence Manpower Requirement Report 2014 (Annexure 'W2')		Reply to Parliament Question	

## THE CAUSE OF THE CHANGES IN THE PATTERN OF INDIAN DEFENCE EXPENDITURE

2.84 The changes tabulated in table no 33 above in the allocation pattern have not been caused by some special increase in Pay & Allowances of the Armed Forces personnel and the Civilian employees of Army, Navy & the Air Force. The impact of the 5<sup>th</sup> & the 6<sup>th</sup> Pay Commission implementation has been similar both for Pay & Allowances expenditure of the Defence Budget and the establishment cost of the Central government Civilian employees. The annual increase in the Pay &

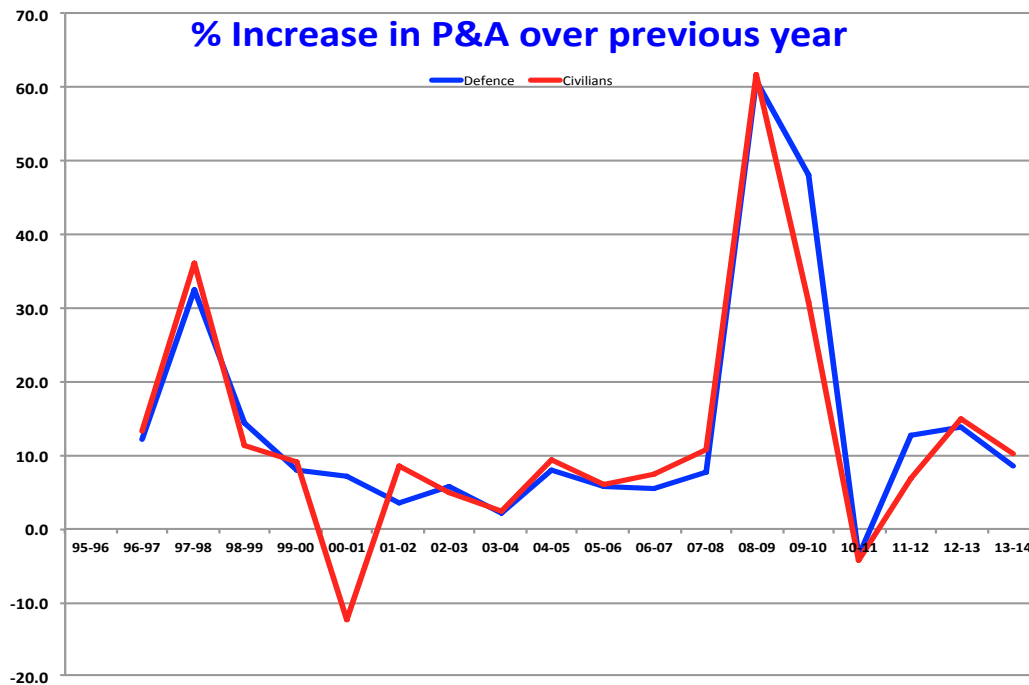
<sup>16</sup> Par 1.3 Third Report Standing Committee On Defence (2014-2015) (Sixteenth Lok Sabha)

<sup>17</sup> "India's external security environment and its impact on Indian defence" by Mr Kanwal Sibal



Allowances over the previous year expenditure has followed a similar pattern as seen in Graph no 6 & 7 below. A detailed table giving the year wise expenditure & other details is annexed as Annexure 'N' to this report

Graph No 6



Graph No 7

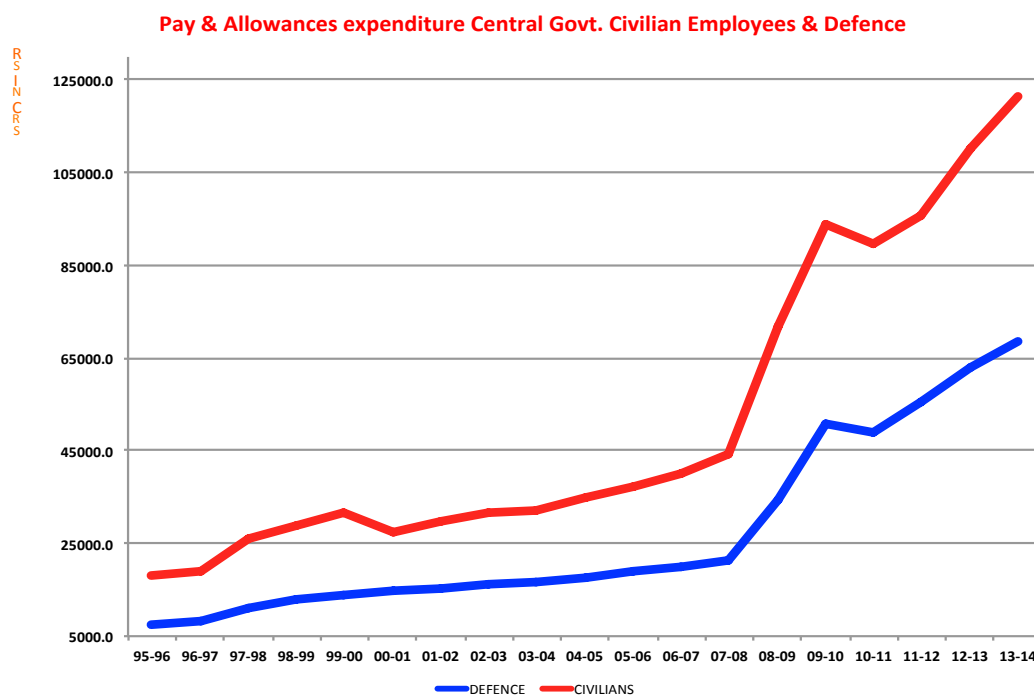


TABLE NO 36

INDIAN DEFENCE EXPENDITURE & ITS DISTRIBUTION						
HEADS OF EXPENDITURE	2012-13	2011-12	2010-11	2009-10	2008-09	2007-08
	Percentage of the Defence Expenditure	Percentage of the Defence Expenditure	Percentage of the Defence Expenditure	Percentage of the Defence Expenditure	Percentage of the Defence Expenditure	Percentage of the Defence Expenditure
Pay & Allowances	41.12	38.77	37.84	42.65	35.97	27.55
Operations & Maintenance	15.26	16.40	16.66	16.29	22.31	25.21
Infrastructure (Acquisition of Land, Construction of Buildings and their maintenance)	8.41	8.98	9.58	8.57	10.10	11.37
Acquisitions of Platform, Equipment, Upgrades & Research and Development (Capital)	35.21	35.86	35.92	32.49	31.63	35.88

## IMPACT

2.85 The impact of these changes in the allocation of resources and their distribution may cause has been captured by the Parliament Standing Committee on Defence in the 20<sup>th</sup> report of the 15<sup>th</sup> Lok Sabha and 3<sup>rd</sup> and 4<sup>th</sup> reports of the 16<sup>th</sup> Lok Sabha wherein the committee enquired about the impact of reduced budgetary allocations;

**“Where compromises have been made or likely to be made due to the reduced budgetary allocation against the projections made by the three Services and other organisation/heads”.** *“Under the revenue segment, after providing for salary and other obligatory expenses the balance allocation is distributed to meet the requirement of stores (including ordnance), transportation (of personnel and stores), revenue works and maintenance, etc. These areas are likely to be impacted by the reduced allocation. In so far as the capital segment is concerned, the acquisition of land and progress of capital works may get affected. The procurement plan for capital modernization schemes may also have to be reviewed and reprioritized.”*

### Air Force

2.86 During the course of deliberations, the Committee was informed that shortfall in Revenue Budget **would have adverse impact on training thereby resulting into compromise in operational preparedness.** Notwithstanding the fact that in the recent past there had been large number of instances of aircraft accidents due to

human error, accounting for nearly 40 per cent accidents, the Committee opine that lack of appropriate training is a major cause of concern and qualifies immediate attention.

2.87 The representatives of Air Force submitted before the Committee that **the fleet serviceability in Air Force is 60 or 65 per cent and if the spares were available they would be able to push it to 77-80 per cent thereby implying larger availability.**

2.88 In addition to this, **budgetary constraint in this segment will limit the fuel expenditure hence impacting every activity ranging from transportation, training, load carrying, testing etc. Insufficiency of resources will cause inability to procure spare and fuel,** therefore, funding towards this end may be reconsidered and sufficient funds be provided.

2.89 The Committee, during oral evidence, desired to know the impact of shortfall in Revenue Budget. The representatives of Air Force vide presentation given before the Committee have informed that the shortfall in revenue budget will lead to inability to procure spares and fuel and resultant shortfall in training as older systems require more maintenance. (Para 2.5 of the report Fourth Report Standing Committee on Defence (2014-2015) (Sixteenth Lok Sabha).

## Navy

2.90 The Committee found that this is the fifth successive year of less allocation under 'other than salary' segment. The officials of Navy asserted that **there is demand to liquidate carry over liabilities of FY 2012-13 to meet in addition to this year's obligatory requirement.** The Committee concluded that there are huge gaps in money required and what is actually allocated. Therefore, it recommended that adequate funds be provided to Navy under 'other head' to cater to various needs which include training, stores, repairs etc. since **this would otherwise lead to many compromises in operational preparedness of Navy.**

2.91 In reply to the committee the Navy reported less allocation under 'Other than Salary' segment for the 6<sup>th</sup> successive year and reiterated the necessity for additional funds to meet day-to-day requirements of Operational stores (Fuel, Weapons, Armament, Spares), Victualing & Rations, Repairs/refits of platforms and Works (Maintenance of Infrastructure, Rentals and Tariffs). (Para 1.3 of the report Fourth Report Standing Committee on Defence (2014-2015) (Sixteenth Lok Sabha).

## ARMY

2.91 The 3<sup>rd</sup> report of the Parliament Standing Committee on Defence of the 16<sup>th</sup> Lok Sabha has taken a serious note of the shortages of the following:

- Wheeled Guns
- Tanks
- Missiles
- Ammunition
- Bullet Proof Jackets
- Night Vision Devices
- Basic items for Army personnel like Boots, mosquito nets etc.

2.92 During oral evidence of the representatives of the Ministry of Defence, the Committee was keen to know the status of Mountain Strike Corps, which was envisaged long ago to effectively counter neighbouring countries. Vice Chief of Army Staff (VCOS) apprised the Committee as under:

“Firstly, why the mountain corp. has been sanctioned, and why did we request for it? This is in keeping with our 15 years perspective plan. The process started with our analysis of the threat perception after 15 years and in that analysis it was predicted that the way @@@ has been getting more aggressive in resolving its disputes with neighbours, especially, in view of what we have seen with its maritime disputes in the South China Sea, it was our attempt to make sure that we are fully prepared to deal with this threat if at any time @@@ decides to raise the ante and get more aggressive. So, the first part of this process happened in the Eleventh Plan when two Divisions were raised essentially to plug the gaps in our defensive deployment. This has been completed in the Eleventh Plan period. .... As far as equipment is concerned, to meet our equipment requirements in such a fast time frame is a problem. But what we have done is we have dipped into our War Wastage Reserves (WWR). So, we are holding War Wastage Reserves of all sorts of equipment, weapons, and stores. All this has been taken out from the WWR and given to the new raisings. So, the new raisings are having reasonable amount of equipment which is enabling their timely raising”.

# **CHAPTER – 3**

## **Pension**

## PENSION

3.1 The fundamental role of the state in a free economy is to provide public goods and services, which are not to be provided by the private sector. Providing national security is one such public good. The state ensures law and order within a country through its police force. The state relies on a civil service to support the government of the day in its policy making and implementation, including through the judiciary. Therefore military personnel, members of the police force, the civil servant and judicial officers are employed by the state.

3.2 Working for the government has always had a special status as military personnel and civil servants represent the will of the government of the day. It has also been associated with certain privileges, irrespective of the countries. Article 310 of the Constitution of India incorporates the English doctrine of pleasure by clearly stating that every person who is a member of a defence service or of a civil service of the Union or of an all India service or holds any post connected with defence or any civil post under the Union, holds office during the pleasure of the President, while being a *Beamter* or a *fonctionnaire* is a highly coveted status in Germany and France respectively. In many instances these privileges include a job for life; attractive working conditions; and a generous pension. The governments want to be seen as an ideal employer and set an example for other employers.

3.3 The origin of Military pensions can be traced back to Ancient Rome, which offered pensions to its military personnel. Initially offered on an *ad-hoc* basis, Augustus formalised a pension plan for veteran legionnaires in 13BC, which promised a pension upon completion of 20 years in service. The pension plan, which offered a replacement rate of between two-thirds and three-quarters of a soldier's income, was initially financed out of general taxation but within a few years Augustus established a special fund, which was mainly financed through an explicit five per cent tax on inheritances<sup>18</sup>. The eventual decline of the Roman Empire also meant the demise of these arrangements. Similar schemes only re-emerged with the creation of the nation states in Europe, which led to the establishment of professional standing armies. Charles II set up the Royal Hospital, Kilmainham, in 1679, and the Royal Hospital, Chelsea in 1681. Soldiers, who left the Army with a disabling injury, or as invalids or after completing an agreed term of service, were entitled to a pension from, or institutional care at, Chelsea or Kilmainham. A description of an ex-soldier as a 'pensioner' usually meant he was in receipt of an 'out-pension' from one of the military hospitals, 'in-pensioner' meant that he was an, actual resident in the hospital. The other European powers set up similar schemes soon afterwards, initially only covering the officer classes but later expanded to cover all personnel. Eventually, similar schemes were also set up for the Navy.

3.4 On August 26, 1776, the Continental Congress<sup>19</sup> enacted the first American pension law under which half pay for life or during disability was extended to every officer, soldier or sailor losing a limb in any engagement, or being so disabled in the

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<sup>18</sup> *A History of Public Sector Pensions in the United States*, Robert L. Clark, Lee A. Craig and Jack W. Wilson, University of Pennsylvania Press, 2003 and [eh.net/encyclopedia/article/craig.pensions.public.us](http://eh.net/encyclopedia/article/craig.pensions.public.us)

<sup>19</sup> Pension Acts-An Overview of Revolutionary War Pension and Bounty Land Legislation and the Southern Campaigns Pension Transcription Project By Will Graves

service of the United States as to render him incapable of earning a living. The resolution allowed for proportionate relief to those who were partially disabled from earning a living.

3.5 On September 16, 1776, the Continental Congress adopted legislation that provided land bounties to Continental Line officers and enlisted men who served for the duration of the war. Heirs and representatives of officers and men killed in action also were entitled to land under the Act. The amount of land to which claimants were entitled varied according to rank: enlisted men and non-commissioned officers were entitled to 100 acres; ensigns, 150 acres; lieutenants, 200 acres; colonels, 500 acres.

3.6 Washington was a strong advocate of a "half pay and pensionary establishment." On January 28, 1778<sup>20</sup>, he sent to Congress a gloomy account of the condition of his command. He said that, on the part of the officers, there were frequent resignations, and more frequent persistent demands for permission to resign, and, in the ranks, "apathy, inattention and neglect of duty." To review the languishing zeal of the officers, he urged upon Congress a provision for half pay and pensions. "This would not only dispel the apprehension of personal distress, (at) the termination of the war, from having thrown themselves (out) of professions and employments they might not have it in their power to resume; **but would in a great degree relieve the painful anticipation of leaving their widows and orphans, a burthen on the charity of their country, should it be their lot to fall in its defence.**"

3.7 Pensions to public sector workers can also be traced back several centuries even though their provision remained on an *ad-hoc* basis for long. In 1810, British Parliament took the first steps towards establishing a civil service pension scheme. In 1834 Parliament passed the Superannuation Act 1834, which established non-contributory pensions for civil servants. Larger private-sector companies started to introduce their own occupational pension schemes towards the end of the 19<sup>th</sup> Century<sup>21</sup>.

3.8 Pension in modern Indian history can be traced to **Lord Clive Military Fund, which provided** benefits for European officers and other ranks of the East India Company and Indian Army and their widows but not their children. Founded c1770, the last pensioner was admitted c1885. These were 'ex gratia' pensions, awarded on a charitable basis and not as of right; there were no subscriptions to the Fund. The records relate mainly to payments made in the UK. There is a modern index showing widows admitted to pension in the UK between 1769 and 1885. The fund provided benefits for the widows of officers, surgeons and chaplains of the Bengal Army. Closed to new subscribers 1862. Subscriber's name, date of birth and marriages, promotions, date of retirement and death, date of wife's/wives' birth and death are recorded in the register exhibited a page from which is reproduced below.

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<sup>20</sup> History Of Military Legislation In The United States By William Henry Glasson

<sup>21</sup> *Inventing retirement: the development of occupational pensions in Britain*, Leslie Hannah, 1986.

Figure no 2

Officers name	apparently	date	name of widow
Cob. George Fleming	1778	3 July. 1818	Fleming Mrs. Margaret
Capt. Joseph Fletcher	1783	22 Sept. 1810	Fletcher Mrs. C.
St. Charles Gally	1795	8 Feb. 1806	Gally Mrs. Catherine
Capt Francis Ulrich Gladwin	1799	27 Aug. 1822	Gladwin Mrs.
St. John Inger Good.	1803	14 Nov. 1816	Good Mrs. A. M.
Capt Edward Graham.	1793	21 April 1812.	Graham Mrs. Anna C
Capt. John Graham	1795	14 Feb. 1816	Graham Mrs. M.
? Maj. Genl. Christopher Green	1770.	31 July 1805.	Green Mrs. Anne
Capt. William S. Greene.	1781	1 April 1811.	Greene Mrs Charlotte
Capt. Thomas Harriot	1778		Harriot Mrs. Diana
Col. Thomas Hawkins	1778	1 March 1818	Hawkins Mrs Elizabeth
St. James Zachariah Hawkins	1804	29 Sept. 1814	Hawkins Mrs H
Majr Charles B. Hay.	1795	27 July. 1820.	Hay Mrs C.
			Hay Mrs

a very low rate of pension.  
? a candidate or similar.

3.9 A formal pension legislation called THE PENSIONS ACT, 1871 (Act No. 23 of 1871) came in to effect from 8<sup>th</sup> August 1871. It provided for any person having a claim relating to any such pension or grant may prefer such claim to the Collector of the District or Deputy Commissioner or other officer authorized in this behalf by the appropriate Government and such Collector, Deputy Commissioner or other Officer shall dispose of such claim in accordance with such rules as the Chief Revenue authority may, subject to the general control of the appropriate Government, from time to time, prescribe in this behalf. It also provided that no Civil Court shall entertain any suit relating to any pension or grant of money or land-revenue conferred or made by the Government or by any former Government, whatever may have been the consideration for any such pension or grant, and whatever may have been the nature of the payment, claim or right for which such pension or grant may have been substituted.

### Manner in which Defence Pensioners' Liabilities are Financed

There are four method of funding pension liabilities:

#### Pay As You Go Along

3.10 This is the most practiced model. It is in line with the Governmental accounting systems in most countries, which is Cash Accounting. In this system of accounting transactions are recorded when there is actual flow of cash. Revenue is recognised only when it is actually received. Expenditure is recognised only on the outflow of cash. No consideration is given to the "due" fact of the transaction. Its whole focus is on cash management. The recognition trigger is simply the flow of cash. Budgetary and legislative compliance is easier under this system. It is a line item of the government's budget that is obligatory. The government focuses its attention in addressing the entitlement issue in great detail and laying it down in the form of legislation, pension regulations or as a policy. Once the entitlements are



settled an effective system is put in place to ensure timely disbursement. **A major weakness attributed to this system is ‘Comprehensive information is not available about government liabilities (pensionary commitments). This model is Government Funded.**

### **Accrual System**

3.11 This is a model for funding retirement benefits mandatorily to be followed in the commercial organisations. In India Accounting Standards 15 (AS15) issued by the Institute of Chartered Accountants-Accounting for Retirement Benefits prescribes that the Financial Statements of Employers lay down the accounting rules, which then guide the compliance of the statutory entitlement & contribution policy. This system flows from the principles of Accrual Accounting system in which transaction are entered in the books of accounts, when they become due. The transactions are recognised as soon as a right to receive revenue and/or an obligation to pay a liability is created. Therefore, the focus is on the recording of flow of resources i.e. labour, goods, services and capital, the related cash flow may take place may or may not take place in the same accounting period or immediate future. For the purpose of Pension, the system requires availability of a database of all current beneficiaries and those serving at present (who would become future beneficiaries) and Actuarial valuation. ‘Actuarial Valuation’ is the process used by an actuary to estimate the present value of benefits to be paid in future under a retirement benefit scheme and the present values of the scheme assets and, based on this determine the contribution required in the year to generate resources that would be needed to for paying its obligation. It provides comprehensive information on expenses that helps in knowing the cost consequences of policies and enables comparison with alternative policies. Also, information about calculation of subsidy can be extracted from the accounts, which helps in its rationalisation. This ensures the adoption of best policy, which in turn assures optimal use of scarce resources. It also helps in ascertaining the future sustenance. The duty of the Government to lay down the entitlement remains as important as in Pay as you Go. This duty of laying the entitlement is discharged more responsibly as the financial consequences of the decision would have to be catered for by the government in the current budget. In principle this could be either a ‘contributory model’ or a ‘government funded model’. **This system in the case of Defence Pensions is being followed only in one country and is “Government Funded”.**

### **Public Pension or Social Security Model or Contributory Model**

3.12 This is a contributory cum subsidy based model primarily evolved in economically sound countries in which all citizens during their earning period of life contribute a prescribed amount and in turn receive Social Security’ in the form of ‘Old Age’ pension. In countries that have this system in place for its citizens, servicemen subscribe to the same and this is an additional benefit.

### **Hybrid System**

3.13 Defence Pension systems as seen in this section of the report were the earliest pension systems and were organised as ‘Pay as you Go’ model. These legacy systems on any given date have a large number of beneficiaries and the government’s commitment to them is obligatory. So any country wanting to change over will have

to have a ‘Hybrid System’ till the beneficiary of the legacy system have to be provided for. Only US, (they don’t call it a Hybrid System but the terminology is used to explain what it represents) has so far followed this route and the system has now been in vogue for 30 years. The changeover & the system are briefly captured below.

### **Hybrid System - US**

3.14 The Department of Defence (DoD) funded the military retirement on “pay-as-you-go-basis”. Hence each year the budget catered for the amount needed to pay those already retired and retiring that year. In an attempt to promote better management, in 1984 Congress directed DoD to switch to an accrual system of funding retirement<sup>22</sup>. Under this system, each year the individual service transfer from their budgets in to the fund the amount necessary to fund the eventual retirement benefits earned by the entitled personnel. While such a policy has no implications for the recipient, as he would continue to receive his entitlement the important change it brings about is that if today a policy is changed that would affect future retirement benefits for the current force, the policy maker would now see the immediate budgetary consequences of that decision in the increase in the amount to be transferred to the retirement fund.

3.15 The responsibility for funding the military service rendered before 01 Oct 1984 shifted to the Department of the Treasury. At that time the liability of the group, both the future liability of meeting the fund requirement of the existing pensioners as well as the liability towards the number of years already rendered by those in service on that day was estimated to be \$529 billion i.e. a retirement plan faced with the same liabilities would have needed this amount in assets to be considered fully funded. The treasury was to make annual payments to fund this amount amortized over 60 years.

### **DoD Retirement Fund**

3.16 To manage this scheme a DoD retirement fund<sup>23</sup> was established and Department of Defence Actuaries designated to monitor its actuarial status. DoD transfers by means of monthly payment an amount equal to a percentage of the basic pay of their personnel (in their case both for active and reserve components). The percentage differs for active and reserve components but within those categories it is identical for all services. In 1995 fund transfers equalled 35.5 per cent of the active duty basic pay and 10.5 per cent of reserve pay. The Treasury department annually transfers an amount equal to one year’s amortized payment for pre-1984 liability adjusted for changes in assumption and experience. The money in the fund is invested in non-negotiable government securities and earns interest.

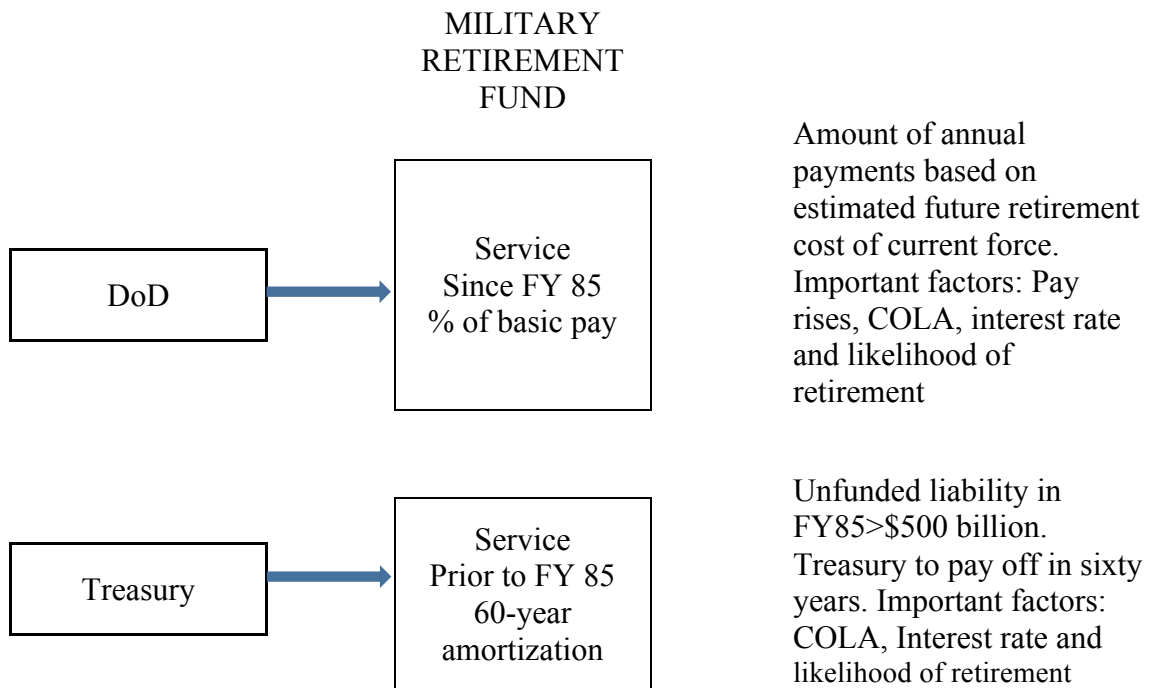
3.17 Transfer in to the fund and its investment transactions qualify as inter-governmental transfers (even though they represent an outlay to DoD) and have thus had no effect on deficit. Only payments to the retirees from this fund represent outlays from the federal government.

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<sup>22</sup> Military Retirement Fund Audited Financial Report Fiscal year 2013 & Congressional research Service Military Retirement: Background and Recent Developments David F. Burrelli, Specialist in Military Manpower Policy, Barbara Salazar Torreon Information Research Specialist May 28, 2014

<sup>23</sup> A Playmaker’s guide to Accrual Funding of Military retirements- A report of rand corporation

Figure no 3



**Funding Assumptions**

3.18 To determine how much money DoD has to transfer to the fund, the actuaries make some assumptions about economic and noneconomic factors. Economic factors include assumptions about pay raises, Cost of Living Allowance (COLA) (Dearness Relief in our parlance) increases and interest rates. An increase in the assumption about what the pay raises will occur means the future liability to the fund will increase because retirees will draw more pension. Therefore, the amount transferred to the fund has to increase to account for this future liability. An assumed increase in COLA will have similar effect. But the assumption that interest rates will increase has the opposite effect. The fund will earn more interest and thus the amount to be transferred can be less.

3.19 The non-economic assumptions in the case of pension are the rates of retirement pay (Pension is called retirement pay), the retirement age and the longevity of the retirees. If higher retirement rates or lower death rates are assumed, funding requirement increases. However over the 30-year life of the fund non-economic assumptions were observed to have had a small effect relative to economic assumptions.

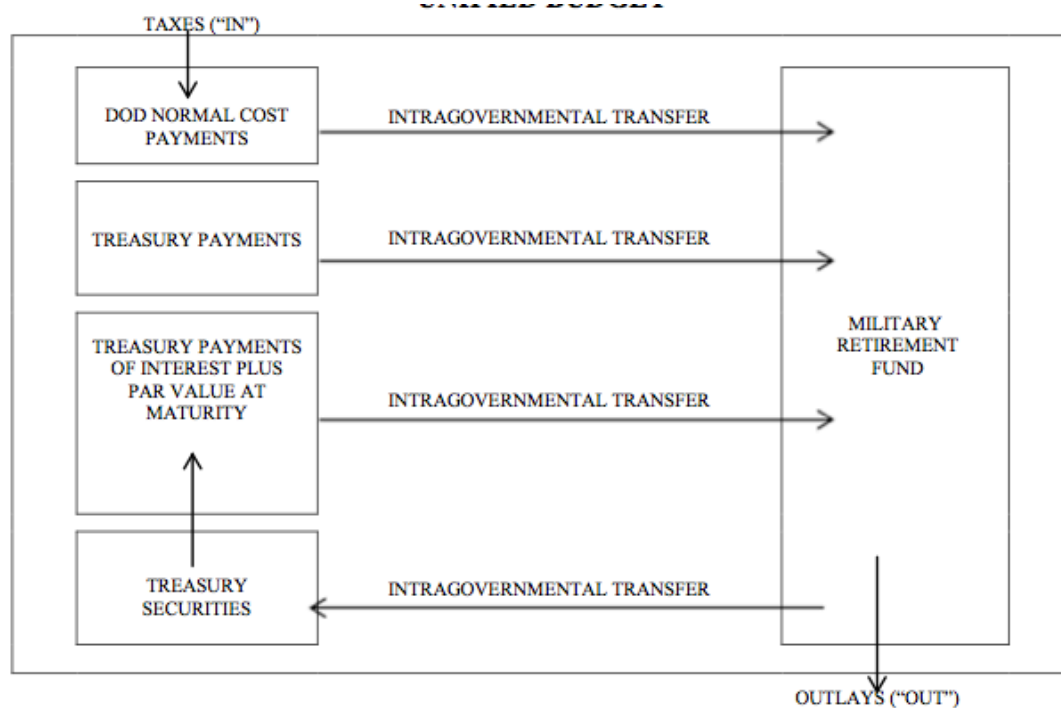
Benefits: Any benefit change will affect the size of the funding contribution. These decisions could increase or decrease the actuarial value of retirement benefits and hence funding required. The effect of changes is assessed in the next valuation following the legislative change.

3.20 Sharing gain and Losses: As mentioned above, the actuaries make certain assumptions at the beginning of the year. Frequently, this differs from what actually happens during the year. The fund because of these changes may experience an “actuarial gain or loss”. This refers to the change in the liability of the fund based on

the assumptions and actual economic and non-economic factors experienced. The fund experiences an ‘actuarial gain’ i.e. if the actual liability turns out to be less than the expected liability and vice a versa for ‘actuarial loss’.

3.22 As per the present law, Treasury gets to reap the benefit of any gains and also to shoulder the burden of any loss. Till 1995 no net losses had occurred and the Treasury had been the sole beneficiary of gains, which cut the annual payment that would have been due by treasury to half. The flows to & from the fund are explained in the figure below.

