# A Primer on the Basic Allowance for Housing (BAH) for the Uniformed Services

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

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# Basic Allowance for Housing

## 1. Purpose and Goal

The purpose of the Basic Allowance for Housing (BAH) program is to offset private sector housing costs for Service members living off-base on the local market economy. Therefore, private sector rental housing costs are the basis for BAH rates. When government quarters are unavailable, BAH rates serve as an equitable allowance helping members afford adequate rental housing near their duty location. The allowance is set based on geographic duty location, pay grade, and dependency status (whether or not a member has at least one dependent).

## 2. Design of the Basic Allowance for Housing Program

The Department of Defense and the Services designed the BAH program to reflect the market price of rental housing rather than member-reported rents. The BAH program measures the cost of available, adequate rental housing in the local civilian market each year rather than measuring the housing consumption patterns of Service members. This method ensures BAH rates reflect and react to annual trends in rental markets, rather than to changes in Service member preferences or other non-housing related factors.

BAH rates are also based exclusively on rental markets, not home purchase markets. While members are free to use BAH for mortgage payments, BAH is not intended to track or reflect home purchase markets as they are distinct markets that fluctuate on a variety of additional factors such as individual credit history and interest rate changes. While rental and home purchase markets are correlated, it is not a 1:1 relationship; the two markets may fluctuate at different times, and at different rates, over a given period.

## 3. Individual Rate Protection

Individual rate protection prevents a member from receiving a lower BAH rate than the previous year, as long as the BAH eligibility status of a service member remains unchanged. This ensures that members who have made long-term commitments in the form of a lease or contract are not penalized when area housing costs decrease. Service members are entitled to the BAH rates published 1 January or the amount of housing allowance they received on 31 December, <u>whichever is larger</u>. Rate protection continues unless the status of a service member changes due to:

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

BAH distinguishes between with-dependents and without-dependents, not the number of dependents.

After a service member arrives at a new duty station, rate protection applies. The service member will receive any published increase, but no decrease, in BAH if their status remains the same.

***The definition of change in status does not include promotions. If a service member is promoted, and is in a location where the current published BAH rate for the new grade is lower than the BAH amount received before, they continue to receive the higher BAH amount.***

## Data Collection

### 4. Type of Data Collected

In computing BAH, DoD includes local price data for:

- rental housing
- utilities (including electricity, heating fuel, water, & sewer)

We employ a contractor to collect this data annually for approximately 300 military housing areas (MHAs) in the United States, including Alaska and Hawaii. DoD and the Services define these MHAs by sets of ZIP Codes. Nation-wide data collection occurs during peak PCS season in the spring and summer when housing markets are most active. Rental costs are collected for apartments, townhouses/duplexes, and single-family rental units of varying bedroom sizes. The different types of units are referred to as "housing profiles" or "anchor points." DoD uses housing profiles to link rental costs with particular pay grades. The six standard housing profiles used as anchor points for BAH are:

| Housing Profile | Grade With Dependents | Grade Without Dependents |
|---|---|---|
| **1 Bedroom Apartment** | | E-4 |
| **2 Bedroom Apartment** | | O-1 |
| **2 Bedroom Townhouse/Duplex** | E-5 | O-1E |
| **3 Bedroom Townhouse/Duplex** | E-6 | O-3E |
| **3 Bedroom Single Family Detached House** | W-3 | O-6 |
| **4 Bedroom Single Family Detached House** | O-5 | |

### 5. Rental Data Sources and Validation

Current, valid rental costs are crucial to accurate BAH rates. We use data from a wide variety of sources to provide a "checks and balances" approach to collecting the BAH data sample. We obtain current residential vacancies from online multiple listing services (MLS), subscription-based commercial rental housing datasets, real estate property management companies, and landlords.

We also consult with real estate professionals in each MHA to confirm market rental prices and obtain additional data. Where available, we also contact fort/post/base housing referral offices and installation leadership. We tap into local housing office knowledge and gain insights into the concerns of our members.