Figure no 4



### Why is it a Hybrid System

3.23 DOD budget authority and outlays in each fiscal year that pay for the estimated cost of future retirees are transferred in a paper transaction to a Military Retirement Fund, located in the Income Security Function of the federal budget. The Military Retirement Fund also receives (paper) transfers from the General Fund of the Treasury to fund the initial unfunded liability of the military retirement system. This is the total future cost of military retired pay that will result from military service performed prior to the implementation of accrual accounting in FY1985. Money is disbursed from this Military Retirement Fund to current retirees. Individual retirees receive their retired pay from the Defense Finance and Accounting Service (DFAS). **Technically, however, because this money paid to individuals comes not from the DOD budget, but from the Fund, it is paid out of the Income Security function of the federal budget function. Actual payments to current retirees thus show up in the federal budget as outlays from the federal budget as a whole, not from DOD.** Under this system, therefore, total federal outlays for each fiscal year continue to reflect only costs of payments to military members who have already retired, as was the case before the accrual accounting system began. Accrual accounting only changes the manner in which the federal government accounts for military retired

pay; it does not affect actual payments to individuals in any way. The total assets & liabilities of the fund as on 30 Sep 2013<sup>24</sup> are USD 483.5 Billion & USD 1524..2 respectively. The financial projections for 2013 of the Military Retirement Fund are tabulated below:

Table No 37

		RECIPTS IN TO MILITARY <sup>25</sup> RETIREMENT FUND 2013				PAYMENTS TO BENFICIARIES ESTIMATED FOR 2013				
		(All figures in \$ US Billion)				(All figures in \$ US Billion)				
Basic Pay For FY 2013	Normal Cost Payments	Unfunded Liability Amortization Payment	Investment Income	Total Collection	Non-Disability Retirees	Disability Retirees	Reserve Retirees	Survivor (family pension in our parlance)	Total	
63.7	26.6	67.7	28.5	122.8	43.2	1.45	5.68	3.76	54.09	
Number of beneficiaries estimated for 2013 in each category					1.47 Million	102000	382000	290000	2.24 Million	

USA<sup>26</sup>

3.24 The military retirement system applies to members of the Army, Navy, Marine Corps, and Air Force. However, most of the provisions also apply to retirement systems for members of the Coast Guard (administered by the Department of Homeland Security), officers of the Public Health Service (administered by the Department of Health and Human Services), and officers of the National Oceanic and Atmospheric Administration (administered by the Department of Commerce). **The system is a funded, non-contributory defined benefit plan** that includes non-disability retired pay, disability retired pay, retired pay for reserve service, survivor annuity programs, and special compensation programs for certain disabled retirees. The Service Secretaries may approve immediate non-disability retired pay at any age **with credit of at least 20 years of active duty service**. Although military retirement may be generous compared to most private sector pensions, few members actually serve the 20 years necessary to qualify for the benefit. **In fact<sup>27</sup>, only about 19 per cent of active duty service members retire from the military with pension; less than 17 per cent of enlisted personnel and 49 per cent of officers.** To finance

<sup>24</sup> Military Retirement Fund Audited Financial Report Fiscal 2013

<sup>25</sup> Military Retirement Fund Audited Financial Report Fiscal year 2013

<sup>26</sup> Statistical Report On The Military Retirement System Fiscal Year 2012, DoD Office Of The Actuary May 2013

<sup>27</sup> 11<sup>th</sup> QRMC report

future military costs, funds are deposited annually into the Military Retirement Fund. Reserve retirees generally must be at least 60 years old and have at least 20 qualified years of service before retired pay commences; in some cases the age can be less than 60 if the reservist performed certain types of active duty service. There is no vesting before retirement.

### **Non-Disability Retirement from Active Service**

3.25 There are three distinct non-disability benefit formulas related to three populations within the military retirement system. *Final pay*: Military personnel who first became members of a uniformed service before September 8, 1980, have retired pay equal to final basic pay times a multiplier. The multiplier is equal to 2.5 per cent time's years of service. *High-3*: If the retiree first became a member of a uniformed service on or after September 8, 1980, the average of the highest 36 months of basic pay is used instead of final basic pay. *Career Status Bonus (CSB)/Redux*: Members who first became a member of a uniformed service on or after August 1, 1986, may choose between a High-3 and CSB/Redux retirement. Those who elect CSB/Redux receive the Career Status Bonus outlined below, also have retired pay computed on a base of the average of their highest 36 months of basic pay, but are subject to a multiplier penalty if they retire with less than 30 years of service; however, at age 62, their retired pay is recomputed without the multiplier penalty. Members make their election during the fifteenth year of service and may receive the Career Status Bonus of \$30,000 in either a lump sum or instalments. Those who elect CSB/Redux must remain continuously on active duty until they complete 20 years of active duty service or forfeit a portion of the \$30,000 (exceptions include death and disability retirement). There is Retired Pay in the case of Disability Retirement and Reserve Retirement also.

### **Cost-of-Living Increases (COLAs)**

3.26 Retired pay and survivor annuity benefits are automatically adjusted annually to protect the purchasing power of initial retired pay. Members first entering the armed services before August 1, 1986, and those entering on or after that date who do not take the bonus, have their benefits adjusted annually by the percentage increase in the average Consumer Price Index (CPI). This is commonly referred to as full CPI protection. Benefits associated with members entering on or after August 1, 1986, who elect the \$30,000 CSB bonus payment are annually increased by the percentage change in the CPI minus 1 per cent (except when the change in the CPI is less than 1 per cent), but when the military member's age is 62, or when the member would have been age 62 for a survivor annuity, the benefits are restored to the amount that would have been payable had full CPI protection been in effect. This restoral is in combination with that described in the previous paragraph. However, after this restoral, partial indexing (CPI minus 1 per cent) continues for future retired pay and survivor annuity payments.

### **CHINA<sup>28</sup>**

3.28 The opacity of the Chinese system does not provide access to any specific

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<sup>28</sup> What Kind Of Welfare State is emerging in China? Stein Ringen, Professor of Sociology and Social Policy, University of Oxford Kinglun Ngok, Professor of Social Policy, Sun Yat-Sen University, Guangzhou 2013

details. Hence the information has to be based on other published credible research available in the public domain. Separate pension system exists for civil servants, military officers and employees of public institutions, which offers very generous benefits, covers about 40 million people, and is completely unfunded (meaning no contribution) (Sin, 2005)<sup>29</sup> and fully covered from government budgets, and arranged as final salary defined benefit schemes. Civil servants, party and military personnel and some other state employees form a privileged group in terms of pension and health care provisions. The government provides additional medical allowances and services for government and party employees, military personnel and veterans. Social assistance recipients may have access to additional medical assistance. Military personnel, veterans and family members have access to a 'special care and placement system' with preferential social care and pensions, medical care, housing and other services for retired personnel.

### **Pension Arrangements for Military Force<sup>30</sup>**

3.29 Military personnel do not make any contributions towards their pension benefits. Military members usually receive higher remuneration and pension payments than civil servants of equivalent rank. Both military cadres (including officers, non-ranking officers) and soldiers (excluding volunteers) can retire from the PLA/PLAF/PLAN with entitlement to a monthly military pension after retirement as long as certain criteria are met.

3.30 Variations in retirement age exist. For example, Guidelines issued in 1981 stipulate that the official retirement age for military cadres is 55 for males and 50 for females. However, exemptions may also apply to officers including:

- Those officers who have reached the age of 50 or have been in service for no less than 30 years;
- Those non-ranking officers who have reached the legal retirement age;
  - - Those who cannot continue service due to work-related injuries or disabilities; and
  - - Others who are close to retirement age and can neither continue service in the army or transfer to other service sectors. 16

3.31 For soldiers (excluding volunteers) who wish to retire from the army, at least one of the following criteria needs to be met:

- Aged 55 or above;
- Has been in service for over 30 years;
- Suffered extraordinary or severe work-related injury; or

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<sup>29</sup> OECD Social, Employment And Migration Working Papers

<sup>30</sup> Civil Service and Military Service Pensions In China By Stuart H. Leckie, O.B.E., J.P., F.I.A., F.S.A. Stirling Finance Limited Hong Kong

- Not able to continue service due to health reasons. Military personnel can also transfer to the civil / public sectors or enterprises prior to retirement (subject to approval) or opt to leave the army whereupon they receive a certain amount of compensation and can pursue different opportunities themselves.

Current pension arrangements for officers are linked to both final pay and years of service and are set out in Table 38 and Table 39 below, with the possible addition of extra benefits as indicated in Table 40.

3.32 The total post-retirement monthly income for each retiree, however, is capped at 100% of final salary at the time of his / her retirement. The Ministry of Civil Affairs is responsible for the payment of retirement income to retired officers.

Table No 38

Current Pay Structure for Military Cadres

	Officers	Non-ranking Officers
Final Salary	Position Wage + Rank Wage + Basic Wage + Years-of-service Wage	Position Wage + Post Wage + Basic Wage + Years-of-service Wage

Table No 39

Current Pension Arrangements for Military Cadres

Years of Service	Replacement Ratio
≤ 10	65%
>10 and ≤ 15	70%
>15 and ≤ 20	75%
>20 and ≤ 30	80%
>30	85%
Severely injured or disabled because of work	95%

b. Soldiers (excluding volunteers)

- Soldiers (excluding volunteers) with no more than 20 years' service experience receive 85% of final pay after retirement, and an extra 1% increase will apply for each additional year of service exceeding 20 years. Soldiers with injuries or disabilities due to work will be entitled to 100% of final pay upon retirement.
- In addition, both officers and soldiers can enjoy extra pension benefits as long as any of the conditions listed in Table 40 is met.
- Soldiers who are conscripts do not receive any pension benefit after their relatively short period of service.



Table 40  
Extra Pension Benefits for Special Cases

Applicable Group	Extra Benefits (In terms of replacement ratio)
Winner of “Hero” prize, “Role Model” prize, “First-class Contribution” prize, “Extraordinary Contribution” prize and equivalent	15%
Winner of “Second-class Contribution” prize and equivalent	10%
Winner of “Third-class Contribution” prize and equivalent	5%
Members working in extremely critical environment for 10 consecutive years	5%
Members working in extremely critical environment for 15 consecutive years	10%
Members working in extremely critical environment for 20 consecutive years	15%

#### JAPAN

3.33 Like other advanced countries, the Japanese pension system was first introduced by the Army, the Navy, and then for the civil servants. At the end of the 19th century, the Imperial Army’s Pension was started in April 5<sup>th</sup> 1875, followed by the Imperial Navy’s Pension in Aug. 24<sup>th</sup> 1875, which were united in 1890 and abolished in 1945.

3.34 Post World War II, Japan does not have a separate pension scheme for Military personnel. To comply with the provision of Article 9 of the constitution Japan decided that land, sea, and air forces, as well as other war potential, will never be maintained and there is no military person in the country. What they have are self-defence forces. They are, however, treated in the same way as the national government employees and are covered by the same pension arrangement as the national government employees. That they had a unique Pension scheme for the military is established by the expenditure on Pensions booked every year. The same is tabulated below. The change in the nomenclature head as it has appeared in the annual budget and the reducing expenditure over the year suggests that the only surviving beneficiaries in this category who remain are “Former Military Personnel”.

Table No 41

<b>General Account Budget<sup>31</sup>/Primary Expenses/Others/Former Military Personal Pensions (unit: billion yen)</b>		
2013	Former Military Personnel Pensions	504.5
2012	Former Military Personnel Pensions	571.2
2011	Former Military Personnel Pensions	643.4
2010	Former Military Personnel Pensions	714.4
2009	Former Military Personal Pensions	787.2
2008	Former Military Personnel Pensions and Others	852.2
2007	Former Military Personnel Pensions and Others	923.5
2006	Former Military Personnel Pensions and Others	998.9
2005	Former Military Personnel Pensions and Others	1069.3
2004	Government Employee Pensions and Others	1132.1
2003	Government Employee Pensions and Others	1202.9
2002	Government Employee Pensions and Others	1272.7

3.35 The civil service pension arrangements in Japan<sup>32</sup> for the last three decades have been in a transitional phase where they have been reformed into schemes very similar to social security pension schemes for private employees. There are still several differences between them. However, as a result of the equalization efforts, the existing differences are relatively small. Main differences are the benefit level and the contribution rates. The retired civil servants are divided in to unique groups for national & local government employees called ‘Mutual Aid Associations ‘and the premiums vary. The retired civil servants (Category-2 insured persons) receive flat rate old age basic pensions plus career average earnings related benefits. The earnings related benefits are 20% larger than those for retired private employees. The contribution rates are decided based on actuarial valuations and it was 15.508% for civil servants for the period from September 2010 to August 2011 while it is 16.058% for private employees.

3.36 The National Pension system is a basic public pension system that is designed to provide people with the common pension benefits called "Basic Pension". The

<sup>31</sup> Highlights of the budget of respective years

<sup>32</sup> Civil Service Pension Arrangements in Japan by Junichi Sakamoto Nomura Research Institute 2011

scheme is compulsory. The National Pension scheme **Category II insured persons:** Persons enrolled in the Employees' Pension Insurance system or Mutual Aid Associations (except for persons aged 65 or over but under 70 who are eligible to receive pension due to old age or retirement). It is a flat rate benefit. If a person has paid the National Pension contributions for at least 25 years and satisfies the conditions, the following amount is paid when the person become 65 years old.

1 Benefit amount = ¥786,500 (annual amount in Fiscal Year 2013 for those who have paid contributions for 40 years)

2 Disability Basic Pension The following amount of the Disability Basic Pension will be paid to people who become sick or get injured while they are covered by the National Pension system. And if that sickness or injury eventually causes such disability as specified as the Grade 1 or Grade 2 disability. Benefit amount = ¥983,100 (annual amount in Fiscal Year 2013 for the Grade 1 disability & ¥786,500 for the Grade 2 disability)

3 Survivors' Basic Pension When an insured person of the National Pension system dies, the amount of the Survivors' Basic Pensions' paid to his widow taking care of child (ren) or to his dependent child (ren). Benefit amount = ¥1,012,800 (annual amount in Fiscal Year 2013 for a widow with one child)

The expenditure on budgetary support in 2014 for the national pension is ¥ 11.4 Trillion.

## **SOUTH KOREA**

### **Military Personnel Pension Scheme**

3.37 The Military Personnel Pension Scheme (MPPS) started in 1960 as part of the Government Employees Pension Service (GEPS), it was separated from the latter in 1963. The MPPS had a similar structure to that of the GEPS, but there was a notable difference in the participants' average years of service. Whereas the retirement age of civil servants ranged between 55 and 63, most of the military personnel retired much earlier, with shorter periods of contributions and longer periods of benefits. In addition, those who participated in war (e.g. Vietnam War) were credited with two extra years for each year in combat when their contribution periods are calculated.

3.38 Due to this feature, payments under the MPPS began in 61, the same year as the introduction of the scheme. The number of pensioners increased from 5,057 in 1961 to 14,000 in 1975, 25,000 in 1980, 31,000 in 1985, and around 40,000 in 1991. This continuous increase served as a major factor of the scheme's financial instability.

3.39 The MPPS had received direct government support since the mid-70s to make both ends meet as seen in Table no 42 below. The government support amounted to 565.1 billion won in 1999. In 1995, the support accounted for 1.3 per cent of the general account expenditure and 5.7 per cent of the total Defense budget. The annual expenditure exceeded the annual contribution revenue in 1972, and the ratio of the former to the latter increased to 253 per cent in 1980, 289 per cent in 1985, and 316 per cent in 1999.

3.40 The system is financed by contributions from the military members and the

government (8.5% of basic salary, respectively). In addition, whenever pension deficit occurs, it is to be subsidized by the government's general budget. The MPS operates on a pay as you go (PAYGO) basis only with a small sum of contingency fund and is administered by the Ministry of Defense (MOD). At the end of 2009, the MPS comprised of 166,269 active participants and 72,905 pensioners. In 2009, total expenditure paid was 2.06 trillion won and total income received was 1.12 trillion won. Consequently, the annual deficit was 0.94 trillion won. The GEPS was revised in 2009 when pension reform took place, however no specific details are available in public domain about the changes in MPS.

3.41 While the details of the revision of MPS are not available The GEPS has been revised in 2009 and post revision details of the GEPS are<sup>33</sup>

Table No 42

**Financial Trends of the Military Personnel Pension Scheme<sup>34</sup>** (In billion won)

Year	REVENUES					EXPENDITURE			Accumulated reserves
	Contribution by		Govt Subsidies	Others	Total	Benefits	Admin Cost	Total	
	Govt	Employees							
62	0.4	0.2	0	0	0.6	0.5	0	0.5	0.2
65	0.4	0.2		0.1	0.8	0.5		0.6	0.3
70	2.8	1.9		0.2	4.9	3.5		3.5	1.7
75	3.8	3.6	5.3	0.6	13.3	9.4		9.4	3.8
80	11.9	14.1	41.7	8.4	76.1	66	.1	66	41.7
85	27.5	31.9	121.4	4.7	185.5	171.1		171.1	100.7
90	59.1	59.6	271.5	16.2	406.4	388.5	.1	388.6	177.6
94	95.1	95.1	596.9	38.5	825.7	764.6	.1	764.7	304.7
98	130.6	130.6	537.1	143.8	942.1	769.1	.1	769.2	414.4
99	158.6	158.6	565.1		1013	1002.9	.1	1003	

<sup>33</sup> Pension Systems for Public Sector Employees in the Republic of Korea Jae Kyeong Kim Senior Research Fellow, Government Employees Pension Service Research Institute

<sup>34</sup> The Korean Pension System: Current State and Tasks Ahead Hyungpyo Moon

Table No 43

Income Base	Gross Wage (GW)* ceiling: 1.8 times of average wage for all members	
Benefit Formula of Retirement Benefits	1.9% × n	
Maximum Years Of Contribution	33 years	
Contribution Rate	6.0% ('09) →6.3%('10) →6.7%('11) →7.0% ('12)	
Pension Base	Career Average Gross Wage	
Minimum Retirement Age	CE 70 Yrs	NE 65 Yrs
Cost Of Living Increase	CPI (in transition)	
	* Completely CPI from 20	
Minimum Service Years	20	
Lump Sum Alternatives	Yes	
Survivors' Pension	CE 70%	NE 60%
Non Job Related Disability Pension	NO	
Survivors' Pension (N< 10 Years)	NO	

CE Current Employees NE New Employees

## UK

3.42 Armed Forces pensions have a long history, although it was not until April 1975 when the Social Security Act 1973 changed legislation requiring pensions to be paid for those who did not serve a full career. The Armed Forces Pension Scheme 1975 (AFPS 75), which incorporated this requirement to award preserved pensions, was a defined benefit scheme. It was salary-related with pensions based on a representative rate of pay for the rank and length of service. It was closed to new entrants on 5 April 2005. The move to AFPS 05, in 2005, was not driven by a need to reduce costs, but was intended to bring the previous main pension scheme (AFPS 75) up to date with changes to society and the law (for example AFPS 05 moved Officers and Other Ranks onto common pension terms).

The current pensions include:

- Occupational pensions
- Armed forces pension schemes (AFPS)
- War disablement pensions
- War widows' pensions
- Related allowances
- Other payments to service veterans.

3.43 Both AFPS 75 and AFPS 05 are defined benefit, salary-related, contracted-out occupational pension schemes. The schemes are non-contributory for members. Members make no direct contribution towards basic benefits. The AFPS, like most of the other main public service schemes, operates on a pay-as-you-go (PAYG) basis.

Employer and employee contributions are paid to the sponsoring government department but these contributions are not invested. Instead, the sponsoring government department pays benefits to pensioner members, netting off the contributions received.

3.44 The Schemes<sup>35</sup> were designed to meet the special requirements of Service life. Youth and fitness are important to the Services, and the Scheme provides immediate pension benefits to many of those who leave without completing a full career. The full career pension can be earned relatively early, at age 55, and invaliding and death benefits are available in the event of illness, injury or death, at different rates depending upon whether or not these are caused by service. From 6 April 2005, the Armed Forces Pension Scheme (known as AFPS 05) was introduced for all new members of the Armed Forces includes an Early Departure Payment (EDP) for those who leave before age 55 providing they have at least 18 years' service and are at least 40 years of age. The EDP Scheme pays a tax-free lump sum and income of between 50% and 75% of preserved pension between the date of the individual's departure from the Armed Forces and age 55. The income rises to 75% of preserved pension at age 55 and is index linked. At age 65 the EDP stops and the preserved pension and preserved pension lump sum are paid.

3.45 The international financial crisis forced the governments of the affected countries to reduce public expenditure. The British Government realized that Public Service pensions were becoming increasingly unaffordable as people are living longer (in 1970 the life expectancy of a 60 year old was a further 18 years, this has risen to 28 years). The cost of public service pensions had risen by more than a third over the last ten years to £32 billion in 2008/2009. Change had to be introduced to ensure public service pensions, including Armed Forces' pensions, will be affordable and sustainable in the long term: fair to both existing Service personnel and future generations, as well as for taxpayers who ultimately meet the costs. Annual report of the Armed Forces Pension Scheme Annual Accounts is presented to the House of Commons. As per the report for 2013-14 presented to the Parliament the total liability of the AFPS is £129.5 billion as at 31 March 2014<sup>36</sup>.

3.46 In 2010, the Government invited Lord Hutton of Furness to conduct a review of public service pensions<sup>37</sup>, including the Armed Forces' pension schemes. The Independent Public Service Pensions Commission's (IPSPC) final report was published in March 2011. It set out the case for change and made 27 recommendations to the Government for the future management of public service pensions. The Government accepted Lord Hutton's recommendations as the basis for discussion. Lord Hutton made it clear **that a distinction should be drawn between the Armed Forces (and other uniformed services – the police and fire-fighters) from others in the public services due to the unique nature of their service.** The Government accepted his recommendation in this respect.

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<sup>35</sup> House of Commons library, Armed Forces pensions Standard Note: SN 5891 Author: Djuna Thurley

<sup>36</sup> Armed Forces Pension Scheme Annual Accounts 2013-14

<sup>37</sup> The armed forces pension scheme 2015 (afps 15)-Frequently asked questions (faqs) [https://www.gov.uk/.../20131112\\_armed-forces-pension-scheme-FAQs\\_V1](https://www.gov.uk/.../20131112_armed-forces-pension-scheme-FAQs_V1).

3.47 The Government introduced<sup>38</sup> a Public Service Pensions Bill, which received Royal Assent on 25 Apr 2013 (now known as the ‘Public Service Pensions Act 2013’) to enable the replacement of existing schemes with new public service schemes, to be in place from 1 April 2015. All public service pension schemes – including the Armed Forces schemes – are being replaced by new schemes from April 2015. **Armed Forces Pension Scheme (AFPS 15) will remain non-contributory and a defined benefit scheme, which means it will keep a guaranteed level of pension – calculated as a proportion of the salary, not an uncertain amount based on investment returns. AFPS 15 will also continue to provide valuable additional benefits for the member and his family such as ill-health pensions and payments after members’ death.**

3.48 Transfer to AFPS 15 will be compulsory for Service personnel who are members of an Armed Forces Pension Scheme on 1 April 2015. This is in line with Government policy for all new public service pension schemes. The Government has offered transitional protection for those within ten years of their respective scheme’s Normal Pension Age (NPA) on 1 April 2012. For those covered by transitional protection they will remain on the current scheme until they exit the Armed Forces. This scheme may also be put in the category of Hybrid System as The payments for the AFPS 75 and AFPS 05 will continue to be made & budgeted as **Pay As You Go Along**

#### **Major Features**

3.49 Under AFPS 75, officers could accrue a maximum of 34 years pensionable service and Other Ranks a maximum of 37 years. Under AFPS 05, all ranks could accrue a maximum of 40 years pensionable service. AFPS 15 will be based on a Career Average Revalued Earnings (‘CARE’ or ‘career average’) model, compared with the current pension schemes, which are final salary/final rank schemes. This means that in AFPS 15, an amount equal to a percentage of service personnel’s earnings each year from April 2015 is placed in his pension. That amount – which will then increase in line with a national average earnings index to take account of inflation – will be the amount to go towards his pension. These individual amounts build up to create his/her final pension payable each year.

3.50 The AFPS 15 Early Departure Payment (EDP) aims to retain personnel in service through to at least 40 years age and to compensate them for the fact that a full career is not available to the majority. It will consist of an annual income and a tax-free lump sum. All members of AFPS 15 who complete 20 years of service and reach age 40, and who do not serve through to the Normal Pension Age of 60, will be entitled to draw an EDP when they leave the Armed Forces. A comparative table of the three schemes is placed as Annexure ‘P’ and the entitlement rate of the two schemes at Annexure ‘Q’ to this report.

3.51 As a general principle, all eligible Service personnel who will be serving beyond 1 Apr 15 on an engagement or commission which currently allows them to reach their current scheme’s Immediate Pension (IP) point or EDP (18/40) point, but not the EDP point for AFPS 15 (20/40), will be offered an extension to align with the revised Terms of Service.

3.52 The Government has assured that the benefits members have already built up in their existing pension scheme (known as ‘accrued rights’) will be protected. Accrued rights vary from scheme to scheme, but the value of pension benefits earned, up to the introduction of AFPS 15, will be protected. This includes, where applicable, the Immediate Pension, Early Departure Payments and Lump Sums. These benefits will remain payable at the time they were expected to be paid, linked to the final pensionable pay/rank at the point of leaving the Services, not the salary and rank at the time of transfer to the new scheme.

3.53 The actual impact for individuals may vary considerably with individual circumstances. It is understood that the average Service person, with 9 years’ service will be no worse off under the new scheme. Junior Service personnel will be slightly better off under the new scheme, whilst more senior Service personnel will be slightly worse off.

### **Management of Change**

3.54 All serving members of the defence services were aware of the review process undertaken and the likelihood of changes given the primary reason that changes were called for to keep the schemes affordable. The Independent Public Service Pensions Commission (IPSPC) made its final report in March 2011. The government set out its preferred scheme design for public service pension schemes in the HM Treasury paper ‘**Public service pensions: good pensions that last**’ in November 2011. Team called ‘Future Armed Forces Pension Scheme team’ including uniformed members of each Service, all with previous MOD pay and pension experience was formed. This team was responsible for developing the new Armed Forces Pension Scheme (AFPS) and conducting a two-phase consultation process.

#### **In Phase I**

- The initial consultation document was published and made available.
- Electronically on both the Internet and Defence intranet.
- An on-line questionnaire.
- A programme of presentations by the team at selected locations across all three Services (spanning both the initial and subsequent phases).
- The initial phase gathered the views of Service personnel and other interested parties before the outline design of the new scheme was agreed,
- A copy of the presentation was made available to units not being visited.
- Briefings to interested parties, including the Armed Forces Pay Review Body, Royal British Legion, Families Federations, Forces Pension Society and White Ensign Association.

3.55 A further consultation phase was undertaken once the outline scheme design had been agreed by the Government. A document setting out the proposed design of the new scheme was issued, and comment invited. The earliest the full effects will be felt is 2035 (i.e. those who join the Armed Forces after 2015 and leave at the new scheme’s EDP point after 20 years’ service).



## Pakistan, France & Germany

3.56 These countries have fully funded ‘pay as you go along’ model schemes. The entitlements are tabulated below and a consolidated table of all is attached as Annexure ‘AA’

	FRANCE	GERMANY	PAKISTAN
Retirement Age	45-58	53-61	Prescribed or 60 Years
Minimum Qualifying service	15 Years	17 Years	10 Years, Pension 23.33% and 2.33% for every additional year. Max 70%.
Age for initial Pension payment	On Retirement/ Discharge	On Reaching Retirement Age	
Individual/Govt Contribution rate		0/ENTIRE AMOUNT	0/ENTIRE AMOUNT
Maximum Payment rate as a % of Salary	80	71.75	70% of last Pay+ Medical Allowance of 20 to 25%
Reckonable pay	Pay of Rank/post last held for at least 6 months	Basic Pay + Family Allowance + Flying pay	Salary include last Pay +Indexed pay +Post Pay +Special pay
			Officer in BPS-20, 21 and 22 would be allowed a special additional pension equal to the admissible pre-retirement orderly allowance.

## INDIA

3.57 The pension for central government employees who joined on or before 31 Dec 2003 and the Armed Forces personnel (irrespective of their date of joining) is non-contributory and follows ‘Pay as you go’ model. The scheme for Govt employees who joined on or after 01 Jan 2004 is called Defined Contribution Pension Scheme (New Pension Scheme). The expenditure on pension of some of the major ministries as per the figures in the Union Budget 2014-15 (Railway Budget in case of Railways is tabulated below.

Table No 45

PENSION BUDGET OF THE MAJOR MINISTRIES (Rs in Crs)				
Pensions and other Retirement Benefits	2012-2013 Actual Expenditure	BE 2013-2014	RE 2013-2014	BE 2014-2015
Dept. of Posts	3968	4300	4550	4950
Dept. of Telecommunication	5703	5508	5950	6386
CPAO Min Of Finance	19583	20049	21815	23778
Ministry Of Railway	20710	22000	23700	28500
<b>Ministry Of Defence</b>	<b>43368</b>	<b>44500</b>	<b>45500</b>	<b>51000</b>
	93332	96357	101515	114614

3.58 Pension RE and actual expenditure have always been higher than the BE figures. (BE & RE figures for 2013-14 above refer). In the current financial year this gap may be even higher if the expenditure trends up to September 2014 expenditure bookings are an indication as may be seen in table no 46 below.

Table No 46

Grant no	MINISTRY/ DEPARTMENT	BE 2014-15	ACTUALS Expenditure up to Sep 2014	% Of Actuals to Budget Estimates	
				Current Financial Year	Current period Previous Financial Year
21	Defence Pensions	51000	29084.31	57%	46%
40	Pensions	23778	13451.53	57%	54%

#### Payment of Pension to government Employees

3.59 As per the Central Pension Accounting Office (CPAO) web site, " Unless otherwise specified or stated, coverage (by CPAO) of the Scheme extends to all Civil Pensioners of Central Government retiring from Civil Ministries or Departments (except Railways, P & T and Defence), Union Territory Administrations without Legislatures (Chandigarh, Andaman and Nicobar Islands, Daman & Diu, Dadra and Nagar Haveli, Lakshadweep and Minicoy Islands), and Government of the National Capital Territory of Delhi. Retired Judges of High Courts and Supreme Court are disbursed pension through CPAO. The respective State Government reimburses pensionary benefits to High Court Judges. All India Service Pensioners are covered under the scheme. The Freedom Fighters pension approved by Ministry of Home Affairs are also covered by the scheme. Payment of ex-gratia pensions to the families of deceased CPF beneficiaries introduced by Central Government w.e.f. 01.01.1986 is also covered by this scheme.

3.60 The Railways, Department of Post and Department of Telecommunication have their own departmental organisations to carry out this function. PCDA (Pensions) of the Defence Accounts department is responsible for disbursing the pension to the Commissioned Officers & PBOR's of Armed Forces & their families, Defence Civilians & their families. Including DAD, Coast Guard and General Reserve Engineering Force (GREF). The amount is disbursed<sup>39</sup> through a network of defence pension disbursing agencies i.e. 63 Defence pension Disbursing Offices (DPDO), Branches of 26 Nationalised and 4 Private banks, 2 post offices, 523 State Treasuries and 3 Pension payment offices in Nepal.

3.61 The study will focus on the defence pensions and may bring on record some of the best practices of the other ministries. To appreciate and decide on the context and focus area, **the study team examined the following recommendations made in the past.**

3.62 The Kargil Review<sup>40</sup> Committee, in their report, had made following observations/recommendations:

“The Army must be young and fit at all times. Therefore, instead of the present practice of having 17 years of colour service (as has been the policy since 1976), it would be advisable to reduce the colour service to a period of seven to ten years and, thereafter, release these officers and men for service in the country's para- military formations. After an appropriate period of service here, older cadres might be further streamed into the regular police forces or absorbed in a National Service Corps (or a National Conservation Corps), as provided for under Article 51A (d) of the Constitution, to spearhead a range of land and water conservation and physical and social infrastructure development on the model of some eco-development battalions that have been raised with a fair measure of success. This would reduce the age profile of the Army and the para-military forces, **and also reduce pension costs** and other entitlements such as married quarters and educational facilities.”

3.63 The Group of Ministers (GoM), appointed to consider the Kargil Review Committee Report, had also in their report on 'Reforming the National Security System' recommended lateral transfer of Army personnel to Central Para Military Forces (CPMF) with the primary aim of keeping a young profile of the Army in peak combat effective state capable of meeting challenges of future conflict.

3.64 The above well-intended proposal had remained a discussion point only and in a meeting taken by the Home Secretary on 2nd November 2006, it was decided that a Committee under the Chairmanship of Director General, Border Security Force was constituted to work out the modalities. Home Minister had also informed the parliament that the Standing Committee on Defence is examining the issue and action will be taken after receiving the report of the Committee.”

3.65 The standing committee was as per para 28<sup>41</sup> of the report informed that, “This is a complex issue and has been discussed between MoD & MHA several times. At

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<sup>39</sup> Brochure issued on the occasion of Defence Accounts Department Day 2014 and available on CGDA's website

<sup>40</sup> Headed by Sh K. Subrahmanyam

<sup>41</sup> 32<sup>nd</sup> Report, Standing Committee On Defence (2008-2009) (Fourteenth Lok Sabha)

present a Committee is in the process of identifying the posts in CPMFs where such induction of ex-servicemen can start.”

3.66 The committee in its report took in to consideration a statement made by the RM on the Implementation Status of 22<sup>nd</sup> report of the Committee in Lok Sabha in October, 2008 on the same matter as under: -

“Reservation for ex-servicemen @ 10% in Group ‘C’ and 20% in Group ‘D’ already exists in the CPMFs, which has however not been fully utilized by ex-servicemen, in the past. Induction of ex-servicemen in State Police Forces is a subject matter pertaining to States. Moreover, CPFs are experiencing adverse fall-out of higher age profile, where a large number of Bns have been raised in recent years. While need for a fighting fit Army, it cannot be ignored requiring lower age profile; in times of peace it is the CPFs, which bear the responsibility of securing the International borders and fighting insurgents, terrorists, extremists etc. Considering the fact that induction and retirement age in CPFs is higher than Army, any fresh move that would result in raising of age profile of CPFs would further compromise their operational efficiency. In addition to operational issues, there are other factors to be considered like: -

- There being no reservation for SC, ST, and OBCs in the Army which has constitutional implications.
- Need to modify the recruitment rules.
- Promotional avenues of CPF personnel, etc.

This being a complex problem is being reviewed by Ministry of Home Affairs in consultation with Ministry of Defence as per decision in a meeting of the EMC held on 1<sup>st</sup> July, 2008.”

3.67 The Committee in their remarks concluded that they are not inclined to accept these reasons as convincing enough for the delay in settling this issue. The Committee felt that rather than finding excuses, the Government should examine this issue in its entirety and take concrete steps in the right direction in a time bound manner. The matter has since rested.

3.68 The VI Central Pay Commission, in their report, had recommended a scheme of lateral transfer of Defence personnel to Central Police Organisations / Defence Civilian Organisations after rendering 7 – 17 years’ service in the Defence, with a view to, inter-alia, provide lifetime employment to Defence personnel.

“2.4.6 The Commission therefore is of the view that a scheme needs to be introduced for lateral shift of Defence Forces personnel to CPOs (including CPMFs) and defence civilian organizations.

#### **Lateral Induction of ESM in CPMF and State Police Forces**

3.69 The report (2.4.7) had identified the following benefits of their proposed scheme.

“This scheme will not only make available sufficient number of trained manpower for CPOs as well as defence civilian organizations but will also curtail the pension bill of the Government significantly. It is estimated that the Government spends nearly Rs.100 crore per annum on recruitment and training of personnel for CPOs and defence civilian organizations. This expenditure will be completely saved. Further the

Government will have to pay pension to the retiring Defence Forces personnel only after 30/33 years of service as against 17 years of service at present. This will result in a further saving of Rs.700 crore per year. These savings will grow cumulatively for a period of 13 years. Therefore, at the end of 13 years the annual savings on this account will be to the tune of Rs.7800 crore at constant price index. The Government will also not have to provide for special measures and find means of providing rehabilitation of ex-Defence Forces personnel. This will have other side benefits because the trained manpower of the Defence Forces will be engaged in a life time employment and no subversive elements will be able to misguide them for anti-social activities.”

3.70 The terms of reference of the study with reference to Pension have asked IDSA to:

- Analyse the quantum and components of expenditure on defence pension from 1995-96 to 2013-14. How this compares with similarly placed counties may also be focused upon.
- The manner in which defence pensioners’ liabilities are financed in similarly placed countries maybe focused upon.

3.71 The outline of the pension schemes and the methodology of funding them in the select countries have been brought out in the preceding paragraphs. The quantum of expenditure on defence pensions for the period from 95-96 to 13-14 is tabulated below. The amount in the second row is Rs in Crores and the last row gives the percentage increase over previous year. The years in bold font are the years in which pay Commission arrears were paid.

Table No 47 (Amount in second row is Rs in Crores)

1995-96	1996-97	<b>1997-98</b>	<b>1998-99</b>	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	<b>2008-09</b>	<b>2009-10</b>	2010-11	2011-12	2012-13	2013-14
3197	3683	4947	7270	11024	10244	10488	10091	11000	11921	12715	13800	15244	20233	34999	37336	37569	43368	45500
	15	34	47	52	-7	2	-4	9	8	7	9	10	33	73	7	1	15	5

The above figures are expected to reflect, the **Pensions and Other Retirement Benefits for the following:**

“Defence Pensions provides for pensionary charges in respect of retired Defence personnel (including civilian employees) of three Services viz. Army, Navy and Air Force and also employees of Ordnance Factories, etc. It covers payment of service pensions, gratuity, family pension, disability pension, commuted value of pension and leave encashment.”

**Rewards** “Army, Navy, and Air Force: The amount is provided for causality awards such as war injury, Pay and Gallantry awards like Param Vir Chakra, Mahavir Charka etc. in respect of three services i.e. Army, Navy and Air Force.”

3.72 The Union budget document gives the following details.

Table No 48

DEFENCE PENSION DETAILS AS PER UNION BUDGET				
ACTUAL EXPENDITURE		BE	RE	BE
	2012-2013	2013-2014	2013-2014	2014-2015
ARMY	38937	39997	40941	45800
NAVY	1676	1672	1680	2017
AIR FORCE	2752	2807	2854	3150
REWARDS	3	24	25	33
	43368	44500	45500	51000

3.73 CPAO became functional in 1990, their web site also has their latest annual report, and this annual report gives a lot of details e.g. it has the number of PPO's issued Ministry and department-wise, pension during 2012-13 (PPO issued for Defence Civil is 80 out of a total of 46850 in 2012-13). It also has the amount paid under each head of expenditure e.g. commutation, gratuity, leave encashment etc. It also has consolidated summary from 1990 to the year of report as tabulated below.

Table No 49

No of PPO's issued from 1990 to 2012-13-Pensioner Class Count	
Benefits to Ex/Deceased President	3
Family Pension	111664
Family Pension to Supreme Court Judge	1997
IDA Family Pension	5
IDA Pension	2944
Pro-rata Pension (absorbed in PSUs)	52
Invalid Pension	7669
Pension for Supreme Court Judge	26
Pension to Ex MP's	3743
Pension/ FP for High Court Judge	316
Pension / FP to Freedom Fighters	15258
Superannuation Pension	403536
Voluntary Retirement	218777
Others	39004
Grand Total	804994

Table no 50

Number of new PPO's for Govt employees between 1990 to 2012-13 by CPAO works to	
Family Pension	111664
Invalid Pension	7669
Superannuation Pension	403536
Voluntary Retirement	218777
Total	741646
Average over the period	32245

3.74 The details in CPAO report give an idea of the potential for details that a database on pension can provide. The defence pensions budget is part of the 'Civil estimates for Ministry of Defence'. 'Defence Service Estimates' (DSE Vol I) is a document available in the public domain but this covers only the details of budget heads forming part of 'Defence Estimates', hence no details are available in the public domain. To obtain greater level of details, a request was made to the CGDA to provide details (Table no 51) expenditure booked in respect each service (Army/Navy/Air Force) for each of the categories i.e. Commissioned Officers, PBORs and Civilians.

Table No 51

Financial Year	ARMY															
	OFFICERS						PERSONNEL BELOW OFFICER RANK						CIVILIANS			
	Pension Amount	Number Of Cases	Family Pension Amount	Number Of Cases	Liberalised Family Pension Amount	Number Of Cases	Pension Amount	Number Of Cases	Family Pension Amount	Number Of Cases	Liberalised Family Pension Amount	Number Of Cases	Pension Amount	Number Of Cases	Family Pension Amount	Number Of Cases
1995 - 96 to 2013-14																

3.75 The objective of seeking the details was to provide analysis based on empirical data that would enable the Commission to support its findings and recommendations. IDSA was apprised that category wise break-up viz. Officers, Personnel below Officer and Civilians as asked is not readily available with the office. However, Service wise total expenditure on Pension for the financial years 1995-96 to 2013-14 is submitted herewith for the time being, till we get some more

details from PCDA (P) Allahabad. The information as received is placed below in table no 52.

Table No 52

YEAR WISE BREAK UP OF DEFENCE PENSION EXPENDITURE 1995-96 to 2013-14				
Rupees in Crores				
YEAR	ARMY	NAVY	AIR FORCE	TOTAL EXPENDITURE
1995-1996	2998.79	57.51	140.30	3196.60
1996-1997	3444.63	72.91	165.08	3682.62
1997-1998	4635.91	93.65	217.56	4947.12
1998-1999	6807.61	130.56	332.12	7270.29
1999-2000	10339.07	245.43	439.54	11024.03
2000-2001	9472.04	244.83	526.85	10243.72
2001-2002	9660.86	251.71	575.35	10487.92
2002-2003	9116.69	297.11	677.49	10091.28
2003-2004	10062.89	269.56	667.22	10999.67
2004-2005	10933.72	303.42	683.81	11920.95
2005-2006	11580.47	315.76	818.67	12714.90
2006-2007	12501.74	371.44	926.58	13799.76
2007-2008	13783.16	456.93	1003.42	15243.52
2008-2009	18250.15	643.00	1340.12	20233.27
2009-2010	31506.64	1198.42	2294.38	34999.45
2010-2011	33940.31	1105.31	2290.80	37336.41
2011-2012	34004.22	1186.75	2378.43	37569.39
2012-2013	38939.77	1675.99	2751.94	43367.71
2013-2014	40965.57	1679.99	2853.98	45499.54

3.76 The information as requested for was received from PCDA (Pensions) on 15 Sep 2014, but it was not service wise but consolidated for all the three services for Officers, Personnel below Officer and Civilians. The data as received was analysed,



while we had no way to question the year wise amount, IDSA did express and share reservations about the number of personnel indicated for each category year wise and reiterated our request for data to be dis-aggregated service wise. IDSA received a reply on 23 Sep 14 that **“the actual expenditure is as per the actual amount compiled, the distribution of the amount category wise i.e. PBORs, Commissioned Officers and Civilians is worked out based upon assessed number of pensioners in each category and mean pension amount thereof. Therefor these figures are assessed. This has been done as precise figures for each category are not available.”**

3.77 The pension work for Navy & Air Force in respect of their Officers and PBORs was transferred to CDA (Navy) and DCDA (AF) in November 1985. An effort was made to ascertain in case these two offices could give the data on Navy & Air Force. While the CDA (Navy) could only give the year wise number of PPOs issued in respect of Naval Officers & PBORs, DCDA (AF) could not provide either the number of PPOs or the amount.

3.78 The matter was pursued with CGDA and CGDA provided data, which is spread over various code heads for the Army, Navy and Air force as given below.

Table no 53

	ARMY	NAVY	AIR FORCE
Superannuation and Retirement Allowance	0/014/33	0/014/44	0/014/55
Gratuities	0/014/34	0/014/45	0/014/56
Arrears paid due to Supreme Court Judgment	0/014/35	0/014/46	0/014/57
Commutated Value of Pensions	0/014/36	0/014/47	0/014/58
Family Pensions	0/014/37	0/014/48	0/014/59
Contribution to Provident Fund	0/014/38	0/014/49	0/014/60
Rewards	0/014/39	0/014/50	0/014/61
One time increase in Pension to pensioners who retired before 1.1.86	0/014/66	0/014/67	0/014/68

3.79 The data that was provided year wise was collated and analysed. It was seen that while the PCDA (P) asks the disbursing banks to codify the expenditure under various categories like Army, Navy, Air Force, Jammu & Kashmir L.I, Coast Guard Organization, GREF (General Reserve Engineering Force), DAD (Defence Accounts Department), Defence Security Corps (‘DSC’) etc., the same is booked only under Army, Navy & Air Force. The share of this expenditure booked works out to:

Table No 54

SHARE OF PENSION EXPENDITURE (in per cent age terms)			
	ARMY	NAVY	AIR FORCE
1995-96	93.812	1.799	4.389
1996-97	93.538	1.980	4.483
1997-98	93.709	1.893	4.398
1998-99	93.636	1.796	4.568
1999-00	93.787	2.226	3.987
2000-01	92.467	2.390	5.143
2001-02	92.114	2.400	5.486
2002-03	90.342	2.944	6.714
2003-04	91.484	2.451	6.066
2004-05	91.719	2.545	5.736
2005-06	91.078	2.483	6.439
2006-07	90.594	2.692	6.714
2007-08	90.420	2.998	6.583
2008-09	90.199	3.178	6.623
2009-10	90.020	3.424	6.555
2010-11	90.904	2.960	6.136
2011-12	90.510	3.159	6.331
2012-13	89.790	3.865	6.346
2013-14	90.035	3.692	6.273
<b>Average</b>	<b>90.806</b>	<b>3.076</b>	<b>6.118</b>

3.80 Once again IDSA shared its reservation with the CGDA's office who again took up the issue with PCDA (P). PCDA (P) on 31 Oct 14 clarified that, "Actual expenditure incurred in respect of Civilians are also booked under the object heads of Army Pensions & other pensionary awards. There is no separate code head allotted for booking of expenditure incurred in respect of Defence Civilian cases. Bifurcation of expenditure on Defence pensions in respect of Army, Navy & Air force from 1995-

96 to 2013-14 is not readily available. However, actual expenditure on Defence pensions in respect of Army, Navy and Air force for the period 2007-08 to 2013-14 is enclosed.”

In addition to the above expenditure, budget is allocated to CGDA and expenditure booked by CPAO. The CPAO allocates funds under the head 073 CGDA (Civil) and 097 CGDA (Defence). The amount booked under these two heads as per the CPAO website for 2012-13 is Rs 463.741 Crs and Rs 1478.0354 Crs respectively i.e. Total Rs 1941.7764 Crs. The budget allotted by CPAO to CGDA for 2014-15 is Sl no 48 073 CGDA (Civil) 0 and Sl no 69 097 CGDA (Defence) Rs 1860.9447 Crs.

3.81 Based on the above it is understood that the allotted budget is distributed under different subheads for the Army, Navy, and Air Force for Civil estimates of defence and under the subheads of CGDA (Defence) in respect of budget allotted by CPAO. The total amount claimed by the banks during the year for all categories of defence pensioners is then put in to these silos. Hence we do not have the number of pensioners in each category nor do we have the amount. **To conceptualise a change of a pension system a clear idea about the future liability of existing commitments is mandatory.** The US was able to change the system in 1984 and in UK, the system was changed in 1975, 2005 and a change is being made from 01 Jan 2015 only because they had a clear idea about their liability for the existing pensioners.

3.82 A word of caution and the need for effective control would be in order based on the experience of UK pensions and apprehensions expressed by Ministry of Railway. The annual report of the Armed Forces Pension Scheme accounts has a paragraph,

“National Fraud Initiative (NFI). On a biennial basis, the AFPS takes part in the NFI, which commenced in 1998 and is co-ordinated by the Audit Commission. This initiative allows the Scheme to submit approved data to the Audit Commission who match it against other data sources to ensure the payments are still being made to the individual originally entitled to the pension. This exercise was in addition to the Scheme’s normal procedure of regularly confirming entitlement with individual pensioners. The table below provides an update of the position for the exercises conducted since 2002 and lists the outstanding amounts which are still being actively pursued.”

3.83 The Railway Board vide their letter no2010/AC-II/21/10/Pt IV dated 18 Sep 2014 have stated that pension expenditure constitutes about 19% of the total working expenses of Indian Railways. They have undertaken a special drive in Nov 2014 in the premises of the banks through which a major part of pension is disbursed for identification of railway pensioners with reference to the relevant pension records so that only legitimate pension/family pension payments are made. ([www.prsindia.org/theprsblog/wp.../Railway-revenue-and-expenditure.pd](http://www.prsindia.org/theprsblog/wp.../Railway-revenue-and-expenditure.pd).) They have chosen the month of November because all pensioners are required to visit the banks in the month of November to submit a certificate of their being alive.

## **CHAPTER -4**

### **Pay and Allowances**

## PAY & ALLOWANCES

4.1 The terms of reference for the study with reference to Pay & Allowances required the study to:

- Compare the salary structure of personnel in the Indian Defence Forces with those in similarly placed countries, preferably in purchasing power parity (PPP) terms.

4.2 The total expenditure on pay & allowances and the relationship of the expenditure on this account with the total defence expenditure, revenue expenditure and the impact of 5<sup>th</sup> & the 6<sup>th</sup> pay commission has been dealt with in detail while discussing the Indian Defence expenditure.

### Analysis- India's defence expenditure on Pay & Allowances

4.3 The classification of defence expenditure requires the expenditure to be classified under major heads (which is unique for each service), minor heads (Army has 12 Minor heads, Navy-9 Minor heads, Air Force-8 Minor heads) and under the minor heads, detailed heads. Pay & Allowances is a minor head and for each service there are detailed heads for capturing and booking expenditure of each detailed head. The details up to minor head are available in DSE. To be able to carry out detailed analysis of pension and its relationship with the pay and allowances under each category, the office of CGDA was requested and these details were obtained from them. This data could not be used for the intended detailed analysis for pension for reasons brought out earlier, however salient finding based on its analysis are tabulated and explained below for the Pay Commission's benefit.

Table No 55

% Age SHARE OF PAY & ALLOWANCES EXPENDITURE OFFICERS- ARMY							
YEAR	Arms	Services Other than Medical & Nursing	Medical & Nursing	YEAR	Arms	Services Other than Medical & Nursing	Medical & Nursing
2013-2014	57.18	21.01	21.81	2003-2004	57.33	21.27	21.39
2012-2013	55.98	20.85	23.17	2002-2003	50.26	22.39	27.36
2011-2012	56.78	21.69	21.53	2001-2002	50.59	22.22	27.18
2010-2011	57.00	21.45	21.55	2000-2001	51.55	18.65	29.80
2009-2010	58.13	20.93	20.95	1999-2000	50.15	18.91	30.94
2008-2009	57.22	21.68	21.10	1998-1999	50.40	18.90	30.69
2007-2008	55.91	23.43	20.66	1997-1998	50.76	19.36	29.88
2006-2007	57.21	21.40	21.39	1996-1997	52.68	19.57	27.75
2005-2006	57.64	20.91	21.45	1995-1996	53.78	18.34	27.88
2004-2005	58.06	20.09	21.85	FOR 1995-96 TO 2013 -14	56.22	21.12	22.65

4.4 In the case of the Army Pay & Allowances for each Arm & Service are compiled to a unique detailed head. This may have been done to infer 'Teeth to tail' ratio. These details when collated (Table No 55 above refers) under the category Arms & Services shows that 56% of Pay & Allowances expenditure is for officers belonging to the Arms (Infantry, Armoured Corps, Artillery, Engineers, Signals and Air Def Arty) and 44% for Services (all other supporting services). Out of the Services share of 44% more than half is for Officers of the Medical, Dental and Nursing Officers. The detailed share of expenditure of each of the Arm & Services in table No 56 below shows that after Infantry (24.79%) the next two are Medical (15.45%, only for the Medical & Dental officers of the Army) and Artillery (13.96%).

Table No 56

Percentage share of Pay & Allowances- ARMY OFFICERS		
	Average for the period 2003-04 to 13-14	For 2013-14
Armoured Corps	4.69	4.52
Artillery	13.96	13.87
Engineers (Including its Officers with MES)	8.69	8.73
Signals	5.57	5.48
Infantry	24.79	24.63
ASC	4.77	4.88
Medical	15.45	15.03
Nursing Services	6.36	6.78
AOC	3.71	3.79
EME	6.96	7.04
Air Defence Arty	1.23	1.45
TOTAL	96.19	96.20
OTHERS	3.81	3.80

4.5 As in the case of Officers, unique detailed heads are provided for each Arm & Service in the case of PBORs. However despite the fact that for each Arm & Service they have a separate Pay and Accounts Office (PAO), the expenditure on Pay & Allowances is being booked & compiled under one head only and hence detailed analysis is not possible. The Ration allowance and other miscellaneous allowances

given in lieu of services in the case of PBORs is about 7% of the Pay & Allowances. The expenditure on Pay & Allowances of Civilian employees of the Army used to be about 14% of the total Pay & allowances expenditure (PBORs plus Civilians P & A expenditure) prior to the 5<sup>th</sup> CPC, it came down to about 11.5% for period post 5<sup>th</sup> CPC and post the implementation of the 6<sup>th</sup> CPC it is about 9.5%.

4.6 The unique detailed heads for the Navy recognise & provide for compilation that reflects their line of argument that a naval war-fighting unit is a composite unit of all branches of officers & all PBOR tradesmen. Their distribution is based on the deployment of these composite units. This data (Table No 57 brings out that over 12% of the expenditure is incurred on the Naval officers posted to Service HQs i.e. Naval HQs, HQ IDS, MoD, DRDO etc. The expenditure incurred on Officers and sailors posted to the operational ships are 20% and 36% respectively. The difference between the average of 11 years and last year for Establishments and Units other than Ships including training ships/Est. shows an increase in their share over the years.

Table No 57

PAY & ALLOWANCES DRAWN % BASED ON DEPLOYMENT OF OFFICERS & SAILORS				
	Average for the period 2003-04 to 2013-14		For 2013-14	
	Officers	Sailors	Officers	Sailors
Naval Headquarters	12.07		12.26	
Ships (other than training ship)	19.92	36.72	20.02	35.79
Training Ships/Establishments	15.11	15.61	12.71	12.26
Establishments and Units other than Ships including training ships/Est.	36.73	40.29	40.46	45.64
Repair Organisations	6.28	2.47	5.85	2.08
Material Organisations	1.48		1.34	
Others	8.40	4.92	7.35	4.23
	100.00	100.00	100.00	100.00

4.7 The expenditure on Pay & Allowance of the Civilian in Navy suggests that the number of Civilian employees of all groups is marginally greater than the number of sailors. More than 53% of the civilians are working in naval dockyards. The Pay & Allowances of the civilians, which used to be marginally greater than 50% before the implementation of the 6<sup>th</sup> CPC, is now about 45%.

4.8 In the case of Air Force officers, the compilation has two distinct distribution categories of Air Headquarters and Air Force formations other than Air HQs and the officers are grouped according their primary branch i.e. Flying, Technical & Non-Technical. This data (Table No 58 ) shows that about 10% of the expenditure is for Officers posted to Service HQs i.e. Air HQs, HQ IDS, MoD, DRDO etc. and out of these half of them are Technical Officers. In the case of PBORs, the distribution is based on Technical & Non-Technical trades and the % of expenditure for Technical tradesmen are 56 % and 44% for non-technical tradesmen.

Table No 58

PAY & ALLOWANCES DRAWN % BASED ON DEPLOYMENT OF AIR FORCE OFFICERS								
	Average for the period 2003-04 to 2013-14				For 2013-14			
	Flying	Technical	Non-Technical	TOTAL	Flying	Technical	Non-Technical	TOTAL
Air Headquarters	27.58	49.64	22.78	10.90	29.28	45.21	25.52	9.37
Air Force Formations (other than Air Hqrs))	35.05	30.11	34.84	89.10	34.68	31.28	34.04	90.63

Table No 59

PAY & ALLOWANCES AIRMEN							
Percentage Of Technical & Non-Technical Airmen							
	Technical	Non-Technical	Local Allowances as a % of P & A		Technical	Non-Technical	Local Allowances as a % of P & A
13-14	54.86	45.14	6.39	07-08	57.91	42.09	7.43
12-13	55.15	44.85	6.10	06-07	58.16	41.84	9.12
11-12	56.02	43.98	6.66	05-06	58.43	41.57	9.71
10-11	52.18	47.82	7.12	04-05	59.75	40.25	15.52
09-10	59.17	40.83	6.70	03-04	52.81	47.19	10.80
08-09	60.00	40.00	4.97	03-04 TO 13-14	56.26	43.74	7.22



4.9 The expenditure on Local allowances paid to the Airmen (Compensation in Lieu of Quarters and Ration allowance paid to those airmen when their ration is not drawn in kind) is about 6.5 % of the Pay & Allowances expenditure. The expenditure on Pay & Allowances of Civilian employees of the Air Force used to be about 20% of the total Pay & allowances of PBORs plus Civilians P & A expenditure prior to the 5<sup>th</sup> CPC, it came down to about 18% for period post 5<sup>th</sup> CPC and post the implementation of the 6<sup>th</sup> CPC it is about 14.5%.

4.10 The total strength of the Officer and PBORs in the Army, Navy and the Air Force is given in Table No 60 below. Based on the percentages indicated in the Navy & Air Force tables, it may be deduced that about 1050 Naval officers and about 1175 Air Force officers are posted to Service HQs. If you extrapolate and apply this trend to the Army Officers, the total number of Service Officers posted to Service HQs (Army, Navy, Air, HQ IDS, DRDO, DAFMS and MoD) would be around 5000. The Pay Commission may if it needs confirm the numbers either from CAO (quartering) or the Chief Security office (MoD).

4.11 The present strength of the Indian Armed Forces is as under<sup>42</sup>:

Table No 60

Army		Navy (As on 31.10.2013)		Air Force (As on 01.12.2013)	
Officers (As on 01.07.2013)	Other Ranks (As on 01.10.2013)	Officers	Sailors	Officers	Airmen
38574	1132473	8896	51608	11918	130209

## REPRESENTATIVE CHARACTER OF THE ARMED FORCES

4.11 Armed Forces are the largest single employer of youth of the country. The number of youth recruited in the three armed forces during the years 2008 to 2013 is **465914**<sup>43</sup>. The details provided in the reply to Parliament questions gives the figure for each of the 35 (since Telengana was not a separate state at that time) State/Union Territories. The data when related to the 2011 census figures shows a representative character across the nation. An extract of the data is tabulated in table No 61 and the table is placed at Annexure 'R' to the report. The big states of Maharashtra and Uttar Pradesh represent the average where the ratio of the two percentages is 0.91 and 0.90. 12 States & 2 UTs have a factor greater than one. 6 of these states in **bold font** have been the national nursery for the Armed Forces manpower. But in a very discrete manner the higher recruitment from the earlier disturbed area states and remote islands has been a catalyst in integrating the youth of these area to the national mainstream.

<sup>42</sup> Statement in respect of parts (a) to (c) of Rajya Sabha unstarred question no.667 for 11.12.2013 regarding increasing the strength of armed forces

<sup>43</sup> Data sourced from replies to parliament Questions Lok Sabha unstarred question nos. 1407 answered in the Lok Sabha on 18 July 2014, 2627 answered on 10.12.2012 and part (b) of Lok Sabha starred question no. 451 answered on 5.9.2011

Table No 61

States	% Of the state's population to the total Indian population as per 2011 census	% Of the total recruited in Army, Navy & Air Force between 2008 to 2013	Ratio of % recruited to population %
Sikkim	0.0504	0.3200	6.34
<b>Himachal Pradesh</b>	0.5670	3.5015	6.18
<b>Uttrakhand</b>	0.8332	4.6547	5.59
Manipur	0.2123	1.0483	4.94
Arunachal Pradesh	0.1143	0.5426	4.75
Mizoram	0.0906	0.3136	3.46
Jammu & Kashmir	1.0360	3.3201	3.20
<b>Punjab</b>	2.0918	6.2359	2.72
Nagaland	0.1634	0.3754	2.30
<b>Haryana</b>	2.0942	4.7193	2.25
<b>Kerala</b>	2.7596	4.1651	1.51
<b>Rajasthan</b>	5.6625	6.8229	1.20
The Union territories of A&N Islands and Lakshadweep are the major contributors & would individually feature based on ratio in the top half of the group above			

#### Policy approach as deduced in respect of countries selected for this study

**4.12 What matters more; the gun or the man behind the gun? The riddle has been solved long ago in favour of the man. The harnessing of cutting edge technology in to modern day platforms and weapon systems or the smart precision guided munitions has not challenged this adage but raised questions about, 'What kind of man/woman is needed and prepared to fight today's wars and what motivation needs to be provided by a country to its citizens to voluntarily join to be members of this national instrument'. This question does get addressed in the 'White Paper' or 'strategy documents' of the countries selected for study and the relevant excerpts are:**

## CHINA<sup>44</sup>

4.13 The increased part of China's Defense expenditure is primarily used for the following purposes: (1) Increasing salaries and allowances of military personnel and improving their living conditions. Along with the growth of China's economy and the steady improvement of the people's life, the salaries and allowances of military personnel and the pensions of retired officers are increased accordingly. The insurance, medical, housing and other benefits are also increased. Subsidies are being increased; too, to compensate for regional and post differences, and the living conditions of the troops stationed in hardship areas are being improved.

## FRANCE<sup>45</sup>

4.14 The human resources model for the defence sector must now meet two imperatives. Structurally, it entails continuous personnel turnover, which means that incoming and outgoing personnel flows must always be adequate with the needs of the Ministry of Defence. On the shorter term, we must in the next few years adapt the Ministry's workforce to the new armed forces model and the need to modernise public action. Tools for steering the reduction in personnel are today inadequate to respond to this second imperative. The Ministry's human resources policy will therefore include a major programme of reform to accompany the social, human and economic impact of the coming changes. New procedures will be put into place for managing and steering the reduction in personnel, together with an appropriate platform of assistance for officers returning to civilian life. These permanent measures could include new rules of status, alongside an efficient system for supporting officers and facilitating their return to civilian life. These instruments are intended to guarantee the robustness of the Ministry's new human resources model over the longer term, and must respect the rules of equity and transparency.

## GERMANY<sup>46</sup>

4.15 Well-trained, capable and motivated soldiers and civilian employees are crucial for the operational readiness of the Bundeswehr. The restructuring of careers and the qualification campaign offering a wide range of initial civilian occupational training as well as continuation training opportunities in the career path for non-commissioned officers (NCOs) has resulted in a sufficient number and quality of recruits volunteering for service in the Armed Forces. Universal conscription is still the mainstay of recruitment, but also that young people consider serving in the Armed Forces to be attractive. The attractiveness of military service is being consistently enhanced so that the Bundeswehr can hold its own in the job market in the face of increasingly fierce competition for qualified personnel.

## JAPAN<sup>47</sup>

4.16 Recruitment in recent years, expectations and support from the public for the MOD and SDF have risen higher than ever. In Japan, however, due to the declining birth rate and increasing university enrolments the recruit able population has been

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<sup>44</sup> CHAPTER XII. Defense Expenditure China's National Defense in 2008

<sup>45</sup> French White Paper On Defence And National Security - 2013

<sup>46</sup> CHAPTER 7, White Paper 2006 on German Security Policy and the Future of the Bundeswehr

<sup>47</sup> Chapter 2 Relationship between the Japanese People and the Ministry of Defense and the SDF, Defense of Japan 2014 Annual White Paper

decreasing in size, and the general recruitment climate for SDF personnel has been becoming increasingly severe. Based on a voluntary system (individuals join of their own free will), uniformed SDF personnel are recruited under various categories. Due to its uniqueness as a career, personnel management of uniformed SDF personnel differs from that of other civilian government employees. Among these differences, what greatly sets the SDF apart from other government organizations is that in order to ensure a powerful SDF, it has introduced an “Early Retirement System,” and “Fixed Term System.”

**Enhancement of Pay and Conditions:** The duties of the SDF make no distinction between night and day. The work assigned to uniformed SDF personnel can be extremely demanding, involving various operations on-board aircraft, long-term service on ocean ships or submarines, or parachuting. To instil SDF personnel with pride and allow them to concentrate on their duties without anxiety, the MOD and the SDF strive to provide salaries and allowances, medical care, welfare, and other benefits that reflect the special nature of their duties. Furthermore, the new National Defense Program Guidelines and new Mid-Term Defense Program state that measures relating to awards and honours will be pursued, beginning with the expansion of the system of Defense Meritorious Badges.

## RUSSIA

4.17 In a speech to military officers in February 2012 shortly after the pay raises were enacted, Mr. Putin declared, “I have always believed that military servicemen should be paid, as has always been the case in Russia, by the way, even more than skilled specialists in the sphere of economics or administration or other civilian sectors.”

## SOUTH KOREA<sup>48</sup>

4.18 Military service members have unique characteristics that are distinct from the regular workforce in society. First, service members are assigned with tasks to defend the nation and protect the lives and properties of the people during crisis, which requires them to risk their lives. Second, service members often confront difficulties in maintaining a stable family life because of requirements to maintain a seamless readiness posture, work in remote areas, and frequently relocate their houses. Third, most service members retire early when their living expenditure is at the highest level (i.e., ages 45-56). Fourth, they are given limited job opportunities after retirement due to the limitations in utilizing the skills they attained through military service in society.

4.19 The MND is currently engaged in close consultations with the relevant government ministries and the National Assembly to address such issues and reflect the unique characteristics of the service members in devising a military welfare policy. The following are the main topics being pursued.

4.20 The MND is refining the military salary system so that the unique characteristics of military service, such as their ranks, duties and working environment are reflected in the salary system. In particular, the MND is exerting its efforts to raise the salary of career service members tantamount to that of conglomerates, and to expand various allowances to heighten the morale and passion of those service members who are serving under difficult conditions. In addition, the

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<sup>48</sup> Chapter 9, 2012 Defense White Paper

MND plans to create new benefits, such as service member allowances, separated family allowances, and family college

UK<sup>49</sup>

4.21 Pay comparability: Our terms of reference require us to “have regard for the need for the pay of the Armed Forces to be broadly comparable with pay levels in civilian life.” While it is often difficult to find direct civilian comparators for military roles, we see pay comparability as important in ensuring the Armed Forces pay enough to recruit, retain and motivate the personnel they need.

USA<sup>50</sup>

4.22 The wartime climate has tempered the desire of America’s youth to join the military. These competing pressures mean that the civilian economy must be continuously monitored to guard against adverse recruiting and retention outcomes. It also means guarding against drastic cuts in recruiting resources, as some resources, such as advertising and recruiters, take time to reconstitute. The recent past has proven how quickly the recruiting environment can deteriorate and the cost of not being prepared. Compensation plays an important role in recruiting, retaining, and motivating the men and women in uniform who serve this nation. Without adequate compensation, the nation would be unable to sustain the all-volunteer force, in the size and with the skill sets needed to support the missions called for in the national security strategy. To maintain its viability, members of the all-volunteer force must receive compensation that is competitive with civilian earnings.

### **Pay & Allowances of selected countries**

4.33 It is difficult to get this information in the public domain, except for the UK & USA, who have institutionalised a regular review system and these finding and recommendations are available in the public domain.

### **PAKISTAN**

4.34 The pay of Pakistan Govt employees including civilian paid from defence estimates have been revised on 1.7.1983, 1.7.1987, 1.6.1991, 1.6.1994, 1.12.2001, 1.7.2005, 1.7.2007, 1.7.2008 and 1.7.2011. These scales are revised based on Pay and pension Commission. The last revision has been notified Vide Government of Pakistan Finance Division (Regulations Wing) No.F.L (5) Imp/2011 419 Dated, The 4th July, and 2011. **The pay scale and allowances admissible to Pakistan armed forces personnel are not available in public domain. Even the advertisements for recruitment in the media do not carry the pay scales.** With the inception of civil service reforms of 1973, the erstwhile rank hierarchy was replaced by a system of 22 national pay grades known as Basic Pay Scales (BPS), covering: workers performing unskilled tasks under BPS-1-4; various categories of clerical personnel under BPS-5-15; superintendents under BPS-16; and officers under BPS-17-22.

4.35 The challenge for the study was to establish linkages with these pay scales

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<sup>49</sup> PARA 2.24 Armed Forces’ Pay Review Body Forty-Third Report 2014 *Chair: John Steele*

<sup>50</sup> Military Compensation 21<sup>st</sup> Century-11th Quadilateral review Military Compensation (QRMC)

with a primary source document giving Pakistan military scales. This patient search was rewarded with an accidental access (pdf document) to the Pay and Allowances Regulations Volume 1 Army 1997 (Pakistan). This document has the rank wise pay scales of the Army up to the rank of Lt General. It also has the civilian BPS applicable from 1 June 1994. A table indicating the Rank and the BPS scale applicable is tabulated below.

Table No 62

Rank	BPS applicable	Rank	BPS applicable
Lieutenant General	BPS-22	Subedar Major	BPS-16
Major General	BPS-21	Subedar	BPS-15
Brigadier	BPS-20	Naib Subedar	BPS-13 or BPS-14
Colonel	BPS-19	Havildar	BPS-11 or BPS-9
Lieutenant Colonel	BPS-19	Naik	BPS-9 or BPS-8
Major	BPS-18	Lance Naik/Soldier	BPS-8 or BPS-7
Captain	BPS-17		
Lieutenant	BPS-17		
Second Lieutenant	BPS-17		

The relevant BPS tables effective 01 July 2011 are appended below.

Table No 63

Basic Pay Scales-2011									
BPS	MIN	INCR	MAX	STG	BPS	MIN	INCR	MAX	STG
7	5,800	320	15,400	30	15	8,500	700	29,500	30
8	6,000	350	16,500	30	16	10,000	800	34,000	30
9	6,200	380	17,600	30	17	16,000	1,200	40,000	20
10	6,400	420	19,000	30	18	20,000	1,500	50,000	20
11	6,600	460	20,400	30	19	31,000	1,600	63,000	20
12	7,000	500	22,000	30	20	36,000	2,350	68,900	14
13	7,500	550	24,000	30	21	40,000	2,600	76,400	14
14	8,000	610	26,300	30	22	43,000	3,050	85,700	14

Rank Pay Colonels: In addition to pay, Colonel is allowed rank pay (it was Rs 300 in 1994)

Chairman Joint Chief of Staff Committee, Chief of the Army Staff and any other officer of the rank of General shall receive pay of appointment (Rate with effect from 1<sup>st</sup> June 94 was f Rs.20250.00 per month when the maximum of BPS 22 was 17000)

### **Non-Functional Upgradation**

4.36 A concept of Non Functional Upgradation was introduced in the Pakistan defence services from 01 June 1994; it is called 'Move Over'. "Move over will be granted to all Commissioned officers including AFNS officers subject to the conditions laid down here-under. The move over shall not be construed to be a promotion to the higher rank but the higher pay scale shall be an extension of the pay scale of the rank actually held by the officer.

- Commissioned Officers including AFNS Officers up to the rank of Colonel after Completion of one year at the maximum pay of their Scale will be eligible for move over to the pay scale of next higher rank w.e.f the next year of commissioned service following the completion of one year on the maximum pay subject to fulfilment of usual conditions of move over. They will continue to draw increments w.e.f 1<sup>st</sup> June of subsequent years; so long they remain in the higher scale due to move-over.
- Lt Col and Colonel. (Except in Case of AFNS officers) will move-over to Brigadier/ pay scale. In case of AFNS officers, Lt Colonel will move-over to Colonel Pay scale and a Colonel will move-over to Brigadier Pay scale.

Length of Service. The officers should have completed the following length of Commissioned service for move-over to next higher pay Scale: -

Lt/Captain. For move-over to Capt/Maj Pay scale – 5 Years

Major. Move-over to Lt Colonel's Pay scale -12 years

Lt Colonel Move-over to Brigadier Pay scale -17 years

Benefits on Move -over

4.37 The officers granted move-over to a particular scale shall continue getting the misc. pay and allowance viz Command/staff/Charge/Instructional Pay/Disturbance pay etc. and other fringe benefits of the rank actually held.

4.38 Officers allowed move-over shall not be entitled to any charge in rental ceiling. The house rent allowance shall continue to be payable on the basis of initial of the pay scale of the rank actually held (excluding local rank).

The officer shall not be allowed two successive move-overs in the same rank. However, if an officer is subsequently promoted to the rank to which he held is subsequently promoted to the rank to which he had previously moved-over, he shall again become eligible for further mover-over.

4.39 There are a host of allowances for Officers and personnel below officer rank, but these are not being elaborated in the report, as the current admissibility/rates are not known

## **RUSSIA**

4.40 The Pay and Allowances are designed keeping the structure of the armed forces and the intake model followed by the country. Russia still follows conscription<sup>51</sup>. It has been incentivised to encourage compliance. One of the benefits of serving in the military is the opportunity to enter a university on easy terms. Russian laws dictate that citizens who had done compulsory military service have a right to join a state university on easy terms, which include replacement of examinations by interviews or reduction in the number of examinations. Military service is a requirement for those who want to make a career in certain governmental or official organizations. Many public institutions and organizations do not hire men who haven't served in the military. Contract service is available to all men up to 40 years old, provided they have done their Draft military service for at least 6 months. The defence forces meet their need for professionals through contract service– they are recruited as officers and after completing the officer training department program start their service as lieutenants. Contract servicemen are entitled to special privileges: free housing, out-of-competition entry into the military higher education institution, extensive vacation, and long-service bonuses. Non-working wives of contract servicemen are eligible for work record. Russian citizens are permitted to substitute military service with alternative civil service. The term of alternative civil service is 18 months and alternative civil service is a substitute of Draft (only the citizens fit for military service can be assigned to alternative civil service).

4.41 Post the emergence of Russia, the economic constraints had meant sharp decline in the resources allocated for defence and resulted in weaponry becoming obsolete, and low level of investment in buying new hardware. The salaries and pensions were not reviewed, hard living conditions resulted shortage of qualified officers, low levels of motivation and a lack of training, adversely impacting combat readiness. The Russian Federation's armed conflict with Georgia revealed a number of shortcomings and was a wakeup call. A revision of pay and allowances was first made in 2009, but after a more comprehensive review new pay and allowance were made effective<sup>52</sup> from 1<sup>st</sup> January 2012, the total budget and personnel expenditure rose from 1515.96 and 570 Billion Roubles in 2011 to 1814.10 and 946.97 Billion Roubles in 2012 respectively an increase of 68% in Personnel expenditure (Annexure 'H' to the report refers. Russia has a unique pay structure comprising of Rank base Pay rates, Position Pay and Monthly bonus depending upon nature of duty and or deployment. These are tabulated below.

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<sup>51</sup> Ministry of Defence Russian federation website

<sup>52</sup> <https://russiamil.wordpress.com/2011/12/13/new-pay-structure-approved/> Compiled based on notifications published in "Rossiiskaya Gazeta" (Russian Gazette) "Rossiiskaya Gazeta" enjoys official status, because acts of state come into effect upon their publication in this.



Table No 64

Military Rank	Monthly Pay (Roubles)	Military Rank	Monthly Pay (Roubles)
Marshal	30000	Chief warrant officer or Midshipman	8500
Army General or Admiral (4 stars)	27000	Warrant officer or Midshipman	8000
Colonel General or Admiral (3 stars)	25000	Master Sergeant or Chief Ship Petty Officer	7500
Lt. General, Vice Admiral (2 stars)	22000	Senior Sergeant or Chief Petty Officer	7000
Major General, Rear Admiral (1 star)	20000	Sergeant or Petty Officer 1 <sup>st</sup> Class	6500
Colonel, Captain 1 <sup>st</sup> rank	13000	Junior Sergeant or Petty Officer 2 <sup>nd</sup> class	6000
Lt. Colonel, Captain 2 <sup>nd</sup> rank	12000	Private 1 <sup>st</sup> class (Gefreitor) or Senior Seaman	5500
Major, Captain 3 <sup>rd</sup> rank	11500	Private or Seaman	5000
Captain, Captain Lieutenant	11000		
Senior lieutenant	10500		
Lieutenant	10000		
Junior lieutenant	9500		

Monthly bonuses:

- **Monthly bonus for seniority:** 2-5 years - 10%, 5-10 years - 15%, 10-15 years - 20%, 15-20 years - 25%, 20-25 years - 30%, 25 years and more - 40%
- **Monthly bonus for class qualification:** 3rd class - 5%, 2nd class - 10%, 1st class - 20%, master class - 30%
- **Monthly bonus for working with classified materials:** "Critical importance" - 25%, "Top Secret" - 20%, "Secret" - 10%
- **Monthly bonus for special conditions of service:** 100% of monthly pay rate
- **Monthly bonus for peacetime service connected with risk to life and health:** 100% of monthly pay rate
- **Monthly bonus for special service merit:** 100% of monthly pay rate
- **Bonus for effective discharge of duty:** Up to 3 monthly pay rates a year
- **Annual material support:** No less than one monthly pay rate.

Table No 65

Position	Monthly Position Pay	Position	Monthly Position Pay
First Deputy Minister of Defense	45000	Corps commander, directorate head at unified strategic command HQ	32500
Deputy Minister of Defense	44000	Division commander	30500
Commander of a service (Ground forces, Navy, Air Force)	42000	Department head at unified strategic command HQ	29500
Head of a chief directorate, commander of a branch of the armed forces (rocket forces, Russian Airborne Troops etc.)	40000	Brigade commander, department head in combined army HQ	29000
Deputy head of a chief directorate, commander of a combined army	37000	Regiment commander	26500
Head of a directorate	36000	Senior officer at unified strategic command HQ	26000
Deputy head of directorate	34000	Senior officer at combined army command HQ	25500
Department head	31500	Officer at unified strategic command HQ	25000
Deputy department head	30000	Officer at combined army command HQ	24500
Head of a group in a department	29000	Battalion commander	24000
Senior officer in a directorate	28000	Company commander	22000
Officer in a directorate	26500	Platoon leader	20000
Squad leader	15000	Contract soldier initial pay	10000

4.42 In addition to the above there is a focus on quality of housing provided and in the case contract servicemen the Govt makes servicemen the mortgage payments till he remains on contract service.

## UK

4.43 As on July 01, 2013 the total strength of the UK<sup>53</sup> Armed Forces was 173980. The total strength as well as individual service strength has all reduced substantially from 1950s when the strength was 696500. The service wise breakdown was Army 364100, Air Force 193100 and the Navy was 139300.

4.44 The Armed Forces' Pay Review Body (AFPRB) is a non-departmental public body (and a Review Body) established to review and recommend the pay and terms and conditions of employment of the British armed forces. The Ministry of Defence funds it, and the Office of Manpower Economics provides the Review Body with an independent Secretariat.

4.45 The Review Body is to have regard for the need for the pay of the Armed Forces to be broadly comparable with pay levels in civilian life. The pay scales are point to point i.e. years of service and rank. The annual report submitted by this body recommends the annual increase in pay and examines some individual elements every year with the aim to review every individual element once every five years or so.

4.46 The AFPRB provides independent advice on the pay and charges and are responsible for submitting reports and recommendations on pay and charges for members of the armed forces. When reaching its recommendations, it considers<sup>54</sup>:

- The need to recruit, retain and motivate suitably able and qualified people taking account of the particular circumstances of service life.
- Government policies for improving public services, including the requirement on the Ministry of Defence (MOD) to meet the output targets for the delivery of departmental services.
- The funds available to the MOD as set out in the government's departmental expenditure limits and inflation target.
- The need for the pay of the armed forces to be broadly comparable with pay levels in civilian life.
- Evidence submitted by the government and others.

4.47 The elements examined in its 43<sup>rd</sup> report were:

- Longer Separation Allowance, Unpleasant Living Allowance, Military Provost Guard Service, Service Nurses and Financial Retention Incentives for Weapon Engineering Submarines Strategic Weapons System and Tactical Weapons System specialities.
- Recruitment and Retention Pay (RRP)
- Compensatory allowances that are not reviewed separately
- Provision of subsidised accommodation
- Increases to accommodation charges
- Daily Food Charge (DFC)

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<sup>53</sup> Defence personnel statistics, SN/SG/02183

<sup>54</sup> Armed Forces' Pay Review Body-Forty-Third Report 2014

4.48 The salient findings of the body in its 43<sup>rd</sup> report are:

- Despite some serious gaps in certain key skills areas, MOD did not have any major concerns with recruitment and retention in the Armed Forces as a whole.
- Most personnel, salaries have changed little relative to civilian employees over the last ten years.
- Targeted measures play an important role in supporting recruitment and retention in areas where there are staffing pressures.
- Subsidised accommodation for Service personnel and their families is a key component of the overall military remuneration package and remains high on their list of priorities.
- A sustained period of pay restraint, with base pay increases set at levels below inflation, risks having a significant impact on the morale and motivation of Service personnel and could impact adversely on retention, particularly in groups with key skills.
- MOD will need to shape carefully, and communicate effectively, the changes planned under the New Employment Model (NEM), including pay structures and accommodation. It will be important that the overall offer remains attractive and that MOD considers how to moderate any possible negative impact on individuals through transitional arrangements that allow personnel and families to adjust.
- Armed Forces 2013 salaries (excluding X-Factor)<sup>55</sup> are broadly competitive with those in the civilian sector (PwC qualified that its analyses applied to a snapshot in time – for 2013. This snapshot came after an unprecedented period of economic slowdown that resulted in a long period of pay restraint across the economy. PwC observed that its findings may change in the future as the economy and job market change.)
  - Officers have base pay that is between 100 and 109 per cent of the median of the civilian sector. If allowances and incentive pay are included ('total cash'), then the value of the Officers' remuneration falls to being between 79 and 107 per cent of the median of the civilian sector (reflecting in part the availability of significant incentives in the private sector).
  - Other Ranks have base pay that is between 107 and 118 per cent of the median of the civilian sector. If allowances and incentive pay are included ('total cash'), then the value of the Other Ranks' remuneration is between 100 and 119 per cent of the median of the civilian sector.
  - For both Officers and Other Ranks, both base pay and total cash compares more favourably with that for civilian public sector jobs than with that for civilian private sector jobs. However, hours worked by Service personnel may be well in excess of those of their comparators, which would mean that pay per hour compares less favourably.
  - Across all ranks, Armed Forces pay (both base pay and total cash) is more competitive for the lowest ranks and less competitive for the

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<sup>55</sup> PricewaterhouseCoopers (PwC) was commissioned by AFPRB to compare pay levels in the Armed Forces with those in civilian life and some of their findings are summarized here

highest ranks.

4.49 The recommendations of the 43<sup>rd</sup> report based on all the evidence the committee received in line with the terms of reference and taking in to account MOD's affordability constraints and the Government's wider evidence on the economy and pay restraint and also recruitment and retention, motivation and broad pay comparability were:

A one per cent increases in base pay;

Targeted pay measures:

- A one per cent increase in all levels of Longer Separation Allowance with the addition of two extra levels at the top end of the scale;
  - A one per cent increase in all levels of Unpleasant Living Allowance;
  - A one per cent increase in Recruitment and Retention Pay (RRP) (unless specified otherwise), compensatory allowances and Reserves' Bounties;
    - RRP (Nursing) to be retained for suitably qualified Specialist Nurses, but changed to Non-Continuous Basis for those at OF4 and above. RRP (Nursing) for Registered Nurse (Adult) level 2 be held for 2014 and phased out by 2016;
    - RRP (Parachute Jump Instructor) levels and supplement to be maintained and rates held at their 2013-14 levels. The basis of payment for those at OF4 and above to be changed to a Non-Continuous Basis;
    - RRP rates to be held at their 2013-14 levels for those receiving RRP (Mountain Leader) and RRP (Aeromedical and Escort Duty);
    - RRP (Diving) rates be uplifted by one per cent; the Clearance Diver Pay Spine be uplifted by one per cent; and the Explosive Ordnance Disposal Supplement for Royal Navy Clearance Divers be increased to align it with RRP (Explosive Ordnance Disposal Operator) and that the increase is also reflected in that element of the Clearance Diver Pay Spine;
    - A new Financial Retention Incentive for personnel serving in the Weapon Engineering Submarines Strategic Weapons System (at OR 6-8) and Tactical Weapons System (at OR 6-7) specialities (with effect from 1 October 2013);
- An increase of 2.2 per cent to all grades of Service Family Accommodation rental charges in line with the rental component of RPI;
  - Increases of 2.2 per cent to grade 1, 1 .5 per cent to grade 2, 0 .7 per cent to grade 3 and zero to grade 4 for Single Living Accommodation rental charges;
  - A Daily Food Charge of £4 .72 (an increase of 29 pence, or 6 .5 per cent)

4.50 The recommended annual pay scales for officers and other ranks including X-factor are placed at Annexure 'S' and 'T' to this report. For Officers there is a single pay range, with incremental pay levels at each rank. The rate of basic pay payable to

an Officer is determined by their rank, profession/branch or trade, length of service and satisfactory performance. For Other Ranks there are two pay spines, each divided into ranges, which apply to one or more ranks with incremental pay levels at each rank. Other Ranks are allocated to one of the two pay spines as a result of job evaluation. The AFRB recommended pay scales are only up to the rank of Brigadier and equivalents in the other services.

4.51 The Civil Service grades and equivalent Armed Forces ranks of the senior posts are shown in the following table:

Table No 66

Senior Civil Service Pay Band (SCS PB)	SCS PB 4 (OF-9)****	SCS PB 3 (OF-8)***	SCS PB 2 (OF-7)**
Army	General	Lt General	Major General
Navy	Admiral	Vice Admiral	Rear Admiral
Air Force	Air Chief Marshal	Air Marshal	Air Vice Marshal
<ul style="list-style-type: none"> <li>The Civil services pay bands and the equivalent Armed Forces ranks table is based on Organograms and Data Sets published by MOD.</li> </ul>			

4.52 The comparative pay scales for 2014 are given below. While the Civil servants pay scales have 10 stages, the Pay scale of Defence officers' pay scales have six stages. A table giving the details for March 2014 giving the posts filled in UK MoD and the pay scales at 2013 (the pay scale at 2014 level are applicable from April 2014 onwards) as available on UK Govt website is placed at Annexure 'W1' to this report.

Table No 67

Level	OF-9 ****	Pay Scale 4	OF-8 ***	Pay Scale 3	OF-7**	Pay Scale 2	
		144895		107464		84184	Minimum
		148652		110191		85951	2
		152409		112918		87719	3
		156166		115645		89486	4
1	168606	159923	128526	118372	110463	91254	5
2	172821	163681	134826	121099	112621	93021	6
3	177142	167438	141441	123826	114824	94789	7
4	181571	171195	146998	126553	117070	96556	8
5	185202	174952	151332	129280	119361	98324	9
6	188906	178709	155797	132007	121697	100091	Maximum
scs_pay_scales_1_august_2014.pdf (www.dfpni.gov.uk/scs_pay_scales_1_august_2014.pdf) Thirty-Sixth Annual Report on Senior Salaries 2014 REPORT No. 82 <a href="https://www.gov.uk/government/.../Senior_Salaries_36th_Report.pdf">https://www.gov.uk/government/.../Senior_Salaries_36th_Report.pdf</a>							

4.53 ‘X-factor’, was introduced in 1970 in recognition of the disadvantages of service life, such as: danger; turbulence; separation; hours of work; restrictions on leave and access to trade union membership; impact of the job; and social aspects of the job. X-Factor is an addition to pay, which recognises the special conditions of service experienced by members of the Armed Forces compared with civilian employment. The rate of the X-factor is reviewed every 5 years by the AFPRB. In 2008 the AFPRB recommended that the X-factor be increased by 1% to 14% of base salary. This was last reviewed in 2013. AFRB had undertaken a full examination of a wide range of evidence including MOD’s assessment of changes for the military; independent research on civilian trends; and views of Service personnel and their families. AFRB’s independent analysis of the evidence led it to conclude there had been deterioration in the conditions of military life relative to civilian life. AFRB recommend that X-Factor should increase by 0.5percentage point to 14.5 per cent. The review-tabulated component wise, which was included in the AFRB’s 42nd report, is reproduced below.

**Table 4.2: X-Factor Review – assessment by component**

- Component has improved since last review
- Component has worsened since last review
- = Component is unchanged since last review

X-Factor component	Military	Civilian	Net change
Turbulence	●	=	●
Danger	●	●	●
Separation from home and family	●	●	●
Job satisfaction	=	=	=
Job security	●	●	=
Hours of work	=	=	=
Stress at work	●	=	●
Leave	=	=	=
Support to personnel and families	●	●	●
Training	=	●	●
Promotion and early responsibility	=	=	=
Autonomy/management control/flexibility	=	=	=
Divorce	=	=	=
Health and education	●	=	●
Individual rights	●	●	=
Adventure and travel	●	=	●
Trade union membership and industrial action	=	=	=
Travel to work	●	●	=

#### Graduates in public sector professions

4.54 A regular feature of the AFRB report is the comparison with graduates in public sector professions. The report states that that the starting salary and early pay progression for graduates entering the Armed Forces as direct entrants to the Officer cadre compared favourably with that for other public sector professions. The table below shows, after adjustments for X-Factor (Divide the pay by a factor 1.145) and pensions (multiply by 1.04), an Armed Forces Officer received higher starting pay

than a doctor, nurse, teacher, or Police Officer but less than a fast stream civil servant. In addition, salary progression for the Armed Forces Officer means that after three years, the Armed Forces graduate entrant might expect to be paid more than any of these other professions.

Graduate pay of public sector professions in 2013

Table No 68

	Graduate starting pay	Graduate pay after	
		1 year	3 years
Salaries in £			
Fast-Stream Civil Servant (BIS)	27,000	28,000	30,000
Armed Forces' Officer	23,052	27,707	35,507
Doctor	22,636	28,076	31,838
Teacher	21,804	23,528	27,376
NHS Nurse	21,388	22,016	23,825
Police officer	19,191	22,221	24,240

Department of Business Innovation and Skills (BIS)

Armed Forces pay adjusted for X-Factor (/1.145) and for pensions (x1.04). Assumes starting at OF1 Level 5 and progression to OF2 after 3 years.

USA

4.55 Every four years, the president directs<sup>56</sup> “a complete review of the principles and concepts of the compensation system for members of the uniformed services.” The First Quadrennial Review of Military Compensation (QRMC) was convened in 1965. Since that time, ten subsequent reviews have taken place. The presidential directive was issued on 11 Dec 2009 and the 11<sup>th</sup> QRMC submitted its report in June 2012.

4.56 The 11<sup>th</sup> QRMC was chartered to examine whether compensation levels were sufficient to sustain recruitment and retention of the high- calibre men and women in uniform who serve America. The terms of reference required the 11<sup>th</sup> QRMC to examine four areas of the military compensation system:

- Compensation for service performed in a combat zone, combat operation, or hostile fire area, or while exposed to a hostile fire event
- Compensation benefits available to wounded warriors, caregivers, and survivors of fallen service members
- Compensation and benefits for the reserves and National Guard, consistent

<sup>56</sup> United States Code, Section 1008(b), title 37. The seven uniformed services are: United States Army, United States Marine Corps, United States Navy, United States Air Force, United States Coast Guard, United States Public Health Service Commissioned Corps, and National Oceanic and Atmospheric Administration Commissioned Corps.



with their current and planned utilization

- Pay incentives for critical career fields such as mental health professionals, linguists/translators, remotely piloted vehicle operators, and special operations personnel

4.57 As is the norm in the previous QRMC, the 11<sup>th</sup> QRMC also assessed the competitiveness of military compensation with the private sector—an understanding of which in the US system serves as a foundation for examining specific elements of the compensation system.

4.58 The six principles of the military compensation system<sup>57</sup> that were put forth in the 5<sup>th</sup> QRMC and have been reiterated in the 11<sup>th</sup> QRMC require that the system:

- **Be integral to overall manpower management.** The military compensation system, by the very nature of its purpose, must support manpower policies that, in turn, support the military, strategic, and operational plans of the nation.
- **Achieve economic and military efficiency.** The level of military compensation should be no higher or lower than necessary to fulfil the basic objectives of attracting, retaining, and motivating the type and numbers of personnel needed for the active and reserve forces.
- **Achieve equity.** Service members must believe that they are treated fairly. This principle deals with the concept of equal pay for substantially equal work under the same general working conditions. Yet equity does not always mean *identical*, as there can be different conditions of employment within or among the uniformed services.
- **Be effective in peace and war.** The military compensation system must operate effectively in both peace and war. It must allow for rapid and smooth expansion and contraction of the force, and apply to reservists and retirees as well as active duty members.
- **Have sufficient flexibility.** The compensation system should be designed in such a way that adjustments can be made quickly in response to changing conditions in manpower supply and demand, and in combat tactics and technology. The compensation system should allow for rapid and equitable adjustments to reflect changes in the national economy and should avoid rigid linkages between elements designed to serve different needs.
- **Provide sufficient motivation to the individual.** Compensation should be designed to encourage superior performance and advancement to higher responsibilities.

### **Unique features of the US compensation package.**

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<sup>57</sup> The principles detailed here were drawn from the Fifth Quadrennial Review of Military Compensation, Executive Summary, January 1984

4.59 **Annual Pay adjustment:** Ever year fresh pay tables applicable from 01 January of the year are published. The basic pay is increased in step with the Employment Cost Index (Employment Cost Index, is a measure compiled by the Bureau of Labour Statistics to track the costs of labour for businesses.) plus one-half of one percentage point from 2002 through 2006—a policy that was ultimately extended through 2011. It was 1.6% in 2012, 1.7% in 2013 and 1% in 2014. Essentially, when the ECI goes up, so does military pay, so that military salaries do not fall behind civilian ones. The Pay table for 2014 are placed at Annexure ‘U’ and ‘V’ to this report.

4.60 **Tax exemptions:** the following allowances are exempt from tax. In addition to being tax-exempt from Federal and State taxes, these allowances are also excluded from Social Security taxes.

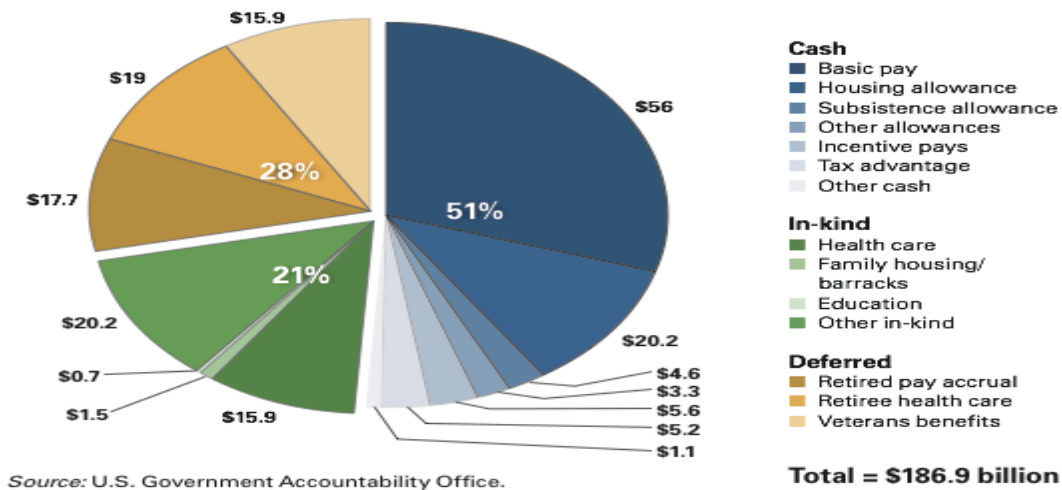
- **BAH (Basic Allowance for Housing)** The Basic Allowance for Housing (BAH) is based on geographic duty location, pay grade, and dependency status. The intent of BAH is to provide uniformed service members accurate and equitable housing compensation based on housing costs in local civilian housing markets, and is payable when government quarters are not provided. Each year the BAH tables are released between December 15 and January 1. E.g. BAH allowance for New York City for officers O-1 to O-7 scale with dependents ranges between \$3270 to 4509 per month.

- **BAS (Basic Allowance for Subsistence)** BAS is an allowance paid to every military service member to defray the cost of their meals. It is not designed to pay for the meals of families. Because BAS is paid, military members may be charged for their meals provided by the Department of Defense. This too is revised annually and the rates for 2014 are Officers: \$246.24 and \$357.55 per month for Enlisted.

4.61 **Combat Zone tax exemption:** Combat zones are designated by an Executive Order from the President as areas in which the U.S. Armed Forces are engaging or have engaged in combat. The combat zone includes the airspace over it. Personnel when they serve in a combat zone for any part of a month, their military pay received for military service that month is excluded from gross income. For commissioned officers, the monthly exclusion is capped at the highest enlisted pay, plus any hostile fire or imminent danger pay received. Military pay received by enlisted personnel who are hospitalized as a result of injuries sustained while serving in a combat zone is excluded from gross income for the period of hospitalization, subject to the 2-year limitation. Commissioned officers have a similar exclusion, limited to the maximum enlisted pay amount per month.

4.62 **Components of Military Compensation:** The report uses the GAO data to give the major components of the military compensation. The figure from this report is reproduced below.

Figure no 5



**Figure 2-1. Major Components of Military Compensation for Active Duty Personnel, Fiscal Year 2010**

4.63 Regular Military Compensation (RMC): RMC was evolved as a concept by Gorham Commission in 1962. On the recommendation of the 1<sup>st</sup> QRMC, the definition of RMC was expanded in 1967 to include the nontaxability of allowances, and in 1974 Congress codified the concept when it added the definition of RMC to the United States Code. It is defined as the sum of basic pay, average basic allowance for housing, basic allowance for subsistence, and the federal income tax advantage that accrues because the allowances are not subject to federal income tax. RMC represents a basic level of compensation which every service member receives, directly or indirectly, in-cash or in-kind, and which is common to all military personnel based on their pay grade, years of service, and family size. RMC has been the standard measure for comparing military and civilian pay for more than four decades.

4.64 The components of RMC have remained stable for some time, the 10<sup>th</sup> QRMC recommended expanding the definition of military compensation to include some of the substantial in-kind and deferred benefits provided to military personnel, which, in total, comprise roughly half of military compensation. Noting that noncash military benefits are typically more generous than civilian benefit packages, the 10<sup>th</sup> QRMC argued that excluding military benefits understates the differential between military and civilian compensation. It recommended that any comparison between military compensation and civilian wages include benefits that are “tangible, traditionally considered as part of a compensation package, and widely offered within the private sector.”<sup>58</sup> RMC is currently the most appropriate measure for civilian and military wage evaluations, allowing for a clear and understandable comparison between the “paychecks” of military personnel and civilian workers.

4.65 11<sup>th</sup> QRMC carried out comparisons for three categories, Annual earnings of enlisted service members and comparable civilians over a 20-year career,

<sup>58</sup> Report of the Tenth Quadrennial Review of Military Compensation: Volume I: Cash Compensation

Compensation of senior enlisted personnel (E-8s and E-9s) with civilians who have associate's and bachelor's degrees and Officers with civilians with a bachelor's or graduate-level degree. The results of the comparison included in the report are reproduced below.

Figure no 6

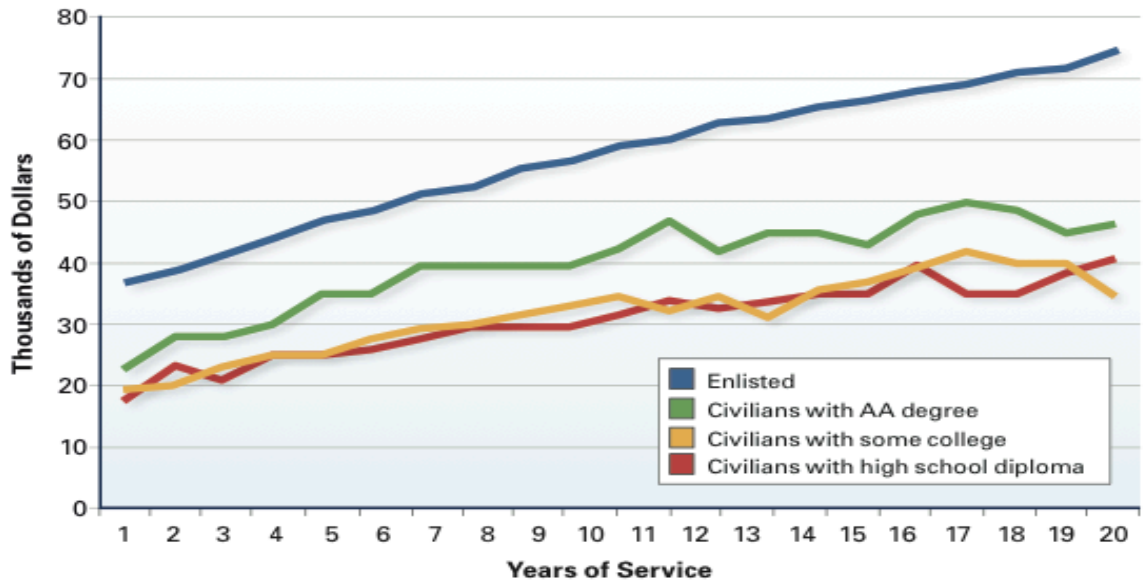


Figure 2-2. Enlisted Regular Military Compensation versus Civilian Earnings, 2009

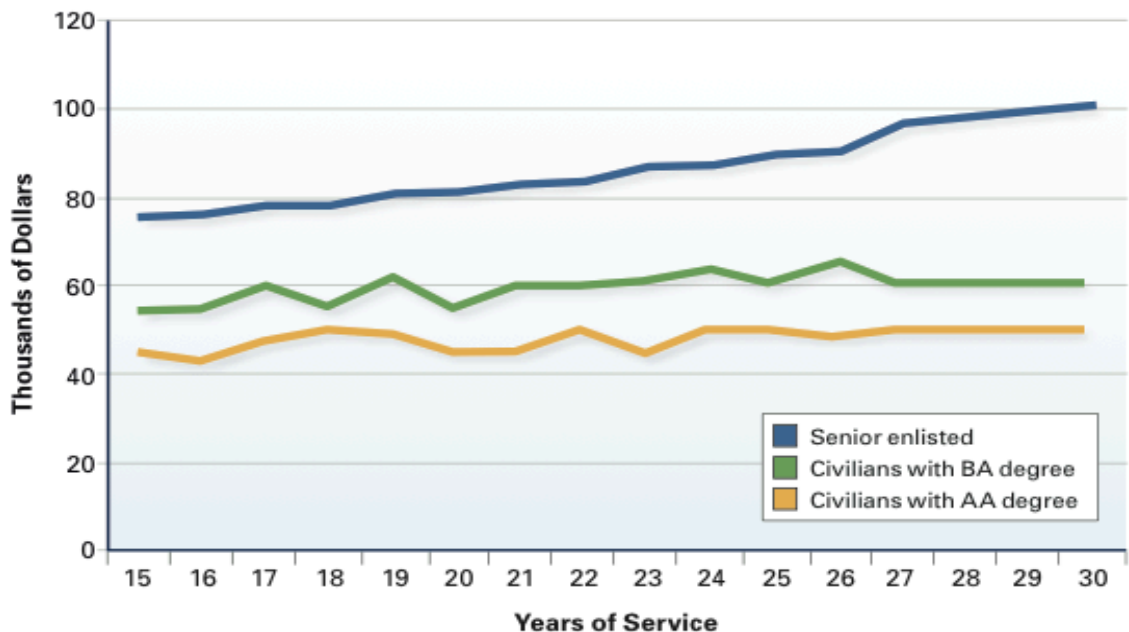


Figure 2-3. Senior Enlisted Regular Military Compensation versus Civilian Earnings, 2009

4.66 The report concludes that, “Military compensation has grown relative to civilian wages over the last decade, now corresponding to the 90<sup>th</sup> percentile of civilian wages for enlisted personnel, and the 83<sup>rd</sup> percentile for officers. But a

comparison of military and civilian wages does not, by itself, determine whether military pay is at the optimal level. Higher military earnings are necessary to compensate service personnel for the additional risks, hardships, and long work hours associated with military service. Setting military compensation above average civilian earnings also acknowledges the higher aptitude and achievements of military personnel.”

Figure no 7

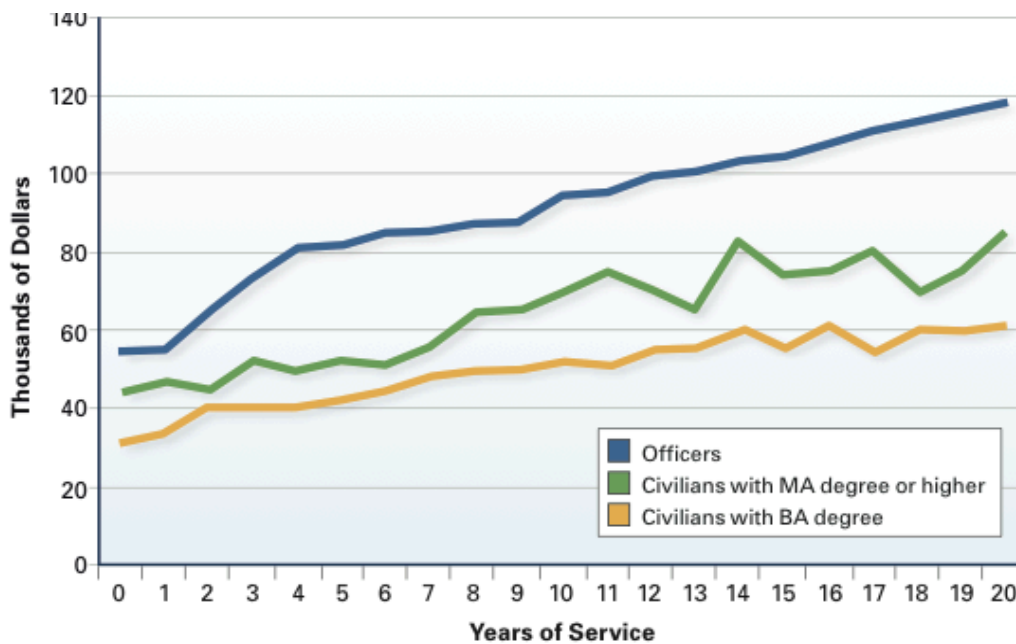


Figure 2-4. Officer Regular Military Compensation versus Civilian Earnings, 2009

4.67 **Combat Pay and Combat Zone Tax Exclusions:** The report examined these in detail, and based on their detailed analysis has recommended a review, which ensures a fair reward proportionate to the risk. It brings out that the two types of combat pay i.e. Hostile Fire Pay (HFP) and Imminent Danger Pay (IDP) are meant to cover two different situations. HFP had traditionally been reserved for the hazards of open warfare, not for the risks associated with low-intensity conflicts outside of war zones, which characterized many of the military deployments and peacekeeping operations of the 1980s and 1990s and Imminent Danger Pay (IDP), which provided HFP-equivalent pay to members in imminent danger due to civil war or insurrection, terrorism, or wartime conditions was introduced.

4.68 It finds that between 1990 and 1999, for example, the number of countries designated for Combat Pay grew from 13 to 45(not a single country deleted). Because HFP and IDP were set at the same level, personnel serving in high- and low-risk areas received the same pay and the monthly rate till 2012 was \$ 225 per month during which they were on duty in a designated area, or subject to hostile fire or a hostile mine explosion event. It is now prorated at 1/30<sup>th</sup> of the monthly amount for each day in a qualifying area, except when a member is actually exposed to hostile fire or a hostile mine explosion. This change recognizes that a member is only exposed to hazardous conditions while actually serving in a designated area. HFP/IDP benefit is the same irrespective of the country but the casualty rates vary considerably,

depending on the country in which a member is stationed.

4.69 Combat Zone Tax Exclusion relieves military members from paying federal income tax on pay received while in a combat zone designated by the president. Personnel serving outside designated combat zones can also receive CZTE benefits if they are serving in direct support of combat operations and receiving HFP/IDP, or are deployed to a qualified hazardous duty area and receiving HFP/IDP. The CZTE benefit is typically much larger than HFP/IDP, with an average annual benefit of approximately \$6,000, more than twice the annual HFP/IDP benefit. CZTE benefit varies considerably by member. In 2009, annual CZTE benefits ranged from a low of about \$280, to as much as \$22,430. CZTE benefit levels are based largely on service members' income levels. The higher a member's income, the greater the amounts that can be excluded from taxation. Hence the savings they realize from avoiding taxation are typically greater than the savings of junior enlisted personnel. In fact, because many junior members have low taxable income, they pay little or no income taxes and therefore gain little benefit from the tax exclusion.

4.70 In 2009, tax savings for military members associated with the CZTE totalled \$3.6 billion, more than four times the \$790 million spent on HFP/IDP. CZTE costs, however, these are not part of the DOD budget. Instead, they are tax revenues not paid to the Treasury. Hence, decisions by the DOD to request a combat zone designation do not result in increased costs to the department, but do enhance the take-home pay of military members. Likewise, termination of a combat zone does not create savings that the department can apply to other expenditures. CZTE is not prorated. Rather, the member's monthly pay is excluded from gross income regardless of the number of days actually served in a combat zone. First, combat benefits themselves are not correlated with exposure to combat or imminent danger. CZTE benefits—which comprise the bulk of combat compensation—vary based on income, family size, and other non-work-related considerations. The degree of risk to which a service member is exposed is not a factor in the CZTE benefit calculation. Nor does HFP/IDP reflect the risk to which personnel are exposed. Also contributing to the disconnect between risk and benefits is the fact that the degree of danger within designated combat zones varies significantly. Hence, those junior enlisted and junior officers who typically are more likely to be exposed to the greatest risk receive the lowest CZTE benefit, while senior officers who have high earnings (and potentially higher tax liability) receive the greatest benefit, even though they may face lower risks. As a result, service in hazardous environments is not being appropriately recognized, with many members who are far removed from combat receiving the same or often greater benefit as those who are actually in combat.

4.71 The 11<sup>th</sup> QRMC recommended:

Establish differentials in hazardous duty pays:

- Set Hostile Fire Pay at an amount higher than Imminent Danger Pay.
- Establish more than one level of Imminent Danger Pay to recognize different levels of exposure to danger.

Institute two tax credits to replace the Combat Zone Tax Exclusion:

- Establish a refundable Combat Tax Credit for which eligibility is contingent upon receipt of Hostile Fire Pay.
- Establish a separate Direct Support Tax Credit for which eligibility is contingent upon receipt of Imminent Danger Pay.

**Compare the salary structure of personnel in the Indian Defence Forces with those in similarly placed countries, preferably in purchasing power parity (PPP) terms.**

4.72 The terms of reference require the study to compare salary structure of personnel in the Indian Defence Forces with those in similarly placed countries, preferably in purchasing power parity (PPP) terms. The World Bank works out on annual basis ‘PPP conversion factor, GDP (Local Currency Unit per international \$)’. As the nomenclature suggests it is worked out specifically for comparing GDP, as each country generates the data in its own currency. Purchasing power parity conversion factor is the number of units of a country's currency required to buy the same amounts of goods and services in the domestic market as U.S. dollar would buy in the United States. This conversion factor is for GDP. PPP is therefore used worldwide to compare the income levels in different countries. PPP thus makes it easy to understand and interpret the data of each country.

4.73 Purchasing-power parity in theory implies that the exchange rate between one currency and another is in equilibrium when their domestic purchasing powers at that rate of exchange are equivalent. In short, what this means is that a bundle of goods should cost the same in India and the United States once you take the exchange rate into account. But in real life what one gets to see is different. The theory may be tested using two American products that are globally available. One product is the ‘Apple I Pad’. Apple product are designed in America, major portion of hardware used is manufactured in South East Asia and the products are assembled in China. The other product is the MacDonald’s ‘Big Mac Burger’. The recipe is standard all over the world; the ingredients are sourced, the wages, outlet rentals, establishment costs are incurred as per the local market and priced for sale in local currency. The ‘Big Mac index’ was invented by *The Economist* in 1986 as a light-hearted guide to whether currencies are at their “correct” level. It is based on the theory of purchasing-power parity (PPP), the notion that in the long run exchange rates should move towards the rate that would equalise the prices of an identical basket of goods and services (in this case, a burger) in any two countries. The price of both these global products is used to test the theory. While purchasing power parity theory helps us understand exchange rate differentials, exchange rates do not always converge in the long run the way PPP theory predicts. The results are tabulated in table no 69 below.

4.74 The price difference in the case of the I Pad suggests that the difference in prices may be due to the transportation cost and the duty/taxation structure of each country. The difference in the local price for the ‘Big Mac’ and the Rupee equivalent price based on the PPP rate based price suggests that caution needs to be exercised and PPP prices may not give realistic comparison for individual items. The comparison of salary in PPP terms pre supposes identical basket of needs to be filled, which again may not be a fair comparison.

Table No 69

Purchasing Power Parity						I Pad price in \$	Big Mac Price July 2014			
Country name	2009	2010	2011	2012	2013		Local price	Dollar ex rate	Dollar price	Local price @ 2013 PPP factor
China	3.15	3.32	3.51	3.51	3.52	602.52	16.9	6.20	2.73	9.60
France	0.86	0.86	0.84	0.86	0.85	688.49	3.68	0.74	4.95	4.21
Germany	0.81	0.8	0.78	0.79	0.78	618.34	3.68	0.74	4.95	3.86
India	13.18	14.19	15.11	15.91	16.76	512.61	105	60.09	1.75	29.29
Japan	115.44	111.59	107.45	105.17	103.45	501.56	370	101.53	3.64	377.00
S Korea	822.21	841.74	854.59	865.66	858.22	576.2	4100	1023.75	4.00	3437.07
Pakistan	18.94	20.75	24.35	25.28	26.77		300	98.68	3.04	81.38
Russian	14.03	15.83	17.35	18.49	19.29	596.08	89	34.84	2.55	49.28
United Kingdom	0.65	0.69	0.7	0.7	0.7	638.81	2.89	0.59	4.93	3.45
United States	1	1	1	1	1	499				

### Application of PPP factor

The Indian pay scale are not point-to-point, hence for the purpose of illustrating, the pay of General rank \*\*\*\*(NATO Code OF-09) is taken. Service officers are promoted to the rank of Lt Col & equivalent after 13 years of service, hence for comparison in Lt Col's rank 14<sup>th</sup> year of service has been taken. For Col's rank 21<sup>st</sup> year of service has been taken. In the case of PBORs a trainee's salary and that of Subedar Major has been taken. The maximum of Pay band 2 is Rs 34800, but it was checked and found from Air Force Central Accounts office that the highest rate of basic pay that a MWO has reached is Rs 23770 and with only one more incement possible in 2015, the highest level that an MWO will reach in the 6<sup>th</sup> CPC pay scale is Rs 24690, hence both these stages have been used for PPP comparison.



Table No 70

COMPARISON BASED ON PURCHASING POWER PARITY (PPP) \$								
	US	UK	INDIA*		US	UK	INDIA*	
For ****	19762**	188906	186300	MONTHLY	15125	15742	186300	
					1	0.7	15.91	
**For Officers at Pay grade O-7 to O-10, basic pay is restricted to \$ 15125.1 per month.				At PPP \$	15125	22489	11710	
Lt Col (14th years of service)		68679 (Annual)		Colonel (21st years of service)		86303 (Annual)		
Monthly Rate	7500	5723	109234		9625	7192	133122	
PPP Rate	1	0.7	15.91		1	0.7	15.91	
At PPP \$	7500	8176	6866		9625	10275	8367	
<p>*Pay in PB at the minimum for PBORs at entry and the highest in PB2 and for Officers at Lt Col rank in the 14th and for Col in the 21st year of service + Grade pay + MSP as applicable and DA @107%.</p> <p>**While 34800 is top of the scale for PB 2, the highest stage that an MWO has actually reached in the IAF is 23770. Taking an additional increment due in 2015, the highest that PBORs in the Armed Forces may reach is 24690</p>								
Rating		14492	6460	Highest Stage (PBORs)		47902	34800	24690**
	1416	1208	21652.2		7509	3992	86112	65184
	1	0.7	15.91		1	0.7	15.91	15.91
At PPP \$	1416	1725	1361	At PPP \$	7509	5703	5412	4097
<p>**** For officers serving as Chairman or Vice Chairman Joint Chief of staff or the Chief of Staff of the Army/Naval operations/Air Force or Commander Unified or specified command the basic pay for grade is \$ 21147.3 but restriction as at ** apply.</p>								

## **CHAPTER - 5**

Additional points – Reference letter dated 02 Feb 2015  
and 16 Feb 2015

## **Additional Points**

5.1 7<sup>th</sup> CPC referred some additional points to IDSA vide their letter dated 02 Feb 2015 and asked for a presentation of the report on 10 Feb 2015. An interactive presentation was made to the 7<sup>th</sup> CPC on 10 Feb 2015. Post the presentation to the 7<sup>th</sup> CPC and perusal of the draft report by them the commission vide their letter dated 16 Feb 2015 raised a few points that needed to be amplified/clarified. These are dealt with in this chapter.

## **Life Expectancy of Defence Pensioners as Distinct From Civil Pensioners**

5.2 Life expectancy is the expected (in the statistical sense) number of years of life remaining at a given age. It is denoted by  $e_x$ , which means the average number of subsequent years of life for someone now aged  $x$ . These are based on life table derived by comparing the population  $p(1)_x$  at age  $x$  in one census with their survivors reported at age  $p(2)_{x+10}$  in the next census. From the 10 years survival ratios, survival ratios for individual years are estimated.

### Calculation of life expectancy

5.3 In India, life expectancy at various broad age groups has been estimated through Sample Registration System (SRS)<sup>59</sup> since 1970-75. The Sample Registration System (SRS) is a large-scale demographic sample survey based on the mechanism of a dual record system with the objective of providing reliable estimates of fertility and mortality indicators at State and National levels for rural and urban areas separately. The estimated age-specific death rates derived from the SRS provide the necessary database for undertaking construction of abridged life tables. To adjust for the sampling fluctuation and for augmenting the sample size, five-year average is compiled for estimating age-specific death rates separately for rural and urban areas both for male and female. Estimated age specific death rates derived from the SRS provide the necessary database for undertaking construction of abridged life tables. Five year average is compiled for estimating age specific death rates separately for rural and urban areas both for male and female.

## **Retirement/Pension Related Application of Life Expectancy**

5.4 Life expectancy tables have been used on the following occasions in the past:

- 5<sup>th</sup> CPC –Institute of Applied Manpower Research (IAMR) was tasked by 5<sup>th</sup> CPC to study revision of the retirement age of Government employees. IAMR used increase in Life expectancy (at the age of 50 years increased from 14.81 years in 1950 to 27 years) as one of the factors in its report recommending raising of the retirement age.
- Planning Commission used the Life tables in its report, “Pension Liabilities of The Central Government: Projections And Implications”- Working Paper Series Paper No.1/2004-PC

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<sup>59</sup> ABRIDGED LIFE TABLES – 2003 - 07 to 2006 -10 [http://www.censusindia.gov.in/vital\\_statistics/SRS\\_Based/Introduction.pdf](http://www.censusindia.gov.in/vital_statistics/SRS_Based/Introduction.pdf)

– “According to the life tables, the average life expectancy of a male at the retirement age of 58 years is 18 years, i.e. up to 76 years. The female life expectancy is 3 years longer. “The assumed longevity of different categories of pensioners in the defence department would be altogether different from that of civilians, since defence pensioners would comprise a much younger age cohort. The average retirement age of a Commissioned Officer (CO) would be less than 58 years and is assumed to be about 52 years. Thus, an average longevity of 26 years has been assumed for army officers. However, the largest chunk of the pensioners belongs to the PBOR, who retire at a much younger age of about 40 years and an average life expectancy of a PBOR has been assumed to be 36 years.”

5.5 The life expectancy tables are drawn for different age levels and for each state of India and with the state disaggregated based on gender (male, Female) under Urban & Rural categories> The data from the recent tables is tabulated below:

Figure No 8

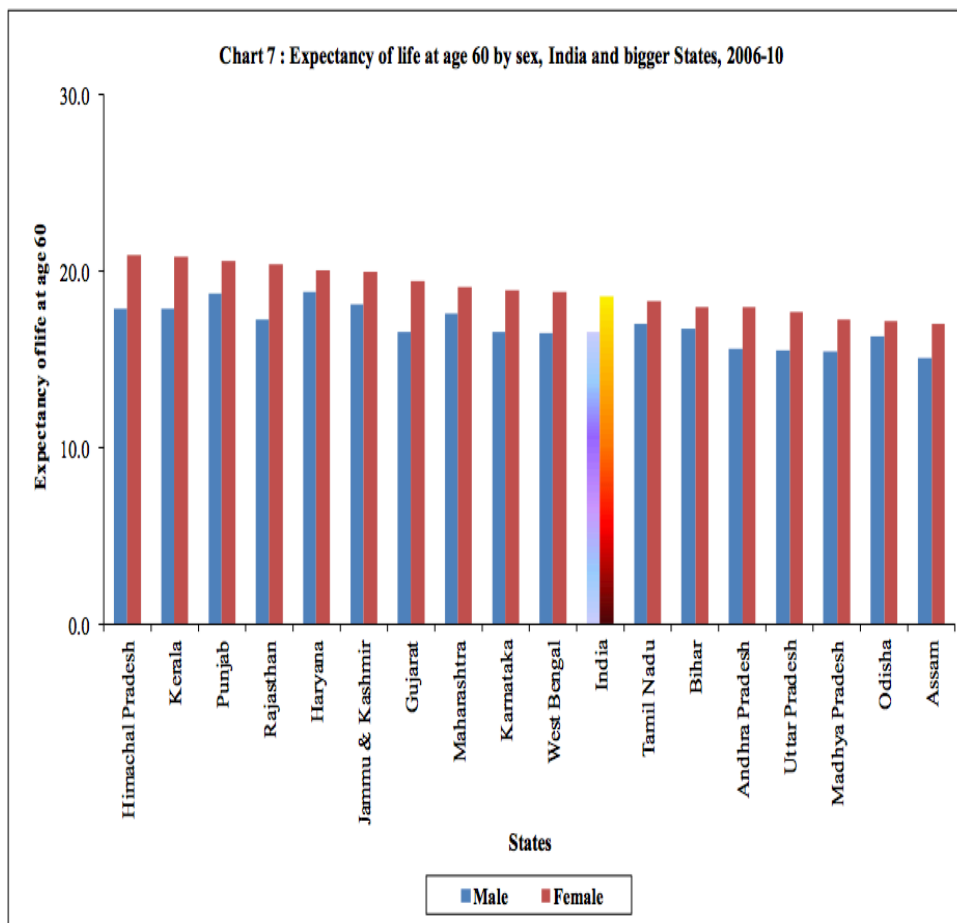


Table No 71

<b>Expectancy of life at birth and conditional life expectancy at selected ages by sex, India, 2006-10</b>				
AGE	TOTAL	MALE	FEMALE	
0	66.1	64.6	67.7	
1	68.7	67.1	70.5	
5	65.8	63.9	67.8	
10	61.2	59.3	63.2	
20	51.8	49.9	53.9	
30	42.7	40.9	44.8	72.7
40	33.8	32.2	35.7	73.8
50	25.3	23.9	26.8	75.3
60	17.5	16.5	18.6	77.5
70	11.3	10.7	12	81.3

Source: ABRIDGED LIFE TABLES- 2003-07 to 2006-10 Table no 5,6 & 7www.censusindia.gov.in/vital statistics/SRS\_Based/Introduction.pdf

5.6 The only official and census databased life expectancy reports have no unique categories for 'Life Expectancy of Defence Pensioners and Civil Pensioners'.

**Suggestions on how cases of invalidment on account of Neither Attributable Nor Aggravated (NANA) for service personnel with less than ten years' service can be dealt with in the existing statutory regime and in the case of disabled defence pensioners, suggestion on how family pension can be reckoned so as to provide succour to the family.**

5.7 Family pension as per the existing rules is payable to the 'Family' of a pensioner. In all forms of exits from service based on 'If' the individual is entitled to pension a PPO is issued and it also authorises 'Family Pension' which would be payable if the pensioner predeceases the entitled 'Family'. Hence where the member is not entitled to pension as per the rules there can be no family pension.

5.8 Defence services job requirement entails service in challenging environment and prolonged high intensity physical activity in adverse conditions. The medical standards are accordingly laid down and are high and this is ensured through a rigorous medical examination both at the time of recruitment and annually.

5.9 INVALIDMENT: The process where an individual is medically discharged from the Armed Forces because they do not meet the high medical standards. Invaliding applies to individuals whether or not their ill health or injury is attributable to their Armed Forces Service.

5.10 Section 47 of the 'The Persons with Disabilities (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995 (The provisions are applicable only to disabilities mentioned in the Act) provides:

- No establishment shall dispense with, or reduce in rank, an employee who acquires a disability during his service.
- No promotion shall be denied to a person merely on the ground of his disability.
- \*Government may, having regard to the type of work carried on in any establishment, by notification and subject to such conditions, if any, as may be

specified in such notification, exempt any establishment from the provisions of this section

S.R.O. 1179. - In exercise of the powers conferred by proviso\* to Section 47 of the Persons with Disabilities (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995 (1 of 1996) the Central Government having regard to the type of work carried on hereby exempts all categories of posts of combatant personnel of the Armed Forces from the provision of the said section.

5.11 The US & UK Provisions are reproduced below:

### **Disability Retirement**

#### **US**

A military member in an active component or on active duty for more than 30 days who is found unfit for duty is entitled to disability retired pay if the disability:

- 1) Is incurred while entitled to basic pay;
- 2) Is neither the result of the member's intentional misconduct nor wilful neglect;
- 3) Was not incurred during a period of unauthorized absence; and
- 4) Either: a. the member has at least 20 years of service; or

B. The disability is rated at least 30% under the Department of Veterans Affairs (VA) Schedule of Rating Disabilities and one of the following conditions is met:

i. The disability was not noted at the time of the member's entrance on active duty (unless clear and unmistakable evidence demonstrates that the disability existed before the member's entrance on active duty and was not aggravated by active military service);

ii. The disability is the proximate result of performing active duty;

iii. The disability was incurred in the line of duty in time of war or national emergency; or

iv. the disability was incurred in the line of duty after September 14, 1978.

#### **UK**

### **Non-attributable invaliding benefits**

5.12 If the individual is invalided from the Armed Forces because she/he is no longer fit enough for military employment they will initially receive, provided that they are eligible, a non-attributable Service Invaliding Pension (SIP). The benefits paid depend on your length of service. If:

#### **Under two years' full paid service**

– Have no entitlement to a Service Invaliding Pension (SIP). The AFPS administrators will arrange for the individual to be contracted back into the State Second Pension Scheme. This will qualify for certain State benefits for the period of the service in the Armed Forces.

**More than two years’ full paid service, but less than two years’ reckonable service**

– Will be entitled to a SIP, payable immediately. The SIP is calculated using preserved pension rates, or if greater, Requisite Benefits. The individual will also receive a terminal grant of three times the pension.

**At least two years’ but less than five years’ reckonable service**

– Will be entitled to a SIP, payable immediately, assessed using preserved pension rates. The individual will also receive a terminal grant of three times the pension.

**Five or more years’ reckonable service**

–Will be entitled to a SIP, payable immediately, assessed based on an enhancement to your length of service and on your rank. The individual will also receive a terminal grant of three times the pension. All SIPs are increased yearly in line with the All Items Retail Price Index from the date of invaliding from the Armed Forces.

5.13 As per the rules existing as on 31 Jan 15 the entitlement to pension for those invalidated from service and the promotion eligibility for those in low medical category are tabulated below:

Table No 72

<b>INVALIDMENT/LOW MEDICAL CATEGORY</b>				
	<b>LENGTH OF SERVICE</b>	<b>PENSION ENTITLEMENT-INCLUDING FAMILY PENSION</b>	<b>DISABILITY PENSION</b>	<b>COMPLIANCE TO SPIRIT OF THE ACT</b>
<b>NIETHER ATTRIBUTABLE NOR AGGRAVATED</b>	LESS THAN 10 YEARS	NIL	NIL	
<b>ATTRIBUTABLE OR AGGRAVATED</b>		YES. SERVICE PENSION & FAMILY PENSION BASED ON LAST PAY DRAWN	YES	
<b>NIETHER ATTRIBUTABLE NOR AGGRAVATED</b>	10≥	YES. SERVICE PENSION & FAMILY PENSION BASED ON LAST PAY DRAWN	NIL	
<b>ATTRIBUTABLE OR AGGRAVATED</b>		YES. SERVICE PENSION & FAMILY PENSION BASED ON LAST PAY DRAWN	YES.	
<b>PERMANENT LOW MEDICAL CATEGORY</b>	NO SELECT PROMOTIONS	NORMAL	NIL	

5.14 Hence the reasons for the Govt. to exercise its powers to waive the applicability of the provision of the Act is to with regards to the work carried out and performance demanded and not deprive the NANA cases of pensionary benefits.

## Supreme Court Judgement Feb 2015

5.15 The Honourable Supreme Court its judgment delivered in 2<sup>nd</sup> week of February has held that once a member of the Armed force is discharged on medical grounds, he will be entitled for disability pension, unless the employer is in a position to rebut the presumption that the disability, which he suffered, was neither attributable to nor aggravated by military service. Bench of Justices T.S. Thakur and R. Banumathi, “the essence of the Pension Regulations, Entitlement Rules and the Guidelines issued to the Medical Officers is that a member of the armed forces is presumed to be in sound physical and mental condition at the time of his entry into service if there is no note or record to the contrary made at the time of such entry. More importantly, in the event of his subsequent discharge from service on medical ground, any deterioration in his health is presumed to be due to military service.” The bench said “This necessarily implies that no sooner a member of the force is discharged on medical ground his entitlement to claim disability pension will arise unless of course the employer is in a position to rebut the presumption that the disability which he suffered was neither attributable to nor aggravated by military service”.

5.16 The decision, while dismissing 26 appeals filed by Ministry of Defence against disability pension granted by High Courts and Armed Forces Tribunal to physically and psychiatrically disabled soldiers, again reiterates what had been held by the Supreme Court in 2013 in *Dharamvir's* case, in 2014 in *Sukhwinder's* case and also by the Punjab & Haryana High Court in its landmark judgement in *Umed Singh's* case again in 2014. The following is notable from the dicta of the Supreme Court:

A. The opinion of the medical board stating that a disability is “neither attributable to, nor aggravated by military service” is not sufficient to deny disability pension to disabled soldiers.

B. As per rules, a presumption of fitness operates when a person joins service and it is also presumed under the rules that any deterioration that has taken place in the health of a soldier is due to military service.

C. Claimant is not to be called upon to prove entitlement and he/she shall receive the benefit of doubt.

D. If the medical board holds that the disability could not have been detected on medical examination at the time of acceptance in service, reasons for the same shall be stated.

E. Provision for payment of disability pension is a beneficial provision, which ought to be interpreted liberally so as to benefit those who have been sent home with a disability at times even before they completed their tenure in the armed forces.

F. The burden to establish non-connection of disability with service would lie heavily upon the employer since the rules raise a presumption that deterioration in the health of soldiers is on account of military service or aggravated by it. A soldier cannot be asked to prove that the disease was contracted by him on account of military service or was aggravated by the same.



## **POSSIBLE OPTIONS OF LATERAL ENTRY/RE-EMPLOYMENT OF RETIRING DEFENCE PERSONNEL**

5.17 This report at para 3.62 to 3.69 recaps the recommendations made in the past by committees, GoM and 5<sup>th</sup> & 6<sup>th</sup> pay commissions in this regards. The recommendations made in the past about reducing the minimum colour service and lateral absorption were providing a win-win solution as they would reduce the pension burden, ensure a young fighting force and harness this trained disciplined manpower for alternate government employment. These recommendations remain as relevant today.

### **US legislation on dealing with re-employment of retiring armed forces personnel.**

5.18 There are two important American legislations one that guarantee reemployment to veterans of their previous job on return from military service **The Uniformed Services Employment and Reemployment Rights Act of 1994 (USERRA 38 U.S.C. 4301-4335)** and the second which mandates training to be provided to veterans to equip them for their gainful employment in civil life after completion of their enlistment term and provides tax incentives to incentivise employment of veterans as also prescribes affirmative action in the form of eligibility criteria for government contracts, this legislation is called **The Veteran Opportunity to Work Act.**

### **USERRA**

5.18 USERRA generally requires U.S. employers, regardless of size or location of operation (United States, its territories, or any foreign country) as well as foreign employers operating in the United States or its territories, to reemploy eligible veterans returning to their civilian employment after a period of service in the uniformed services. It requires employers, with certain exceptions, to provide training to restore competency in duties, and to restore seniority, status, pay, pensions, and other benefits that would have accrued but for the employee's absence due to military service. Under USERRA, employers are generally liable for funding their share, if any, to the civilian retirement plan(s) of employed service members.

5.19 DOL, DOD, and the U.S. Office of Personnel Management (OPM) share responsibility for promoting a clear understanding of USERRA among employers and individuals concerning their respective rights and responsibilities under USERRA.

5.20 DOL's Veterans' Employment and Training Service (VETS) and DOD's ESGR provide extensive public education, outreach, and compliance assistance with the goals of preventing violations caused by ignorance or misunderstanding of the law and ensuring that protected individuals understand their rights and know what assistance is available to help them secure those rights. OPM administers USERRA for the Federal Government, and issues guidance on ways to improve USERRA protection policies and practices. Further, USERRA requires the OPM and all Federal agencies to provide USERRA awareness training to human resources personnel.

5.21 The Federal Government is committed to being a model employer under USERRA.

OPM is responsible for administering USERRA policy for the Federal government to ensure it meets that goal. In July 2012, President Obama issued a Memorandum reaffirming the Administration's commitment to the employment and reemployment rights of service members and veterans and reiterating that the "Federal Government, as our Nation's largest employer, has a responsibility to adopt best practices with respect to employing returning service members." The President established a USERRA Employment Protection Working Group to coordinate and review agency efforts to implement model practices and comply with the statute. DOL, DOJ, OPM, OSC, and other key Federal agencies participated.

### **The Veteran Opportunity to Work Act of 2011**

5.22 Despite America's military having some of the best-trained professionals, the inability to be credentialed or licensed in their field prevents these men and women from obtaining meaningful and gainful employment that makes use of their military training. These professions include, but are not limited to, combat medics, truck drivers, and aircraft technicians. The VOW Act passed in 2011 to work with the Department of Labour and the states to identify roadblocks to obtaining employment. Putting Our Veterans Back to Work Act of 2013 - Amends the: (1) VOW to Hire Heroes Act of 2011 to extend through March 31, 2016, the veterans retraining assistance program; and (2) Wounded Warrior Act to extend through 2016 the authority of the Secretary of Veterans Affairs (VA) (Secretary) to provide the same rehabilitation and vocational benefits to members of the Armed Forces (members) with severe injuries or illnesses as are provided to veterans. Extends through: (1) March 31, 2016, additional VA rehabilitation programs for certain disabled veterans who have completed a VA rehabilitation program and have exhausted their rights to state unemployment benefits; and (2) FY2015 the collaborative veterans' training, mentoring, and placement program.

5.23 Directs the Secretary to develop a single, unified federal web-based employment portal for veterans to access information on federal programs and activities concerning veteran's employment, unemployment benefits, and training. Directs the: (1) Secretary of Homeland Security (DHS) to award grants to hire veterans as fire fighters, and (2) Attorney General (AG) to award grants to hire veterans as law enforcement officers.

5.24 Requires the head of each executive and defence agency to consider favourably, as an evaluation factor in federal solicitations for contracts and task or delivery orders valued at or above \$25 million, the employment by a prospective contractor of veterans constituting at least 5% of the contractor's workforce.

5.25 Allows a veteran on whose behalf a complaint of a violation of employment or reemployment rights under the Uniformed Services Employment and Reemployment Rights Act (USERRA) is made by the AG to intervene in such action, and to obtain appropriate relief. Requires the AG, within 60 days after receiving a referral of an unsuccessful attempt to resolve a complaint relating to a state or private employer, to notify the person on whose behalf the complaint is submitted of either the decision to commence such an action or of when such decision is expected to be made. Requires,

in the latter case, such decision to be made within an additional 30 days. Requires the AG to commence such an action when there is reasonable cause to believe that a state or private employer is engaged in a pattern or practice of resistance to the full enjoyment of such rights and benefits, and that the pattern or practice denies the full exercise of such rights and benefits.

5.26 Authorizes the suspension, termination, or debarment of federal contractors for repeated failures or refusals to comply with USERRA protections.

5.27 Provides the Special Counsel with subpoena power to require the attendance and testimony of, and production of documents from, federal employees, to be enforced through the Merit Systems Protection Board.

5.28 Authorizes the AG, in employment or reemployment rights investigations, to issue and serve a civil investigative demand for the production of documentary material.

5.29 Copies of the above legislations were forwarded to the CPC post presentation.

#### **PAYMENT PRACTICES WITH REGARD TO DISBURSEMENT OF PENSION AND RETIREMENT BENEFITS, INCLUDING USE OF IT AND BANKING INNOVATIONS**

5.30 Para 3.75 to 3.81 of this report bring out that as on date we do not have a complete and reliable database of Defence Pensioners with PCDA (Pension) Allahabad, the agency designated with this responsibility. This is despite the fact that comprehensive Defence Payment Instructions 2013 (DPI 2013) (superseding DPI 2005) and the Project “SUVIDHA”: An e-initiative which aims at creating singular and comprehensive pension database by integrating scattered databases of different structures, running pension sanction project Databases. The weakest link in this effort is that the primary source and means of creating this database is the Pensioners’ Profile (PP), is created by the Pension Disbursement Agency (PDA) which are predominantly banks. This has 67 data fields (Annexure ‘V’ refers) to be filled on the basis of the Pension PPO (which has 40) and reference documents, which have standardized codes. The PPOs are neither electronic documents nor issued in directly key able format. The process of creating the database is error prone and hence the present situation. The action and responsibility of creating this database needs to be of the pension sanctioning authority. AADHAR number both of the pensioners and entitled family pension beneficiary should be included in the PPO and Pensioners’ Profile (PP) database. The success of the direct bank transfer of the LPG subsidy has the potential for harnessing this model for disbursement of pension.

**Table No 22 and 24 bring out in aggregate terms the deployment of defence and civilian personnel in the defence establishment for UK and US respectively. Disaggregate data, broadly in terms of services (Army, Air Force Navy) and branch (e.g. Army Ordinance Corps, EME etc.) would be very useful and may therefore be added.**

5.31 The disaggregated data of the number of personnel in each of the wing of the defence forces of these two countries has been tabulated in Table No 33 below para 2.83 of this report and details (extract of the original documents) to the extent available of these two countries are placed at Annexure 'W2' and Annexure 'X' Disaggregation beyond this Corps wise is not available in public domain.

**The manner in which allowances for their defence forces, where paid in US and UK are regulated. In particular it may be indicated whether allowances are paid as a percentage of Basic Pay/Pay or fixed sum.**

5.32 The entitlements vary depending upon the allowance, some of which are given below.

US

5.33 The entitlement of allowances is unique for each type of allowance. It is rare that allowances are linked to as a % of Pay. The '**Basic Allowance for Housing**' is linked to the rank, place and family status. In 2011, e.g. on average, the without dependents rate was just slightly less than 81 per cent of the with dependents rate. The '**Incentive pay**' can be implemented in a variety of ways e.g. as a per cent of basic pay, as a fixed amount, or as a fixed amount that is targeted to a particular number of years of service. Other options, or a combination of these, are also feasible. Incentive pay is an essential means of sustaining the size and shape of the reserve force. **Basic Allowance for Subsistence (BAS)** is a cash payment intended to defray members' meal costs, comprising 11 per cent of enlisted, and 3 per cent of officer. In 2011, the monthly BAS was \$323.87 for enlisted personnel and \$223.04 for officers. **Aviation Career Incentive Pay (ACIP)** and **Submarine Duty Incentive Pay (SUBPAY)** is determined by rank & pay. **Medical Officer Variable Special Pay (VSP)** is determined by years of creditable service (except set amount is paid to O-7s and above, regardless of years of creditable service).

UK

5.34 A review of the JSP 752 Tri Service Regulations For Allowances also reveals unique sets of entitlement with no uniform relationship. A large number of allowances e.g. separation pay the rates are absolute figures related to no of days of separation e.g. has a range of level 1 to 14 varying from 260 days to 3161 days of separation. There are some e.g. lodging allowance linked to rank while others are irrespective of rank and some innovative entitlements e.g. Recruitment and Retention Pay (RRP) came into effect from 1 April 2012. For the first 3 years away from an RRP or RRP Related post, a Reserve Band will be paid: for the first 2 years at 100% of the full rate and 50% of the full rate during the third year. Payment will then cease. Personnel who submit an application to Premature Voluntary Release (PVR) will lose their entitlement to RRP with immediate effect

**In India maximum age for superannuation is 40 years or 19 years of service is for sepoy. What is corresponding age/length of service in US and countries for which data is available.**

5.35 Most western countries have had a policy of conscription and some like Russia, South Korea & Israel still following it. Some of them post second world war/cold wars have changed over to volunteer basis for enlistment. They have adopted policy that best suits their demographic and economic profile. E.g. The upper age limit for enlistment in UK is 33 years and 42 years in US. The initial term for enlistment in US is 8 years with flexibility given to each service for reducing it. In UK the term is 12 years.

**All data regarding GDP, central Govt expenditure, Defence expenditure etc. of all countries other than India may be expressed in US\$.**

5.36 While the tables in the currency of the country have been retained, Defence expenditure for all the years has also been tabulated in US Dollar Billion as a supplementary table to each of these tables as desired by the CPC.

**Percentage of non-technical airmen in the Air force of US and UK may be provided.**

5.37 IAF at one time divided its airmen in to three pay groups and this division has been gradually brought down to two groups and the detail composition is given in Table No 71.

5.38 The following trades which are in GROUP 'Y' Non –Technical are directly involved in the operation in the IAF.

#### **Ops Assistant**

Ops Assistants operate various systems of Air Traffic Control Centre, Air Field and Air Defence System. They are trained in operation of Radars, Display Units, reporting and tracking procedures of airborne weapon systems etc.

#### **Meteorological Assistant**

Meteorological Assistant, are trained to undertake weather observation and to maintain meteorological instruments. They are also responsible for plotting of charts, taking balloon observations and compilation of weather summaries.

#### **Indian Air Force (Security)**

Indian Air Force (Security) tradesman, undertake special operations and carry out high-level security operations

5.39 The US Air Force has 134 unique Air force Specialty Code (AFSC) which distinguish airmen but these are not classified in to groupings of technical or non-technical (details attached as Annexure 'Y' to the report). Similarly RAF UK divides the airmen in to three groups Engineering And Technical, support trades and Medical And Dental Care. (Details attached as Annexure 'Z ' to the report). Disaggregation of nos in to Technical and Non- technical is not available.

Table No 73

<b>GROUP "X"</b>	
<u>Technical</u>	<u>Non-Technical</u>
Automobile Fitter	Education Instructor
	* Enrolled in the rank of Sergeant (Under/Training)
Electronics Fitter	
Electrical Fitter	
Mechanical System Fitter	
Structure Fitter	
Propulsion Fitter	
Workshop Fitter (Smith)	
Workshop Fitter (Mechanical)	
Weapon Fitter	
<b>GROUP "Y"</b>	
<u>Technical</u>	<u>Non-Technical</u>
Auto Technician	Adm Assistant
Communication Technician	Accts Assistant
	Medical Assistant
	Logistics Assistant
	Environmental Support Services Assistant (ESSA)
	Ops Assistant
	Meteorological Assistant
	Ground Training Instructor
	Indian Air Force (Police)
	Indian Air Force (Security)
	Musician

Annexure 'W'2 to Final Report

**Table 1-1: Department of Defense Manpower Totals**

Service	Category	FY12 Actual	FY13 Estimate	FY14 Estimate
<b>Army</b>	Active:			
	Military <sup>1</sup>	550.1	502.4	490.0
	Civilian	275.0	273.1	264.0
	Subtotal	825.1	777.1	755.7
	Selected Reserve:			
	National Guard	358.1	358.2	354.2
	Reserve	201.2	205.0	205.0
	Subtotal	559.3	563.2	559.2
	Total, Military	1,109.4	1,065.6	1,049.2
Total, Army	1,384.4	1,338.7	1,313.2	
<b>Navy</b>	Active:			
	Military	318.4	322.7	323.6
	Civilian	190.2	188.7	190.4
	Subtotal	511.7	510.4	513.0
	Selected Reserve	64.7	62.5	59.1
	Total, Military	383.1	385.2	382.7
	Total, Navy	573.3	573.9	573.1
<b>Marine Corps</b>	Active:			
	Military <sup>2</sup>	198.2	197.3	190.2
	Civilian	22.3	23.6	24.0
	Subtotal	220.5	220.9	214.2
	Selected Reserve	39.5	39.6	39.6
	Total, Military	237.7	236.9	229.8
	Total, Marine Corps	260.0	260.5	253.8
<b>Air Force</b>	Active:			
	Military	333.0	329.5	327.6
	Civilian	182.0	188.4	185.4
	Subtotal	515.0	517.9	513.0
	Selected Reserve:			
	National Guard	105.4	105.7	105.4
	Reserve	71.4	70.9	70.4
	Subtotal	176.8	176.6	175.8
	Total, Military	509.8	506.0	503.4
Total, Air Force	691.8	694.4	688.8	
<b>Defense-Wide</b>	Military	Included in Service totals		
	Civilian	130.2	137.2	136.9
<b>Total DoD</b>	Active:			
	Military	1,399.7	1,351.9	1,331.4
	Civilian	799.7	811.0	800.7
	Subtotal	2,199.4	2,162.9	2,132.1
	Selected Reserve:			
	National Guard	463.5	463.9	459.6
	Reserve	376.8	378.0	374.1
	Subtotal	840.3	841.9	833.7
	Total, Military	2,240.0	2,193.7	2,165.1
Total, DoD	3,039.7	3,004.8	2,965.8	
Numbers may not add due to rounding.		# in Thousands		
1 - Includes OCO end strength for FY12; 2- Includes OCO end strength for FY12-FY14				

Annexure 'X' to Final Report

G.4 Maximum numbers of personnel to be maintained for service with the Armed Forces:

		Numbers voted by the House of Commons	Maximum Numbers Maintained	Peak Dates
<b>Naval Service</b>				
<b>Royal Navy</b>	Officers	6,900	6,350	April 2012
	Men and Women	23,780	21,300	April 2012
	Aggregate	30,680	27,650	April 2012
<b>Royal Marines</b>	Officers	950	850	October 2012
	Men and Women	7,720	7,070	May 2012
	Aggregate	8,670	7,910	May 2012
<b>Army Service</b>				
<b>Army</b>	Officers	15,730	14,570	June 2012
	Men and Women	101,470	89,900	May 2012
	Aggregate	117,200	104,340	May 2012
<b>Commonwealth, Colonial, etc, troops abroad and Gurkhas</b>	Officers	170	140	May 2012
	Men and Women	4,170	3,890	April 2012
	Aggregate	4,340	4,030	April 2012
<b>Air Force Service</b>				
<b>Royal Air Force</b>	Officers	9,530	9,030	April 2012
	Men and Women	32,680	30,970	April 2012
	Aggregate	42,210	40,000	April 2012



## US AIR FORCE AIRMEN TRADE CLASSIFICATION

The enlisted force is a diverse group of functionally and operationally specialized Airmen. The Air force Specialty Code (AFSC) identifies them. There are a total of 134 unique AFSCs. Data about the number of personnel in each specialty code is not available.

ENLISTED -TRADES	
1A0XX In-Flight Refueling	3M0XX Services
1A1XX Flight Engineer	3N0XX Public Affairs
1A2XX Aircraft Loadmaster	3N1XX Regional Band
1A3XX Airborne Mission System	3N2XX Premier Band
1A4XX Airborne Operations	3P0XX Security Forces
1A6XX Flight Attendant	3S0XX Personnel
1A7XX Aerial Gunner	3S1XX Equal Opportunity
1A8XX Airborne Cryptologic Linguist	3S2XX Education and Training
1B4XX Cyberspace Defense Operations	3S3XX Manpower
1C0XX Aviation Resource Management	4A0XX Health Services Management
1C1XX Air Traffic Control	4A1XX Medical Material
1C2XX Combat Control	4A2XX Biomedical Equipment
1C3XX Command Post	4B0XX Bioenvironmental Engineering
1C4XX Tactical Air Control Party	4C0XX Mental Health Service
1C5XX Command and Control Battle Management Operations	4D0XX Diet Therapy
1C6XX Space Systems	4E0XX Public Health

Operations	
1C7XX Airfield Management	4H0XX Cardiopulmonary Laboratory
1N0XX Operations Intelligence	4J0XX Physical Medicine
1N1XX Geospatial Intelligence	4M0XX Aerospace and Operational Physiology
1N2XX Signals Intelligence Analyst	4N0XX Aerospace Medical Service
1N3XX Cryptologic Language Analyst	4N1XX Surgical Service
1N4XX Network Intelligence Analyst	4P0XX Pharmacy
1POXX Aircrew Flight Equipment	4R0XX Diagnostic Imaging
1S0XX Safety	4T0XX Medical Laboratory
1T0XX Survival, Evasion, Resistance and Escape	4V0XX Ophthalmic
1T2XX Pararescue	4Y0XX Dental Assistant
1U0XX Career RPA Sensor Operator	5J0XX Paralegal
1W0XX Special Operations Weather	5R0XX Chaplain Assistant
2A0XX Avionics Test Station and Components	6C0XX Contracting
2A3XX Avionics Systems	6F0XX Financial Management and Comptroller
2A5XX Aerospace Maintenance	7S0XX Special Investigations
2A6XX Aerospace Propulsion	8A1XX Career Assistance Adviser
2A7XX Aircraft Metals Technology	8A2XX Enlisted Aide
2E1XX Satellite, Wideband and Telemetry Systems	8B0XX Military Training Instructor

2E2XX Network Infrastructure Systems	8B1XX Military Training Leader
2E6XX Communication Cable and Antenna Systems	8B2XX Academy Military Training NCO
2F0XX Fuels	8C0XX Airmen/Family Readiness Center
2G0XX Logistics Plans	8D0XX Linguist Debriefers
2M0XX Missile Maintenance	8F0XX First Sergeant
2P0XX Precision Measurement Equipment Laboratory	8G0XX Honor Guard
2R0XX Maintenance Management Analysis	8H0XX Airman Dorm Leader
2R1XX Maintenance Management Production	8M0XX Postal
2S0XX Materiel Management	8P0XX Courier
2T0XX Traffic Management	8P1XX Defense Attaché
2T1XX Vehicle Operations	8R0XX Enlisted Accessions Recruiter
2T2XX Air Transportation	8R2XX Second-Tier Recruiter
2T3XX Vehicle Maintenance	8R3XX Third-Tier Recruiter
2W0XX Munitions Systems	8S0XX Missile Facility Manager
2W1XX Aircraft Armament Systems	8T0XX Professional Military Education Instructor
2W2XX Nuclear Weapons	9A0XX Awaiting Retraining-Reasons Beyond Control
3A0XX Knowledge Operations Management	9A1XX Awaiting Retraining-Reasons Within Control
3C0XX Communication-Computer Systems	9A2XX Awaiting Discharge, Separation, Retirement for Reasons Within Their Control
3C1XX Information Systems Technology	9A3XX Awaiting Discharge, Separation, Retirement for Reasons Beyond Their Control
3C2XX Network Integration	9C0XX Chief Master Sergeant of the Air

	Force
3D0XX Knowledge Operations Management	9D0XX Dormitory Manager
3D1XX Client Systems	9E0XX Command Chief Master Sergeant
3E0XX Electrical Systems	9F0XX First Term Airmen Center
3E1XX Heating, Ventilation, AC, Refrigeration	9G1XX Group Superintendent
3E2XX Pavement and Construction Equipment	9J0XX Prisoner
3E3XX Structural	9L0XX Interpreter/Translator
3E4XX Water and Fuel Systems Maintenance	9P0XX Patient
3E5XX Engineering	9R0XX Civil Air Patrol-USAF Reserve Assistance NCO
3E6XX Operations Management	9S1XX Technical Applications Specialist
3E7XX Fire Protection	9T0XX Basic Enlisted Airman
3E8XX Explosive Ordnance Disposal	9T1XX Officer Trainee
3E9XX Emergency Management	9T2XX Pre-Cadet Assignee
	9WOXX Wounded Warrior

RAF airmen/women work in a variety of trades, mostly in ground support. A small number of airmen/women have flight duties.

**Ground Trades:** Ground airmen/women provide a range of services to keep the RAF flying. Airmen/women specialise and work for most of the time in their chosen trade. However, all RAF personnel train for wartime duties. Some of the ground trades are shown below, under three broad headings:

<b>Engineering And Technical</b>	<b>Support Trades</b>	<b>Medical And Dental Care</b>
Avionics Maintaining Radar	Air Operations and Support	Nursing
Navigational And Flight Systems	Air Defence and Tracking Systems	Radiography
Airborne Instruments	Land and Radio Communications Systems	Dental Nursing
Weapons Ground Electronic	RAF Gunners	Health Care Technician
Ground-Based Telecommunications	Fire-fighter	Dental Technician
Surface-To-Air Missile Systems	RAF Police	Pharmacy Technician
Communications Technicians	Administrative Services Including Personnel	Environmental Health Technician
Information Technology Technicians	Chefs and Caterers	
	Physical Training Instructors	
	Intelligence Analysts	
	Air Traffic and Flight Operations Assistants	
	Drivers	

The data on the number of personnel in each of the three streams is not available. As per a memorandum submitted by MoD<sup>60</sup> to the House of Commons Defence Committee with information for their inquiry into Recruitment and Retention in the Armed Forces in 2008, “Approximately 80% of the RAF strength has technically-based skills. To maintain experience levels developed through lengthy technical training plus practiced application, which cannot be bought directly in from outside, the RAF needs to retain a majority of its personnel over the long-term. Failure to retain leads to skill and experience levels across the force fading with a concomitant rise in the risk to the safety and effectiveness of RAF operations or a reduced output.”

The report further goes on to say, “A large number of ground trades are experiencing higher than normal outflow where personnel are choosing to leave at the end of their current engagement rather than sign on for an extension. This correlates closely with those directly involved in supporting current operations. The areas affected include ground tradesmen in the engineering trades, intelligence analysts, air traffic and flight operations assistants, communications & Information Technology technicians, RAF Regiment gunners, drivers, firefighters, and medics of all specialisations.

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<sup>60</sup> House of Commons Defence Committee Recruiting and retaining Armed Forces personnel Fourteenth Report of 2007–08

GDP FIGURES in US \$ Billions(Data Source World Bank Development Indicators)																					
	Inter se Ranking 1995	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Inter se Ranking 2013
CHINA	6	728	856	953	1019	1083	1198	1325	1454	1641	1932	2257	2713	3494	4522	4990	5931	7322	8229	9240	2
FRANCE	4	1572	1573	1421	1469	1456	1326	1338	1452	1792	2056	2137	2256	2582	2832	2620	2565	2782	2611	2735	5
GERMANY	3	2523	2437	2157	2178	2131	1886	1881	2007	2424	2726	2766	2903	3324	3624	3298	3304	3628	3426	3635	4
INDIA	9	367	400	423	429	467	477	494	524	618	722	834	949	1239	1224	1365	1708	1880	1859	1877	8
JAPAN	2	4706	4324	3915	4433	4731	4160	3981	4303	4656	4572	4357	4356	4849	5035	5495	5906	5938	4902		3
PAKISTAN	10	61	63	62	62	63	74	72	72	83	98	110	137	152	170	168	177	214	225	237	10
RUSSIAN FEDERATION	8	396	392	405	271	196	260	307	345	430	591	764	990	1300	1661	1223	1525	1905	2017	2097	7
SOUTH KOREA	7	559	603	560	376	486	562	533	609	681	765	898	1012	1123	1002	902	1094	1202	1223	1305	9
UNITED KINGDOM	5	1181	1242	1384	1478	1518	1494	1485	1621	1875	2221	2321	2483	2857	2688	2208	2296	2462	2462	2521	6
UNITED STATES	1	7664	8100	8609	9089	9666	10290	10625	10980	11512	12277	13095	13858	14480	14720	14418	14958	15534	16245	16800	1

<b>SHARE OF CHINA'S DEFENCE EXPENDITURE UNDER MAJOR OBJECTIVE HEADS</b>										
RMB in million	2006	% AGE of the Defence Budget	2007	% AGE of the Defence Budget	2008	% AGE of the Defence Budget	2009	% AGE of the Defence Budget	2010	% AGE of the Defence Budget
Personnel	101255	33.99	120015	33.76	139846	33.47	168528	34.04	185931	34.86
Operations & Maintenance	97309	32.66	121042	34.05	138901	33.24	166995	33.73	170047	31.88
Procurement & Construction	99374	33.35	114434	32.19	139129	33.29	159587	32.23	177359	33.25
<b>TOTAL</b>	<b>297938</b>		<b>355491</b>		<b>417876</b>		<b>495110</b>		<b>533337</b>	
<p>Note:</p> <p>1. Personnel expenses cover salaries, allowances, food, clothing and bedding, insurance, welfare benefits and pensions for officers, non-ranking officers, enlisted men and contracted civilians and retired officers supported by the military.</p> <p>2. Training and maintenance expenses cover training, institutional education and other military undertakings.</p> <p>3. Equipment expenses cover research and development, procurement, transportation, storage and maintenance of weaponry and equipment.</p> <p>Source: United Nations Report on Military Expenditures, "China", <a href="http://www.un-arm.org/MilEx/CountryProfile.aspx?CountryId=42">http://www.un-arm.org/MilEx/CountryProfile.aspx?CountryId=42</a></p>										



**China's Official Defence Expenditure and its share in Govt. (Central & Local) Expenditure and GDP**

Year	Defence Expenditure (Billion Yuan)	National Government (Central & Local) Expenditure (Billion Yuan)	Central Government Expenditure (Billion Yuan)	GDP (Billion Yuan)	Defence Expenditure as % of National Govt. Expenditure	Defence Expenditure as % of Central Govt. Expenditure	Defence Expenditure as % of GDP
2000	120.8	1588.7	552	9921.46	7.6	21.9	1.2
2001	144.2	1890.3	576.8	10965.52	7.6	25	1.3
2002	170.8	2205.3	677.2	12033.27	7.7	25.2	1.4
2003	190.8	2465	742	13582.28	7.7	25.7	1.4
2004	220	2848.7	789.4	15987.83	7.7	27.9	1.4
2005	247.5	3393	877.6	18493.74	7.3	28.2	1.3
2006	297.9	4042.3	999.1	21631.44	7.4	29.8	1.4
2007	355.5	4978.1	1144.2	26581.03	7.1	31.1	1.3
2008	417.9	6259.3	1334.4	31404.54	6.7	31.3	1.3
2009	495.1	7630	1525.6	34090.28	6.5	32.5	1.5
2010	533.3	8987.4	1599	40151.28	5.9	33.4	1.3
2011	602.8	10924.8	1651.4	47310.40	5.5	36.5	1.3
2012	669.2	12595.3	1876.5	51894.21	5.3	35.7	1.3
2013	720.2						
2014	808.2						

Source: China Statistical Yearbook (2000-2012) and Xinhua (2012-2014)

Defence Expenditure Analysis- Three Major European countries																
	FIGURES IN MILLIONS EURO										PERCENTAGES					
	DEFENCE EXPENDITURE**	PERSONNEL EXPENDITURE	OPERATION & MAINTENANCE EXPENDITURE	INVESTMENT EQUIPMENT PROCUREMENT and R & D	EQUIPMENT PROCUREMENT	R&D (INCLUDING R & T) EXPENDITURE	INFRASTRUCTURE / CONSTRUCTION EXPENDITURE	NO OF MILITARY PERSONNEL	NO OF CIVILIAN PERSONNEL	DEFENCE EXPENDITURE AS A % OF GDP	DEFENCE EXPENDITURE AS A % OF GOVT. EXPENDITURE	OF DEFENCE EXPENDITURE				
												PERCENTAGE	PERCENTAGE	PERCENTAGE		PERCENTAGE
UK	40693	13588	16683	9510	6717	2793	911	159630	62500	2.13	4.52	33.4	41	23.4	2.2	
FRANCE	39391	19837	7088	12096	8816	2800	820	213115	62925	1.91	3.34	49.2	18	30.7	2.1	
GERMANY	33784	12285	14288	6021	5094	927	1190	184044	89618	1.23	2.76	36.4	42.3	17.8	3.5	
UK	42251	14702	16712	9974	7510	2464	863	175370	65400	2.22	4.58	34.8	39.6	23.6	2	
FRANCE	39105	19207	6605	11956	8456	3500	1337	218200	65600	1.93	3.4	49.1	16.9	30.6	3.4	
GERMANY	32490	15077	10174	6395	5476	918	845	191721	95189	1.23	2.73	46.4	31.3	19.7	2.6	
UK	43696	14519	17052	9499	6802	2697	2626	185690	77010	2.5	5.15	33.2	39.02	21.74	6.01	
FRANCE	38445	18973	7613	10834	7534	3300	1030	227700	65800	1.93	3.44	49.4	19.8	28.2	2.7	
GERMANY	33781	17613	7828	6863	5804	1059	1477	247342	30984	1.3	2.88	52.1	23.17	20.32	4.37	
UK	43403	14724	16372	11338	8443	2895	969	192300	83060	2.56	5.03	33.9	37.72	26.12	2.23	
FRANCE	39237	18690	7466	11852	8272	3580	1229	223600	67500	2.01	3.58	47.6	19.03	30.21	3.13	
GERMANY	33492	17835	6890	7112	5658	1454	1654	246244	30984	1.34	2.88	53.3	20.57	21.24	4.94	
UK	39596	13650	14568	10452	7682	2770	926	197780	85180	2.56	5.03	34.5	36.79	26.4	2.34	
FRANCE	39190	18877	8890	10575	6871	3704	848	243000	72600	2.01	3.58	48.2	22.68	26.98	2.16	
GERMANY	36108	18177	10020	6286	5198	1088	1625	246982	36951	1.34	2.88	50.3	27.75	17.41	4.50	
UK	42005	17106	13149	10925	7710	3215	825	194330	85730	2.53	4.89	40.7	31.30	26.01	1.96	
FRANCE	45362	25499	8645	9539	6258	3281	1679	347200	79200	2.04	3.67	56.2	19.06	21.03	3.70	
GERMANY	31735	17106	6784	6506	5323	1183	1339	251616	36296	1.5	3.15	53.9	21.38	20.5	4.22	
UK	50312	19512	16864	12773	8762	4011	1163	192670	90600	2.49	5.58	38.8	33.52	25.39	2.31	
FRANCE	44273	24405	8407	9679	6448	3231	1782	355800	82600	2.34	4.47	55.1	18.989	21.86	4.03	
GERMANY	31090	17100	7925	4806	3593	1213	1260	245271	43470	1.28	2.92	55	25.49	15.46	4.05	
UK	47314	19040	15540	11525	7513	4012	1209	177230	98050	2.5	5.54	40.2	32.84	24.36	2.56	
FRANCE	43457	23977	7746	10098	6321	3777	1636	354400	84500	2.43	4.54	55.2	17.82	23.24	3.76	
GERMANY	30565	17422	7258	4733	3698	1035	1152	249067	49342	1.32	2.88	57	23.75	15.49	3.77	

SOURCE: National Defence Data of the Member States published annually by European Defence Agency (EDA) Brussels

Note:

Defence Expenditure is defined as total Ministry of Defence expenditure and defence related expenditure from other sources (other Ministries special budget lines)

Defence Expenditure Analysis (Japan)													
FIGURES IN 100 MILLIONS YEN										PERCENTAGES			
	DEFENCE EXPENDITURE**	PERSONNEL EXPENDITURE	OPERATION & MAINTENANCE EXPENDITURE	INVESTMENT EQUIPMENT PROCUREMENT and R & D	EQUIPMENT PROCUREMENT (Incl Infrastructure)	R&D (INCLUDING R & T) EXPENDITURE	NO OF MILITARY PERSONNEL	NO OF CIVILIAN PERSONNEL (Includes MoD including the ministers)	DEFENCE EXPENDITURE AS A % OF GDP	DEFENCE EXPENDITURE AS A % OF GOVT. EXPENDITURE	PERSONNEL EXPENDITURE	OPERATION & MAINTENANCE EXPENDITURE	INVESTMENT EQUIPMENT PROCUREMENT and R & D
2002	49397	22273	14237	12887	11610	1277	239900	12250	1.004	9.57	45.09	28.82	26.09
2003	49265	22188	14210	12867	11397	1470	239900	12250	0.998	9.96	45.04	28.84	26.12
2004	48764	21654	14316	12794	11087	1707	239900	12250	0.983	9.81	44.41	29.36	26.24
2005	49143	21562	14263	13318	11159	2159	239900	12250	0.969	9.96	43.88	29.02	27.10
2006	47906	21335	14384	12187	10473	1714	260250	12250	0.943	10.26	44.54	30.03	25.44
2007	47815	21015	15209	11729	10284	1445	240400	12250	0.923	10.04	43.95	31.81	24.53
2008	47426	20940	15276	11210	9482	1728	230300	12250	0.972	9.51	44.15	32.21	23.64
2009	47028	20773	9344	16911	15738	1173	247746	22473	1.013	7.05	44.17	19.87	35.96
2010	46826	20850	9225	16750	15484	1266	247746	22241	1.008	8.76	44.53	19.70	35.77
2011	46625	20916	9388	16321	15049	1272	247446	21989		8.56	44.86	20.14	35.00
2012	46452	20701	10668	15440	14167	1273	247172	21715		8.95	44.56	22.97	33.24
2013	46804	19896	10296	16612	15345	1267	247172	21435		8.65	42.51	22.00	35.49
2014	47838	20930	9734	17714	16530	1184	247160	21283		8.45	43.75	20.35	37.03

\*\* The data on Defence expenditure and its breakdown for the period 2009 to 2014 is based on the budget proposal for 2010 to 2015 available on the Defense Budget link of Japan Ministry of Defense and the data for the period from 2002 to 2008 is as per United Nations office for Disarmament Affairs website.  
Defence Budget figures above only partially include cost incurred on or expenditure reimbursed for US bases in Japan. Japan pays for the maintenance cost of the U.S. bases, the construction cost of bases, the fuel and oil cost of the bases, and costs for U.S. training exercises. In the maintenance budget, such items are included as payment of wages to Japanese civilians who are employed at the bases, utilities for the bases, the rent for the land the U.S. forces use, and expenses needed for measures to deal with areas surrounding the bases. Japan's share of Stationing of USFJ-related Cost for FY 2012 (¥572.8 billion/\$7.16 Billion)

Defence Expenditure Analysis (South Korea)											
FIGURES IN 100 MILLIONS WON								PERCENTAGES			
DEFENCE EXPENDITURE	PERSONNEL EXPENDITURE	OPERATION & MAINTENANCE EXPENDITURE	INVESTMENT EQUIPMENT PROCUREMENT and R & D	EQUIPMENT PROCUREMENT (Incl Infrastructure)	NO OF MILITARY PERSONNEL	NO OF CIVILIAN PERSONNEL	DEFENCE EXPENDITURE AS A % OF GDP*	DEFENCE EXPENDITURE AS A % OF GOVT. EXPENDITURE	PERSONNEL EXPENDITURE	OPERATION & MAINTENANCE EXPENDITURE	INVESTMENT EQUIPMENT PROCUREMENT and R & D
2002					686000	4500					
2003	177070	78190	42610	56270	56270	686000	4500	2.19	44.16	24.06	31.78
2004	191540	82910	47660	60970	60970	687700	4500	2.19	43.29	24.88	31.83
2005	211030	85950	52090	72990	72990	681000	4500	2.29	40.73	24.68	34.59
2006	225190	91660	75450	58080	58080	681000	4500	2.33	40.70	33.51	25.79
2007	244970	96960	81200	66810	66810	681000	4500	2.35	39.58	33.15	27.27
2008	266490	116820	72860	76810	76810	681000	4500	2.41	43.84	27.34	28.82
2009	285326	119133	80046	86147	86147	655000	4500	2.48	41.75	28.05	30.19
2010	295627	121205	83392	91030	91030	655000	4500	2.52	14.69	41.00	28.21
2011	314030					655000	4500	2.36	14.96		
2012	329580					655000	4500	2.39	14.77		
2013	343450					655000	4500	2.40	14.54		
2014	357056	128715	123245	105096	105096	655000	4500	2.38	14.44	36.05	34.52
2015	374560	135310	129110	110140	110140			2.35	14.50	36.10	34.50

\* GDP data(GDP at Current Prices) as Bank of Korea Economic Stastics Syiem(ECS) Source Defence Budget 2011 to 2015:Defence Budget Link, Ministry of national Defense, Republic of Korea For 2003 to 2010 United Nations Report on Military Expenditure <http://www.unarm.org/MilEx/CountryProfile.aspx?CountryId=104>

<b>PAKISTAN DEFENCE BUDGET</b> (All Figures Rs (Pakistan) in Crores)														
	2008-09	% of Defence Expenditure	2009-10	% of Defence Expenditure	2010-11	% of Defence Expenditure	2011-12	% of Defence Expenditure	2012-13	% of Defence Expenditure	2013-14	% of Defence Expenditure	2014-15	% of Defence Expenditure
Employee Related Expenses	11504	33.63	13839	36.61	17673	39.76	20931	41.10	25078	43.98	27173	43.16	30077	41.80
Operating Expenses	9221	26.95	9740	25.77	11133	25.05	13112	25.74	14650	25.69	16466	26.16	18052	25.09
Physical Assets	10738	31.39	11013	29.13	11756	26.45	12559	24.66	12156	21.32	13100	20.81	16359	22.73
Civil Works	2749	8.04	3209	8.49	3889	8.75	4330	8.50	5134	9.00	6214	9.87	7474	10.39
<b>Total</b>	<b>34212</b>	<b>100</b>	<b>37800</b>	<b>100</b>	<b>44450</b>	<b>100</b>	<b>50932</b>	<b>100</b>	<b>57018</b>	<b>100</b>	<b>62952</b>	<b>100</b>	<b>71961</b>	<b>100</b>
GDP	1211046.2		1403362.9		1709290.3		1943682.5		2160676.1		2408510.5			
final consumption expenditure	138845.9		153371.3		177942.1		210262.8		246526.6		304740.4			
Defence expenditure as a % of GDP	2.82		2.69		2.60		2.62		2.64		2.61			
Defence expenditure as a % of General government final consumption expenditure	24.64		24.65		24.98		24.22		23.13		20.66			
Military Pension	**		**		7192		10600		13143		14243		16786	
Pension as a % of Employee Related Expenses					40.69		50.64		52.41		52.42		55.81	
Pension as a % Defence Expenditure					16.18		20.81		23.05		22.63		23.33	
GDP figures and Govt consumption expenditure figures are as per Pakistan bureau of statistics-national Accounts ** The amount was budgeted under the head Superannuation Allowance and Pension combined for all Govt employees														
Source : Ministry of Finance, Govt of Pakistan, Federal Budget documents (Budget in Brief and Demands for Grants & Appropriation (White Book) Functional classification Military Defence) for the years 2009-10 to 2014-15 accessed on 07 Aug 2014														

Defence Expenditure Analysis - Russian Federation													
FIGURES IN BILLIONS ROUBLES							PERCENTAGES						
	DEFENCE EXPENDITURE***	PERSONNEL EXPENDITURE	OPERATION & MAINTENANCE EXPENDITURE	INVESTMENT EQUIPMENT PROCUREMENT and R & D	R&D (INCLUDING R & T) EXPENDITURE	INFRASTRUCTURE / CONSTRUCTION EXPENDITURE	DEFENCE EXPENDITURE AS A % OF GDP	DEFENCE EXPENDITURE AS A % OF GOVT. EXPENDITURE**	PERSONNEL EXPENDITURE	OPERATION & MAINTENANCE EXPENDITURE	INVESTMENT EQUIPMENT PROCUREMENT and R & D	RESEARCH & DEVELOPMENT	INFRASTRUCTURE/ CONSTRUCTION
2013	2105.50						3.17	8.33					
2012	1814.10	946.97	352.53	287.84	101.95	124.81	2.9	7.83	52.20	19.43	15.87	5.62	6.88
2011	1515.96	570.00	372.93	310.77	148.56	113.70	2.79	7.58	37.6	24.6	20.5	9.8	7.5
2010	1276.51	604.91	223.31	221.46	48.57	178.26	2.84	7.30	47.39	17.49	17.35	3.81	13.96
2009	1188.17	606.33	284.13	278.55	2.09	17.08	3.06	7.54	51.03	23.91	23.44	0.18	1.44
2008	1040.9	368.46	237.32	243.56	93.68	97.84	2.52	7.35	35.4	22.8	23.4	9	9.4
2007	831.88	268.70	253.72	148.91	86.52	74.04	2.5	7.27	32.3	30.5	17.9	10.4	8.9
2006	681.80	220.90	214.09	115.91	66.13	64.77	2.53	7.98	32.4	31.4	17	9.7	9.5
2005	581.14	183.06	156.33	144.12	61.02	36.61	2.69		31.5	26.9	24.8	10.5	6.3
2004	430.00	150.50	129.86	70.52	46.87	32.25	2.53		35	30.2	16.4	10.9	7.5
2003	355.69	136.59	110.62	44.46	36.28	27.74	2.69		38.4	31.10	12.5	10.2	7.8
2002	295.39	112.54	105.16	30.13	26.29	21.27	2.73		38.1	35.60	10.2	8.9	7.20
2001	247.70	95.37	78.03	31.21	24.52	18.58	2.77		38.5	31.5	12.6	9.9	7.50
2000	191.73	67.87	72.09	21.47	17.26	13.04	2.62		35.4	37.6	11.2	9	6.80
1999	115.59						2.4						

\*Figures as reported \*\*The Defence expenditure as a % of the of the Govt expenditure from 2006 to 2010 is based on Russia Public Expenditure Review by World bank Report dated June 08 2011 and the figures for 2011 to 2013 are based on Consolidated Budget of The Russian Federation and Budgets of State Non-Budget Funds published as table no 23.1 by the Govt. \*\*\* The Defence budget figures for the years 2011 to 2013 are from Consolidated Budget of The Russian Federation and Budgets of State Non-Budget Funds published as table no 23.1 by the Govt.

Defence Expenditure Analysis - USA																		
	FIGURES IN BILLIONS USD										PERSONNEL STRENGTH IN THOUSAND**		PERCENTAGES			GLOBAL WAR ON TERROR, OVERSEAS CONTINGENCY OPERATIONS & OTHER	TOTAL DEFENSE EXPENDITURE	TOTAL DEFENSE EXPENDITURE AS A % OF GDP
	DEFENCE EXPENDITURE	PERSONNEL EXPENDITURE	OPERATION & MAINTENANCE EXPENDITURE	INVESTMENT EQUIPMENT PROCUREMENT and R & D	EQUIPMENT PROCUREMENT	R&D (INCLUDING R & T) EXPENDITURE	INFRASTRUCTURE / CONSTRUCTION EXPENDITURE/REVOLVING FUND & OTHERS*	NO OF MILITARY PERSONNEL	NO OF CIVILIAN PERSONNEL	***			OF DEFENCE EXPENDITURE					
										DEFENCE EXPENDITURE AS A % OF GDP	DEFENCE EXPENDITURE AS A % OF GOVT.	DEFENCE EXPENDITURE PER PERSONNEL	OPERATION & MAINTENANCE EXPENDITURE	INVESTMENT EQUIPMENT PROCUREMENT and R & D	INFRASTRUCTURE / CONSTRUCTION EXPENDITURE /REVOLVING FUND & OTHERS*			
2000	279	73.8	108.1	93.7	55	38.7	11.7	1449	698	2.71	14.39	26.5	38.7	33.6	4.2			
2001	287.4	76.4	98.3	102.7	61.6	41.1	10.1	1451	687	2.71	13.99	26.6	34.2	35.7	3.5	28.77	316.19	2.98
2002	328.2	86.7	118.0	110.3	61.5	48.7	13.2	1478	687	2.99	14.91	26.4	35.9	33.6	4.0	16.87	345.05	3.14
2003	364.9	93.9	124.9	132.1	74.8	57.3	14.0	1500	688	3.17	15.33	25.7	34.2	36.2	3.8	72.54	437.46	3.80
2004	376.5	97.0	127.0	140.5	76.2	64.3	12.0	1494	690	3.07	14.96	25.8	33.7	37.3	3.2	91.09	467.61	3.81
2005	400.1	102.3	138.2	147.3	79.1	68.2	12.3	1455	692	3.06	14.71	25.6	34.5	36.8	3.1	78.84	478.92	3.66
2006	410.6	109.1	137.2	151.7	79.6	72.0	12.6	1455	700	2.96	14.39	26.6	33.4	36.9	3.1	123.92	534.49	3.86
2007	431.5	110.4	145.6	160.0	84.1	75.9	15.5	1451	695	2.98	14.19	25.6	33.7	37.1	3.6	169.41	600.91	4.15
2008	479.0	117.1	161.8	177.1	99.1	78.0	23.1	1474	707	3.25	14.46	24.4	33.8	37.0	4.8	186.91	665.94	4.52
2009	513.2	125.6	179.1	180.3	100.9	79.4	28.2	1493	739	3.56	13.78	24.5	34.9	35.1	5.5	153.20	666.42	4.62
2010	527.9	135.7	183.9	182.4	103.2	79.3	25.9	1506	778	3.53	13.48	25.7	34.8	34.6	4.9	163.05	690.97	4.62
2011	528.2	137.8	194.1	177.4	102.1	75.3	18.9	1501	807	3.40	13.45	26.1	36.8	33.6	3.6	158.79	687.02	4.43
2012	530.4	141.7	199.2	173.8	102.3	71.5	15.8	1476	800	3.28	13.66	26.7	37.6	32.8	3.0	115.08	645.49	3.99
2013	495.5	134.6	196.1	152.8	89.6	63.2	12.0	1460	773	2.95	12.90	27.2	39.6	30.8	2.4	82.09	577.56	3.44
2014	496.0	135.9	192.8	155.2	92.4	62.8	12.0	1402	791			27.4	38.9	31.3	2.4	85.19	581.21	

\*Other DoD Programs New Appropriation Title that includes: Defense Health Program, Inspector General, and Drug Interdiction-previously in the O&M Title; and Chemical Agents & Munitions Destruction, Army, which was previously in Procurement \*\* The figures for personnel strength are the number of Active Duty Personnel as given Financial Year Green Book of US DoD. \*\*\* The GDP & Govt expenditure figures are from US Federal Reserve & US Dept of Commerce, Bureau of Economic Analysis web site accessed on 16 Aug 2014

The Defense budget does not include expenditure on 'Energy and Defense-Related' which is a unique item. From its own research labs to partnerships with start-ups and major contractors, the U.S. Department of Defense is seeking innovative energy solutions to increase the safety of its troops, lower energy costs, and reduce its reliance on foreign energy supplies. With collaboration from the U.S. Army, Navy, Air Force, Army National Guard and installation and operational facilities world-wide, the 6th Defense Energy Challenge will deliver top defense-targeted energy solutions matched with military testing and procurement opportunities.\*\*\* The GDP and Federal Govt expenditure are as per US Department of Commerce, Bureau of Economic Analysis

INDIAN DEFENCE BUDGET OVER THE YEARS AND ITS RELATIONSHIP WITH THE CENTRAL GOVT EXPENDITURE AND GDP AT MARKET PRICES (All Rs in Crores)													
FINANCIAL YEAR	DEFENCE BUDGET BE	DEFENCE BUDGET (BE) GROWTH OVER PREVIOUS YEAR	ACTUAL DEFENCE EXPENDITURE (RE for 13-14)	ACTUAL DEFENCE EXPENDITURE GROWTH OVER PREVIOUS YEAR	Actual Expenditure as a %age of the BE	EXPENDITURE OF THE CENTRAL GOVT	CENTRAL GOVT EXPENDITURE GROWTH OVER THE PREVIOUS YEAR	DEFENCE EXPENDITURE AS A % OF THE CENTRAL GOVT EXPENDITURE	GDP at Market Prices (Economic survey 2013-14 (DEA, MoF) GDP figures of 13-14 & 14-15 are as per Budget 2014-15 (presented on 10 Jul 14)	GDP AT MARKET PRICES GROWTH OVER THE PREVIOUS YEAR	DEFENCE EXPENDITURE AS A % OF THE GDP AT MARKET PRICES	EXCHANGE RATE US \$ (Annual Average Rate as per RBI)	Indian Defence Budget in US \$ Billion
2014-15 (BE)	229000	12.4				1794892	12.9	12.8	12876653	13.4	1.78		
2013-14 (RE)	203672	5.3	203672	12.0	100	1590434	12.8	12.8	11355073	12.3	1.79	60.50	33.67
2012-13	193407	17.6	181776	6.4	94.0	1410372	9.4	12.9	10113281	12.2	1.80	54.41	33.41
2011-12	164415	11.6	170913	10.9	104.0	1288763	10.6	13.3	9009722	15.7	1.90	47.92	35.66
2010-11	147344	4.0	154117	8.7	104.6	1164727	17.4	13.2	7784115	20.2	1.98	45.58	33.81
2009-10	141703	34.2	141781	24.1	100.1	992440	14.8	14.3	6477827	15.1	2.19	47.42	29.90
2008-09	105600	10.0	114223	24.6	108.2	864530	25.5	13.2	5630063	12.9	2.03	45.92	24.88
2007-08	96000	7.9	91680	7.2	95.5	688909	20.8	13.3	4987090	16.1	1.84	40.24	22.78
2006-07	89000	7.2	85495	6.1	96.1	570185	13.8	15.0	4294706	16.3	1.99	45.28	18.88
2005-06	83000	7.8	80549	6.2	97.0	501083	8.0	16.1	3693369	13.9	2.18	44.27	18.19
2004-05	77000	17.9	75856	26.3	98.5	463831	8.8	16.4	3242209	14.2	2.34	44.93	16.88
2003-04	65300	0.5	60066	7.9	92.0	426132	6.8	14.1	2837900	12.1	2.12	45.95	13.07
2002-03	65000	4.8	55662	2.6	85.6	398879	10.6	14.0	2530663	7.8	2.20	48.40	11.50
2001-02	62000	5.8	54266	9.4	87.5	360616	9.9	15.0	2348330	8.3	2.31	47.69	11.38
2000-01	58587	28.2	49622	5.4	84.7	328265	6.7	15.1	2168652	7.8	2.29	45.68	10.86
1999-00	45694	10.9	47071	18.0	103.0	307509	16.6	15.3	2012198	11.6	2.34	43.33	10.86
1998-99	41200	15.7	39898	13.1	96.8	263755	17.3	15.1	1803378	14.7	2.21	42.07	9.48
1997-98	35620	28.1	35278	19.6	99.0	224866	6.4	15.7	1572394	10.8	2.24	37.16	9.49
1996-97	27798	9.0	29505	9.9	106.1	211260	14.1	14.0	1419277	15.7	2.08	35.50	8.31
1995-96	25500	-1.9	26856	15.5	105.3	185233	10.9	14.5	1226725	17.3	2.19	33.45	8.03
1994-95	26000	35.6	23245	6.4	89.4	166998	14.5	13.9	1045590	17.3	2.22	31.40	7.40
1993-94	19180	9.6	21845	24.2	113.9	145788	15.8	15.0	891335	15.1	2.45	31.37	6.96
1992-93	17500	7.0	17582	7.6	100.5	125927	11.7	14.0	774545	14.9	2.27	30.65	5.74
1991-92	16350	3.8	16347	6.0	100.0	112731	7.4	14.5	673875	15.0	2.43	24.47	6.68
1990-91	15750	21.2	15426	7.0	97.9	104973	10.4	14.7	586212	16.8	2.63	17.94	8.60
1989-90	13000	0.0	14416	8.1	110.9	95049	16.8	15.2	501928	14.9	2.87	16.65	8.66
1988-89	13000	3.9	13341	11.5	102.6	81402	15.8	16.4	436893	18.7	3.05	14.48	9.21
1987-88	12512	43.4	11967	14.2	95.6	70305	9.8	17.0	368211	13.7	3.25	12.97	9.23
1986-87	8728	13.6	10477	31.2	120.0	64023	20.5	16.4	323949	11.9	3.23	12.78	8.20
1985-86	7686	13.0	7987	11.9	103.9	53112	21.0	15.0	289524	12.8	2.76	12.23	6.53
1984-85	6800	13.9	7136	13.1	104.9	43879	21.9	16.3	256611	12.0	2.78	11.89	6.00
1983-84	5971	17.1	6309	16.7	105.7	35988	18.0	17.5	229021	16.5	2.75	10.34	6.10
1982-83	5100	21.4	5408	16.3	106.0	30494	20.1	17.7	196644	11.9	2.75	9.67	5.59
1981-82	4200	16.7	4652	20.3	110.8	25401	12.9	18.3	175805	17.5	2.65	8.97	5.19
1980-81	3600	18.0	3867	15.2	107.4	22495	21.6	17.2	149642	19.0	2.58	7.91	4.89
1979-80	3050	3.6	3356	17.0	110.0	18504	4.4	18.1	125729	9.7	2.67	8.10	4.14
1978-79	2945	7.0	2868	8.9	97.4	17717	18.2	16.2	114647	8.3	2.50	8.23	3.49
1977-78	2752	8.2	2634	2.8	95.7	14986	14.0	17.6	105848	13.3	2.49	8.59	3.07
1976-77	2544	11.9	2563	3.7	100.7	13150	9.2	19.5	93422	7.7	2.74	8.98	2.85
1975-76	2274	18.7	2472	17.0	108.7	12037	20.5	20.5	86707	7.4	2.85	8.68	2.85
1974-75	1915	19.7	2112	25.6	110.3				80770	18.1	2.61	7.94	2.66
1973-74	1600	13.6	1681	1.8	105.1				68420	21.7	2.46	7.79	2.16
1972-73	1408	13.4	1652	8.3	117.3				56214	10.2	2.94	7.68	2.15
1971-72	1242	7.8	1525	27.2	122.8				50999	7.1	2.99	7.47	2.04
1970-71	1152	3.8	1199	8.9	104.1	5577		21.5	47638	6.8	2.52	7.56	1.59
1969-70	1110	9.4	1101	6.6	99.2				44605	10.1	2.47		
1968-69	1015	4.7	1033	6.7	101.8				40512	5.9	2.55		
1967-68	969	5.6	968	6.5	99.9				38261	17.1	2.53		
1966-67	918	4.4	909	2.7	99.0				32669	13.2	2.78		
1965-66	879	2.9	885	9.8	100.7	3940		22.5	28857	5.4	3.07		
1964-65	854	-1.5	806	-12.0	94.4				27367	16.6	2.95		
1963-64	867	133.1	916	93.2	105.7				23462	14.8	3.90		
1962-63	372	18.1	474	50.5	127.4				20429	7.5	2.32		
1961-62	315	1.6	315	12.1	100.0				19010	6.0	1.66		
1960-61	310	12.7	281	2.2	90.6	1806		15.6	17942	9.5	1.57		
1959-60	275	-9.8	275	-2.5	100.0				16384	5.4	1.68		
1958-59	305	10.5	282	0.7	92.5				15551	11.5	1.81		
1957-58	276	20.0	280	32.1	101.4				13951	3.0	2.01		
1956-57	230	2.2	212	11.6	92.2				13547	19.1	1.56		
1955-56	225	0.9	190	-2.6	84.4	975		19.5	11371	1.8	1.67		
1954-55	223	3.7	195	-0.5	87.4				11170	-5.4	1.75		
1953-54	215	0.0	196	5.9	91.2				11810	8.8	1.66		
1952-53	215	11.4	185	2.2	86.0				10850	-1.8	1.71		
1951-52	193		181						11054		1.64		

The data compiled above has been taken from the Defence Budget- A Statistical Digest, printed by Finance Division of Ministry of Defence, December 2006. Defence Service Estimates, Economic Survey 2013-14 and Union Budget Presented in Parliament on 10 Jul 2014. The actual expenditure for 13-14 is the RE figure and GDP for 2013-14 & 2014-15 is the figures in the Budget at a glance 2014-15 based on advance estimates of 2013-14 released by CSO. The Defence expenditure & its ratio between central Govt Expenditure /GDP for 2014-15 are based on the BE figures of Defence budget and central Govt expenditures as per union budget 2014-15



MODERNISATION AS A % OF THE CAPITAL BUDGET & ACTUAL CAPITAL EXPENDITURE OVER THE YEARS (All Rs in Crs)									
	BUDGET ESTIMATES				ACTUAL EXPENDITURE (RE 13-14)				%UTILISATION OF MODERNISATION BUDGET
	CAPITAL	MODERNISATION	OTHERS (includes Land, capital works, DRDO, Ordnance Factories etc)	MODERNISATION AS A % OF CAPITAL	ACTUAL CAPITAL EXPENDITURE	MODERNISATION	OTHERS (includes Land, capital works, DRDO, Ordnance Factories etc)	MODERNISATION AS A % OF CAPITAL	
2014-15	94588	75659	18929	80					
2013-14	86741	73868	12873	85	78872	66682	12190	85	90
2012-13	70499	59151	11348	84	70499	59151	11348	84	100
2011-12	69199	56625	12574	82	67902	56679	11224	83	100
2010-11	60000	47528	12472	79	62056	50314	11742	81	106
2009-10	54824	43816	11008	80	51112	42025	9087	82	96
2008-09	48007	40163	7844	84	40918	32418	8500	79	81
2007-08	41922	34515	7407	82	37462	30397	7065	81	88
2006-07	37458	31510	5948	84	33826	27818	6007	82	88
2005-06	34375	28470	5905	83	32338	26972	5365	83	95
2004-05	33483	29379	4104	88	31994	28600	3394	89	97
2003-04	20953	18067	2886	86	16863	14584	2279	86	81
2002-03	21411	18881	2530	88	14953	12938	2015	87	69
2001-02	19959	17866	2093	90	16207	14430	1777	89	81
2000-01	17926	16003	1923	89	12384	10502	1882	85	66
1999-00	12230	10570	1660	86	11855	10219	1636	86	97
1998-99	10360	8765	1595	85	10036	8663	1373	86	99
1997-98	8907	7364	1543	83	9104	7661	1443	84	104
1996-97	8944	7663	1281	86	8508	7245	1263	85	95
1995-96	7354	6136	1218	83	8015	6910	1105	86	113
TOTAL 1995-96 TO 2013-14	664551	556339	108212	84	614904	514208	100696	85	92

All figures are based on Defence Service Estimates Vol I



EXPENDITURE ON PAY & ALLOWANCES OF DEFENCE SERVICES AND CENTRAL GOVERNMENT EMPLOYEES OVER THE YEARS																				
	2014-15 BE	2013-14 RE	2012-13	2011-12	2010-11	Pay Commission		2007-08	2006-07	2005-06	2004-05	2003-04	2002-03	2001-02	2000-01	1999-00	Pay Commission		1995-96	
						2009-10	2008-09										1998-99	1997-98		
PAY & ALLOWANCES																				
ARMY	59914	55015	49907	43347	38511	40035	27011	16753	15611	14841	14100	13017	12734	12019	11441	10744	9831	8669	6590	5866
%age increase over previous year	8.90	10.24	15.13	12.56	-3.81	48.22	61.23	7.31	5.19	5.25	8.32	2.22	5.95	5.05	6.49	9.28	13.42	31.53	12.35	
NAVY	5506	4750	4697	4508	3731	3972	2714	1784	1615	1501	1401	1293	1234	1210	1231	1099	1085	896	662	587
%age increase over previous year	15.91	1.13	4.19	20.83	-6.06	46.32	52.19	10.43	7.62	7.15	8.29	4.79	1.98	-1.66	11.94	1.33	21.07	35.47	12.77	
AIR FORCE	9972	8620	8377	7532	6856	6971	4681	2829	2597	2473	2311	2174	2160	2025	2070	1898	1793	1555	1145	1026
%age increase over previous year	15.69	2.89	11.23	9.85	-1.65	48.91	65.45	8.97	4.99	7.01	6.33	0.65	6.68	-2.19	9.08	5.83	15.30	35.82	11.60	
TOTAL P & A (ARMY, NAVY & AIR FORCE)	75391	68384	62981	55387	49098	50978	34407	21366	19823	18815	17812	16484	16128	15254	14742	13741	12709	11120	8397	7478
%age increase over previous year	10.25	8.58	13.71	12.81	-3.69	48.16	61.04	7.78	5.36	5.63	8.05	2.21	5.73	3.47	7.28	8.11	14.30	32.43	12.28	
EXPENDITURE ON PAY AND ALLOWANCES OF THE CENTRAL GOVERNMENT CIVILIAN EMPLOYEES (Expenditure figures for 2012-13 is as per RE and for 2013-14 is as per BE)		121550	110308	95984	89752	93833	71726	44361	40048	37262	35154	32154	31420	29925	27589	31500	28904	25930	19046	18090
%age increase over previous year		10.19	14.92	6.94	-4.35	30.82	61.69	10.77	7.48	6.00	9.33	2.34	5.00	8.47	-12.42	8.98	11.47	36.14	13.16	
Strength as on 1st March		3450217	3400537	3152936	3187553	3224486	3210223	3217252	3321210	3230130	3274145	3312237	3317334	3421202	3267344	3776666	3745664	3786865	3827751	3765745

Pay & Allowances figures of ARMY, NAVY & AIR FORCE are as per DSE Vol I and the Pay & Allowances figures for Central Govt Employees and their actual strength are as per Indian Public Finance Statistics 2013-2014 & 2004-2005 issued Ministry of Finance Department of Economic Affairs Economic Division

INDIAN DEFENCE EXPENDITURE & ITS DISTRIBUTION												
HEADS OF EXPENDITURE	2012-13		2011-12		2010-11		2009-10		2008-09		2007-08	
	Actual Defence Expenditure Rs in Crs	Percentage of the Defence Expenditure	Actual Defence Expenditure Rs in Crs	Percentage of the Defence Expenditure	Actual Defence Expenditure Rs in Crs	Percentage of the Defence Expenditure	Actual Defence Expenditure Rs in Crs	Percentage of the Defence Expenditure	Actual Defence Expenditure Rs in Crs	Percentage of the Defence Expenditure	Actual Defence Expenditure Rs in Crs	Percentage of the Defence Expenditure
<b>PAY &amp; ALLOWANCES</b>	74750	41.12	66260	38.77	58310	37.84	60466	42.65	41080	35.97	25255	27.55
<b>Operations &amp; Maintenance</b>	27739	15.26	28026	16.40	25681	16.66	23099	16.29	25483	22.31	23111	25.21
<b>INFRASTRUCTURE (Acquisition of Land, Construction of Buildings and their maintenance)</b>	15292	8.41	15343	8.98	14765	9.58	12154	8.57	11537	10.10	10424	11.37
<b>ACQUISITIONS OF PLATFORM,EQUIPMENT, UPGRADES &amp; Research and Development (Capital)</b>	63995	35.21	61285	35.86	55361	35.92	46062	32.49	36125	31.63	32890	35.88
<b>TOTAL</b>	181776	100	170913	100.00	154117	100	141781	100	114223	100	91680	100

DSE from 2008-09 began summarised tabulation of the Budget estimates under the head **Pay & Allowances** (does not include salary & wages of MES personnel etc. which are provided for under the Minor Head 'Works' and 'Miscellaneous'), **Stores & Equipment** (includes Minor head 'Repair & Refits' of the Indian Navy, **Transportation, Miscellaneous Charges, Repair Works, maintenance of Buildings, Installation etc.** and **Capital Expenditure**. This data has been used to classify the expenditure in to four broad categories tabulated above. The expenditure under Stores & Equipment, Transportation & Misc Charges have been added up to form the Operation & Maintenance expenditure. The capital works expenditure of Army, Navy, Air Force, Joint Staff, Rashtria Rifles, NCC,ECHS, Inspection Organisation, DRDO & Ordnance factories has been reduced from the Capital Expenditure figure and added to the Revenue Works expenditure to arrive at the **INFRASTRUCTURE (Acquisition of Land, Construction of Buildings and their maintenance)** and the **Capital expenditure figures Net Off** the above deductions is categorised as **ACQUISITIONS OF PLATFORM,EQUIPMENT, UPGRADES & Research and Development (Capital)**

## COMPARISON OF THE THREE PENSION SCHEMES

Benefit	AFPS 75	AFPS 05	New Scheme 2015
Funding Structure	Unfunded and non- contributory	Unfunded and non- contributory	Unfunded and non- contributory
Overall Scheme Design	Defined benefit based on representative pay <sup>2</sup>	Defined benefit based on final pensionable pay	Defined benefit based on career average pensionable pay
When do pension benefits start to build up?	From age 21 for Officers and from age 18 for Other Ranks or date of joining if later	First day of paid service in the Armed Forces for both Officers and Other Ranks regardless of age	First day of paid service in the Armed Forces for both Officers and Other Ranks regardless of age
Normal Pension Age	Age 55	Age 55	Age 60
Maximum number of years' pensionable service	34 years for Officers and 37 years for Other Ranks	40 years for both Officers and Other Ranks	No maximum
Accrual Rate	Uneven accrual rate – faster up to Immediate Pension (IP) point	Even accrual rate at 1/70th of pensionable earnings for each year of service	Accrual rate of 1/47th will be applied to each year's pensionable earnings.
Rate of pension increases	Consumer Prices Index (CPI) increases: IP – from age 55 Invaliding Pension – on payment. Preserved Pension – increases applied from date of exit from the Armed Forces	CPI increases: EDP – from age 55 Ill-health Pension – on payment Preserved Pension – increases applied from date of exit from the Armed Forces	CARE – annual revaluation of accruals by changes to average earnings. CPI increases: EDP – from age 55 Ill-health Pension – on payment Deferred Pension – increases applied from date of exit from the Armed Forces
Lump sum (at NPA or State Pension Age)	Automatic tax-free lump sum when first receive pension (of three times pension)	Automatic tax-free lump sum when first receive pension (of three times pension)	Optional lump sum commutation at rate of 12:1 (in accordance with HMRC limits and regulations)
Abatement for those who leave and re-join	Abatement can apply	Abatement can apply	Abatement will not apply for service in the new scheme if SP returns from retirement. Abatement rules for current schemes continue.
Benefits for those who leave before the IP or EDP points	Preserved pension paid from age 65 (age 60 for service before 6 April 2006) with an automatic tax-free lump sum worth three times pension	Preserved pension paid from age 65 with a tax- free lump sum worth three times pension	Preserved pension renamed Deferred pension and paid from State Pension Age (currently 65) with an optional tax-free lump sum commutation at the rate of 12:1 (in accordance with HMRC limits and regulations)
Earliest age individuals can receive an income on leaving Services <sup>3</sup>	IP paid at age 37 and after 16 years for Officers (RAF is age 38) and age 40 and after 22 years for Other Ranks. Level of IP income set at full pension value plus a tax-free lump sum worth three times annual pension	EDP paid after 18 years service and reaching age 40 for both Officers and Other Ranks. Value of an EDP income at least half of Preserved Pension plus a tax- free lump sum worth three times Preserved Pension	EDP paid after 20 years' service and reaching age 40 for both Officers and Other Ranks. EDP income at least 34% of Deferred pension plus a tax-free lump sum of 2.25 times Deferred pension. Further work to be undertaken to investigate the potential to provide greater flexibility in how the EDP is

Non-attributable ill-health benefits	Service Invaliding Pension plus tax-free terminal grant of three times pension. Level of pension based on length of service and normally enhanced (if served longer than 5 years)	Three tier system dependent on seriousness of disability; Tier 14 – Tax-free lump sum related to salary and number of years served. Tier 25 – pension enhanced by one-third of remaining service to age 55 plus tax-free lump sum of three times pension. Tier 36 – pension enhanced by half of remaining service to age 55 (with minimum pension based on 20 years' service) plus tax-free lump sum of three	To be confirmed but based on the same provision as AFPS 05
Value of lump sum if the member dies in	A tax-free lump sum of about 3 times representative pay	A tax-free lump sum of four times pensionable pay	A tax-free lump sum of four times pensionable pay
Spouse's pension received on the member's death (not due to Service)	Normally 50% of member's pension but ceases on cohabitation or remarriage. Short term pension payable at level of member's earnings up to 9	Up to 62.5% of member's pension paid for life. No short term pension	Up to 62.5% of member's pension paid for life. No short term pension
Is a partner <sup>7</sup> entitled to a pension?	No (unless death was due to Service)	Yes, if evidence of a substantial relationship at time of member's death	Yes, if evidence of a substantial relationship at time of member's death
Will a civil partner be entitled to a pension?	Yes. Provided member was serving on or after 1 October 1987, all appropriate service, including that given before that date counts towards survivors' benefits, except that where a member registers a partnership after leaving the scheme, only service from 6 April 1978 counts	Yes. Provided member was serving on or after 1 October 1987, all appropriate service, including that given before that date counts towards survivors' benefits, except that where a member registers a partnership after leaving the scheme, only service from 6 April 1978 counts	Yes. Provided member was serving on or after 1 October 1987, all appropriate service, including that given before that date counts towards survivors' benefits, except that where a member registers a partnership after leaving the scheme, only service from 6 April 1978 counts
Children's pensions	Children's pensions payable but not to children of post-retirement marriages or post-retirement civil partnerships	Children's pensions payable including pensions for children born after leaving the Armed Forces	Children's pensions payable including pensions for children born after leaving the Armed Forces
Additional Voluntary Contributions (AVCs)	Options to increase death-in-service lump sum, widow's pension, purchase added years and top up AFPS 75 benefits	Options to buy in- scheme added years. AVCs available from commercial sources.	To be confirmed but new scheme will include the opportunity to buy AVCs
Specialist Pay	Not pensionable	Not pensionable	Not pensionable
Members who leave and rejoin	Members who rejoin after a gap in service of more than six months cannot treat their service as continuous.	Members who rejoin after a gap in service of more than six months cannot treat their service as continuous.	Members who leave the new scheme and return <b>within 5 years</b> will have their pension benefits revalued as if they had been an active member throughout

## Annexure 'Q' to Final Report

UK TRI SERVICE PENSION RATE								
OFFICERS WITH 16 YEARS QULIFYING SERVICE		OFFICERS WITH 34 YEARS QULIFYING SERVICE		YEARS RECKONABLE SERVICE	2 STAR	3 STAR	4 STAR	CHIEF OF THE DEFENCE STAFF
RANK	FORMULA	RANK	FORMULA					
OF2 Captain	28.50%	OF2	48.5% of the mean of OF 2 Level 7 and the Commissioned OF2 maximum	22	35.4			
OF3 Major	28.50%	OF3	48.50%	23	36.6			
OF4 Lt Col	28.50%	OF4	48.50%	24	38.5			
OF5 Col	28.50%	OF5	48.50%	25	39.7			
OF6 Brig	28.50%	OF6	48.50%	26	40.8			
<b>OTHER RANKS 22 YEAR RATE</b>		<b>RATE</b>		27	42	42		
OR3 Below Corporal	28.50%	OR3	48.50%	28	43.1	43.1		
OR4 Corporal	28.50%	OR4	48.50%	29	44.3	44.3		
OR6 Seargent	28.50%	OR6	48.50%	30	45.4	45.4	45.4	
OR7 Staff Seargent	28.50%	OR7	48.50%	31	46.6	46.6	46.6	
OR 8 Warrant Officer 2	28.50%	OR8	48.50%	32	47.7	47.7	47.7	
OR 9 Warrant Officer Class	28.50%	OR9	48.50%	33	48.9	48.9	48.9	
				34	50	50	50	50

## State wise data of Population and Recruitment in the Armed Forces

	Population as per census 2011	Percentage of States population to the Total population of the country	Total Recruitment Army, Navy & Air Force for the years 2008 to	Percentage of no recruited from the state to the total recruitment	Ratio (percentage Recruited (4)/percentage population (2))
States	1	2	3	4	5
Andhra Pradesh	84580777	6.9869	26686	5.7277	0.82
<b>Arunachal Pradesh</b>	<b>1383727</b>	<b>0.1143</b>	<b>2528</b>	<b>0.5426</b>	<b>4.75</b>
Assam	31205576	2.5778	7357	1.5790	0.61
Bihar	104099452	8.5993	31953	6.8581	0.80
Chhattisgarh	25545198	2.1102	4113	0.8828	0.42
Delhi	16787941	1.3868	5791	1.2429	0.90
Goa	1458545	0.1205	206	0.0442	0.37
Gujarat	60439692	4.9927	13335	2.8621	0.57
<b>Haryana</b>	<b>25351462</b>	<b>2.0942</b>	<b>21988</b>	<b>4.7193</b>	<b>2.25</b>
<b>Himachal Pradesh</b>	<b>6864402</b>	<b>0.5670</b>	<b>16314</b>	<b>3.5015</b>	<b>6.18</b>
<b>J&amp;K</b>	<b>12541302</b>	<b>1.0360</b>	<b>15469</b>	<b>3.3201</b>	<b>3.20</b>
Jharkhand	32988134	2.7250	7812	1.6767	0.62
Karnataka	61095297	5.0469	13895	2.9823	0.59
<b>Kerala</b>	<b>33406061</b>	<b>2.7596</b>	<b>19406</b>	<b>4.1651</b>	<b>1.51</b>
Madhya Pradesh	72626809	5.9994	22791	4.8917	0.82
Maharashtra	112374333	9.2829	39034	8.3779	0.90
<b>Manipur</b>	<b>2570390</b>	<b>0.2123</b>	<b>4884</b>	<b>1.0483</b>	<b>4.94</b>
Meghalaya	2966889	0.2451	636	0.1365	0.56
<b>Mizoram</b>	<b>1097206</b>	<b>0.0906</b>	<b>1461</b>	<b>0.3136</b>	<b>3.46</b>
<b>Nagaland</b>	<b>1978502</b>	<b>0.1634</b>	<b>1749</b>	<b>0.3754</b>	<b>2.30</b>
Orissa	41974218	3.4673	11168	2.3970	0.69
<b>Punjab</b>	<b>27743338</b>	<b>2.2918</b>	<b>29054</b>	<b>6.2359</b>	<b>2.72</b>
<b>Rajasthan</b>	<b>68548437</b>	<b>5.6625</b>	<b>31789</b>	<b>6.8229</b>	<b>1.20</b>
<b>Sikkim</b>	<b>610577</b>	<b>0.0504</b>	<b>1491</b>	<b>0.3200</b>	<b>6.34</b>
Tamil Nadu	72147030	5.9598	19847	4.2598	0.71
Tripura	3673917	0.3035	718	0.1541	0.51
Uttar Pradesh	199812341	16.5058	69967	15.0171	0.91
<b>Uttarakhand</b>	<b>10086292</b>	<b>0.8332</b>	<b>21696</b>	<b>4.6567</b>	<b>5.59</b>
West Bengal	91276115	7.5400	22245	4.7745	0.63
Uts other than Delhi	3324413	0.2746	531	0.1140	0.42
Total:	1210558373		465914		

\*Data sourced from replies to parliament Questions Lok Sabha unstarred question no. 2627 for answered on 10.12.2012 , part (b) of Lok Sabha starred question no. 451 for answered on 5.9.2011 and question no 1407 answered in Lok sabha on 18 July 2014



Annexure 'S' to Final Report

UK-Recommended Annual Scales for Officers up to and including Commodore, Brigadier and Air Commodore(All salaries are annual JPA salaries rounded to the nearest £)										
RANK IN THE ARMY AND ITS EQUIVALENTS IN THE NAVY,	LEVEL									
	1	2	3	4	5	6	7	8	9	10
Brigadier OF-6	99154	100156	101158	102156	103167					
Colonel OF-5	83205	84236	85272	86303	87334	88365	89396	90431	91466	
Lieutenant Colonel OF-4	68679	69589	70491	71394	72296	76448	77467	78496	79524	
Major OF-3	48934	50142	51342	52559	53763	54980	56188	57392	58605	
Captain OF-2	38848	39888	40941	41999	43043	44097	45141	45674	46199	
Lieutenant, 2nd Lieutenant OF-1	16468	17950	19539	22346	25220	30314	31115	31912	32705	33507
University Cadet Entrants	13544	15474	17312	18851						

There are unique scales for each of the following categories:1. Scales for Chaplains 2. Veterinary Officers of the Royal Army Veterinary Corps 3. Officers Commissioned From the Ranks 4. Professional Aviator Pay Spine 5. Nursing Officers 6. Special Forces Officers Commissioned From the Ranks

UK-Recommended annual scales for Other Ranks (All salaries are annual JPA salaries rounded to the nearest £)																		
RANK IN THE ARMY AND ITS EQUIVALENTS IN THE NAVY, MARINES & AIR FORCE	LEVEL (The pay structure for Other Ranks is divided into pay bands, Lower Band (LB) and Higher band (HB). Trades at each rank are allocated to bands according to their score in the job evaluation system)																	
	1		2		3		4		5		6		7		8		9	
	LB	HB	LB	HB	LB	HB	LB	HB	LB	HB	LB	HB	LB	HB	LB	HB	LB	HB
Warrant Officer I Range 5 OR-9	39548	43115	40316	43962	41130	44718	41944	45540	42762	46354	43962	47180	45204	47902				
Warrant Officer II, Staff Sergeant Range 4 (OR-7 – OR-8)	34039	37862	34484	38776	35604	39704	36439	40622	36934	41546	38604	42464	39196	43077	39704	43690	40602	44315
Sergeant Range 3 (OR-6)	30750	33561	31556	34430	32349	35302	32676	35747	33528	36444	34686	37140	34950	37836				
Corporal Range 2 (OR-4)	27054	28270	28270	29651	29651	31103	29877	31828	30112	32596	30352	33272	30574	33998				
Lance Corporal, Private Range 1 (OR-2 – OR-3)	17945	17945	18428	19305	18910	21260	20521	22308	21600	24666	21969	25866	22908	27054	23957	28270	24826	29651
New entrants	14492																	
There are unique scales for each of the following categories: 1. Nurses, Other Ranks 2. Royal Navy Clearance Divers 3. Special Forces Other Ranks																		

**PAY SCALES UNITED STATES-2014**

COMMISSIONED OFFICERS																						
Pay Grade\2 or less	Over 2	Over 3	Over 4	Over 6	Over 8	Over 10	Over 12	Over 14	Over 16	Over 18	Over 20	Over 22	Over 24	Over 26	Over 28	Over 30	Over 32	Over 34	Over 36	Over 38	Over 40	
O-10**											16,072.20*	16,150.50*	16,486.80*	17,071.50*	17,925.30*	17,925.30*	18,821.10*	18,821.10*	19,762.50*	19,762.50*		
O-9											14,056.80	14,259.90	14,552.10	15,062.40	15,062.40	15,816.00*	15,816.00*	16,606.80*	16,606.80*	17,436.90*	17,436.90*	
O-8	9,946.20	10,272.00	10,488.30	10,548.60	10,818.60	11,269.20	11,373.90	11,802.00	11,924.70	12,293.40	12,827.10	13,319.10	13,647.30	13,647.30	13,647.30	13,989.00	13,989.00	14,338.50			Same as over 34 yrs	
O-7	8,264.40	8,648.40	8,826.00	8,967.30	9,222.90	9,475.80	9,767.70	10,059.00	10,351.20	11,269.20	12,043.80	12,043.80	12,043.80	12,043.80	12,105.60	12,105.60	12,347.70					Same as over 30 yrs
O-6	6,125.40	6,729.60	7,171.20	7,171.20	7,198.50	7,507.20	7,547.70	7,547.70	7,976.70	8,735.10	9,180.30	9,625.20	9,878.40	10,134.60	10,632.00	10,632.00	10,844.10					Same as over 30 yrs
O-5	5,106.60	5,752.50	6,150.60	6,225.60	6,474.30	6,622.80	6,949.50	7,189.50	7,499.70	7,974.00	8,199.30	8,422.20	8,675.70									Same as over 22 yrs
O-4	4,405.80	5,100.30	5,440.80	5,516.40	5,832.30	6,171.00	6,593.10	6,921.30	7,149.60	7,280.70	7,356.60											Same as over 18 yrs
O-3***	3,873.90	4,391.40	4,739.70	5,167.80	5,415.30	5,687.10	5,862.60	6,151.50	6,302.40													Same as over 14 yrs
O-2****	3,347.10	3,812.10	4,390.50	4,538.70	4,632.30																	Same as over 6 yrs
O-1****	2,905.20	3,024.00	3,655.50																			Same as over 3 yrs
COMMISSIONED OFFICERS WITH OVER 4 YEARS ACTIVE DUTY SERVICE AS AN ENLISTED MEMBER OR WARRANT OFFICER****																						
O-3E				5,167.80	5,415.30	5,687.10	5,862.60	6,151.50	6,395.40	6,535.50	6,726											Same as over 18 yrs
O-2E				4,538.70	4,632.30	4,779.90	5,028.60	5,220.90	5,364.30													Same as over 14 yrs
O-1E				3,655.50	3,903.30	4,047.90	4,195.20	4,340.10	4,538.70													Same as over 14 yrs
WARRANT OFFICERS																						
W-5												7,118.40	7,479.60	7,748.40	8,046.30	8,046.30	8,448.90	8,448.90	8,871.00	8,871.00	9,315.00	9,315.00
W-4	4,003.50	4,306.50	4,429.80	4,551.60	4,761.00	4,968.30	5,178.00	5,493.90	5,770.50	6,033.90	6,249.30	6,459.30	6,768.00	7,021.80	7,311.00	7,311.00	7,457.10					Same as over 30 yrs
W-3	3,655.80	3,808.20	3,964.50	4,015.80	4,179.60	4,501.80	4,837.20	4,995.00	5,177.70	5,366.10	5,704.50	5,933.10	6,069.90	6,215.40	6,413.10							Same as over 26 yrs
W-2	3,234.90	3,540.90	3,635.40	3,699.90	3,909.90	4,236.00	4,397.40	4,556.40	4,751.10	4,902.90	5,040.60	5,205.30	5,313.60	5,399.70								Same as over 20 yrs
W-1	2,839.80	3,145.20	3,227.40	3,401.10	3,606.60	3,909.30	4,050.60	4,247.70	4,442.40	4,595.40	4,735.80	4,906.80										Same as over 20 yrs

\* For officers at pay grades O-7 through O-10, basic pay is limited to the rate of basic pay for level II of the Executive Schedule, which is \$15,125.10 per month. For officers at O-6 and below, basic pay is limited to the rate of basic pay for level V of the Executive Schedule, which is \$12,266.70 per month.

\*\* For officers serving as Chairman or Vice Chairman of the Joint Chiefs of Staff, Chief of Staff of the Army, Chief of Naval Operations, Chief of Staff of the Air Force, Commandant of the Marine Corps, Commandant of the Coast Guard, or commander of a unified or specified combatant command (as defined in 10 U.S.C. 161(c)), basic pay for this grade is calculated to be \$21,147.30 per month, regardless of cumulative years of service computed under 37 U.S.C. 205. Nevertheless, actual basic pay for these officers is limited to the rate of basic pay for level II of the Executive Schedule, which is \$15,125.10 per month.

\*\*\* Does not apply to commissioned officers who have been credited with over 4 years of active duty service as an enlisted member or warrant officer.

\*\*\*\* Reservists with at least 1,460 points as an enlisted member and/or warrant officer which are creditable toward reserve retirement also qualify for these

PAY SCALES UNITED STATES-2014																						
ENLISTED MEMBERS																						
Pay Grade	2 or less	Over 2	Over 3	Over 4	Over 6	Over 8	Over 10	Over 12	Over 14	Over 16	Over 18	Over 20	Over 22	Over 24	Over 26	Over 28	Over 30	Over 32	Over 34	Over 36	Over 38	Over 40
E-9* Sergeant Major (SGM)							4836.90	4946.40	5084.70	5246.70	5411.10	5673.60	5895.60	6129.30	6486.90	6486.90	6810.90	6810.90	7151.70	7151.70	7509.60	7509.60
E-8 Sergeant Major (SGM)						3959.40	4134.30	4242.90	4372.80	4513.80	4767.60	4896.30	5115.30	5236.80	5535.90	5535.90	5647.20	Same as over 30yrs				
E-7 Master Sergeant (MSG)	2752.50	3004.20	3119.10	3271.50	3390.60	3594.90	3709.80	3914.40	4084.20	4200.30	4323.90	4371.60	4532.40	4618.50	4946.70	Same as over 26 yrs						
E-6 Staff Sergeant (SSG)	2380.80	2619.60	2735.10	2847.60	2964.90	3228.60	3331.50	3530.40	3591.30	3635.70	3687.30	Same as over 18 yrs										
E-5 Sergeant (Cpl)	2181.00	2327.40	2440.20	2555.10	2734.50	2922.30	3076.20	3094.80	Same as over 12 yrs													
E-4 corporal (Cpl)	1999.50	2101.80	2215.80	2328.00	2427.30	Same as over 6 yrs																
E-3 Private First class	1805.40	1918.80	2034.90	Same as over 3 yrs																		
E-2 Private E2	1716.90	Same as over 2 yrs or less																				
E-1** Private	1531.50	Same as over 2 yrs or less																				
E-1*** Private	1416.30																					

to the Chairman of the Joint Chiefs of Staff, basic pay for this grade is \$7,816.20 per month, regardless of cumulative years of service under 37 U.S.C. 205.  
 \*\* Applies to personnel who have served 4 months or more on active duty.  
 \*\*\* Applies to personnel who have served less than 4 months on active duty.

Transparency data-MOD roles and salaries: Head Office and Corporate Services Senior, as of March 2014 <a href="https://www.gov.uk/government/publications/mod-roles-and-salaries-2014">https://www.gov.uk/government/publications/mod-roles-and-salaries-2014</a> accessed on 29 Dec 2014						
Post Unique	Name	Grade (or equivalent)	Job Title	FTE	Actual Pay Floor (£)	Actual Pay Ceiling (£)
139073	Miss FC Nash	SCS2	Director Central legal Services	1	95000	99999
111789	Mark Preston	SCS2	Director Business Resilience (DBR)	1	85000	89999
137261	Stephen Jolly	SCS2	Director Defence Communications	1	120000	124999
195354	Chris Baker	SCS2	Director Safety and Environment Authority	1	85000	89999
191185	Air Marshal R Garwood	OF-8	Director General Military Aviation Authority	1	145000	149999
191191	Air Vice Marshal Atherton	OF-7	Authority	1	110000	114999
185281	Air Vice Marshal Clark	OF-7	Authority	1	110000	114999
1047423	Air Marshal Stephen Hillier	OF-8	Deputy Chief of Defence Staff (Military Capability)	1	130000	134999
1105905	Rear Admiral Henry Parker	OF-7	Director Carrier Strike	1	110000	114999
1055224	Rear Admiral Tim Fraser	OF-7	Assistant Chief of Defence Staff (Capability & Force Design)	1	110000	114999
137390	Ian Forber	SCS2	Director Strategic Programmes	1	80000	84999
100916	Alfred Hitchcock	SCS2	Chief Constable MoD Police & Guarding Agency	1	150000	154999
106000	David Williams	SCS3	Director General Finance	1	130000	134999
106029	Carole Tolley	SCS2	Director of Resources Head Office and Corporate Finance	1	85000	89999
105232	Richard Jones	SCS2	Director Financial Planning and Scrutiny	1	80000	84999
106039	Roger Hutton	SCS2	Director Defence Strategy	1	80000	84999
179598	Jonathan Slater	SCS3	DG Head Office & Commissioning Services	1	145000	149999
199327	Simon Routh	SCS2	Director Customer Design Team	1	115000	119999
195772	Kathy Barnes	SCS2	Human Resources Director (HRD)	1	95000	99999
197658	Mike Stone	SCS2	Chief Executive Defence Business Services	1	0	0
110709	AVM Ross Paterson	OF-7	Head of Service Personnel & Veterans	1	110000	114999
170772	Mosco, Les	SCS2	Dir Commercial	1	160000	164999
105230	Dr Paul Hollinshead	SCS2	Defence Science & Technology Strategy Director	1	115000	119999
105227	Prof Vernon Gibson	SCS3	Chief Scientific Adviser	1	140000	144999
155792	Houghton, Nicholas Gen	OF-9	Chief of the Defence Staff	1	240000	244999
109715	Air Chief Marshall Stuart Peach	OF-9	VCDS	1	180000	184999
5654	Jon Thompson	SCS4	Permanent Under Secretary	1	180000	184999
203349	Biggar, Graeme Henderson	SCS2	SofS-COS	1	80000	84999
1056166	Lt Gen Andrew Gregory	OF-8	Chief Defence Personnel	1	125000	129999
1621728	R Adm Simon Williams	OF-7	Assistant Chief Defence Staff (Personnel) / Defence Services Secretary	1	110000	114999
106181	Gavin Barlow	SCS2	Director Service Personnel Policy	1	85000	89999
1590218	Maj Gen John Crackett	OF-7	Assistant Chief Defence Staff Reserves & Cadets	1	110000	114999
194510	Dr Susan Atkins	SCS2	Service Complaints Commissioner (SCC) (Fee Earner 3* equivalent)	1	0	0
179774	Andrew Cayley	SCS2	Director Service Prosecution Authority	1	130000	134999
176079	Nick Payne	SCS2	DECS-D	1	95000	99999
196733	Rear Admiral John Gower	OF-7	Assistant Chief of Defence Staff (Nuclear and Chemical and Biological)	1	110000	114999
1055692	Maj General Patrick Sanders	OF-7	Assistant Chief of Defence Staff Operations	1	110000	114999
1055683	Lieutenant General James Everard	OF-8	Deputy Chief of Defence Staff (Military Strategic Operations)	1	125000	129999
1062827	Major General Buster Howes	OF-7	Head of British Defence Staff-United States and Defence Attaché.	1	115000	119999
194736	Lieutenant General Simon Mayall	OF-8	Special Representative to the Middle East	1	150000	154999
1716524	Rear Admiral Simon Ancona	OF-7	ACDS Military Strategy	1	110000	114999
163901	Mason, Susanna Margaret	SCS2	DG Exports	1	165000	169999
1740527	Green, Mark	OF-7	Director Strategic Projects	1	115000	119999
106032	Heather Tayler	SCS2	Transformation	1	80000	84999

Annexure 'AA' to Final Report							
Country	Retirement Age	Minimum Qualifying	Age for initial	Age for Full pension	Maximum Payment rate as a	Reckonable Pay	REMARKS
CHINA	55 YRS OR 30 YRS SERVICE	16	ON REIREMENT AFTER MIN QUALIFYING SERVICE	>30 FOR OFFICERS &>20 FOR SOLDIERS	85	Position Wage + Rank Wage + Basic Wage + Years-of-service Wage	SOLDIER- FOR EACH ADDITIONAL YEAR SERVICE RECEIVE 1% AND THE MAX IS 100%
FRANCE	45-58	15	AS ABOVE		80	Pay of Rank/post last held for at least 6 months	
GERMANY	53-61	17	AS ABOVE		71.75	Basic Pay + Family Allowance + Flying pay	
PAKISTAN	PRESCRIBED OR 60 YEARS	10	PENSION 23.33% AND 2.33% FOR EVERY ADDITIONAL YEAR		70	LAST PAY	MEDICAL ALLOWANCE OF 20 TO 25%. BRIG AND ABOVE ORDERLY ALLOWANCE
UK	EARLY RETIREMENT 40 YRS	18	40 YRS	OFFICERS 34 YRS-OTHER RANKS 37 YRS	1/70 OF THE LAST PAY DRAWN FOR EACH YEAR OF SERVICE= 1.43% MAX 50 %	LAST RANK -LAST PAY INCLUDING X-FACTOR	EDP SCHEME PAYS A TAX-FREE LUMP SUM +50% OF PRESERVED PENSION TILL 55 YRS AGE. 56 TO 60 YRS 75% OF PENSION. FULL PENSION FROM 65 YRS
USA	VARYING	20		62 YRS	2.5 % FOR EACH YEAR OF SERVICE. FOR SERVICE LESS THAN 30 YEARS - 1% FOR EACH YEAR	JOINED SERVICE BEFORE 08 SEP 80 - LAST PAY JOINED SERVICE BEFORE 01 AUG 86 - AVERAGE OF HIGHEST 36 MOTHS BASIC PAY - POST	

## About the Author

The study team comprised of:

**Mr. Vinod Misra, Mr. Amit Cowshish, Gp. Capt. (retd.) Vinay Kaushal, and Mr. Laxman Behera.**

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