Each property used in the annual BAH sample undergoes additional screening and validation processes. Rental property data submitted from the above sources is confirmed by an independent housing contractor. The contractor validates the data by:

- Establishing the availability and location of each unit in the survey sample
- Verifying the current rental rates

- Identifying any utility inclusions in the rental rates
- Determining if discounts are available when signing a year's lease

To ensure BAH rates do not reflect the cost of housing unavailable to, or inadequate for, Service members, BAH does not collect prices for the following types of housing units:

- Mobile homes
- Efficiency apartments
- Furnished units
- Income-subsidized complexes
- Age-restricted facilities
- Seasonal units
- Housing in high-crime neighborhoods

The target goal of the BAH program is to gather enough data to attain a 95% statistical confidence that the estimated median rent is within 10% of the true median rent in the local market. This typically represents about 30 to 75 sample housing units per anchor point in each MHA. The majority of MHAs meet this target goal. However, in remote or low-housing stock MHAs that have few available rental properties, the number of housing units collected for the sample will be correspondingly lower.

In these cases, the DoD uses a number of methods to determine accurate BAH rates, including the adoption of rent estimates (e.g., asking local landlords to price seasonal rental units as if their units were available year round) and using housing cost trends throughout the MHA to estimate the cost of a specific housing type (e.g., estimating the cost of 2-bedroom apartments using cost data for 1-bedroom apartments and 2-bedroom townhomes).

This enhanced process ensures data is collected in a consistent manner across the entire United States, while allowing for greater flexibility in responding to the unique challenges of remote or otherwise challenging markets.

### 5.1 Utilities

The Bureau of the Census conducts an annual American Community Survey (ACS). DoD uses data from the ACS to determine average expenditures for utilities specific to each dwelling type in each MHA. All data is sensitive to local housing conditions, geography, and climate.

### 5.2 Quality Assurance

We recognize the importance of accurate rates and optimize effort to obtain maximum reliability at each step of the BAH data collection and rate-setting process.

For example, we use a multi-tiered screening process when selecting specific units for the BAH sample.

- We ensure each unit is adequate (meets building code safety standards, is in good repair, etc…) and is geographically distributed in approximately the same manner as the local population.
- We exclude the BAH contractor from collecting data in high-crime areas so BAH rates reflect the cost to live in safe neighborhoods.

- We use an income screening process to identify appropriate neighborhoods and eliminate locations where the typical civilian income is not comparable to members' incomes. Civilian salary equivalents are compared to each pay grade's Regular Military Compensation, which consists of basic pay, average BAH, Basic Allowance for Subsistence (BAS), and the tax advantage that comes with BAH and BAS being untaxed.

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

## Local Input in the Data Collection Process

### 6. Tapping Local Expertise

DoD and the Services value local expertise in the data collection process. We contact the local military housing office (MHO) and command leadership at each installation to provide them the opportunity to contribute to the BAH data collection effort.

Housing referral offices and installation leadership have the opportunity to:

- Provide local rental housing referrals
- Review and, if necessary, flag any rental properties collected by the contractor deemed unsuitable for inclusion

### 7. Typical Data Collection and Rate-setting Timeline

| Task | JAN | FEB | MAR | APR | MAY | JUN | JUL | AUG | SEP | OCT | NOV | DEC | JAN |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| MHO BAH Workshops | | √ | √ | | | | | | | | | | |
| 1st MHO submission | | | | | √ | | | | | | | | |
| 2nd MHO submission | | | | | | √ | | | | | | | |
| 3rd MHO submission | | | | | | | √ | | | | | | |
| BAH contractor compiles data | | | | | | | | √ | | | | | |
| DoD begins BAH rate calculation | | | | | | | | | √ | | | | |
| Services begin BAH rate review | | | | | | | | | √ | √ | | | |
| All Services approve new BAH rates | | | | | | | | | | | √ | | |
| BAH rates released to public | | | | | | | | | | | | √ | |
| DoD begins paying new BAH rates | | | | | | | | | | | | | √ |

### 8. Geographically Separated Activities

In some instances, a geographically isolated command (such as a recruiting office or a Military Entrance Processing Station in a remote location) does not have a housing referral office. If located within an MHA, these remote offices may submit data on their own behalf during the data collection process. They may also collaborate with the closest MHO. However, they should request approval to do so through their chain of command to Service headquarters. Final approval is obtained from each Service's Military Compensation office. (Refer to the Obtaining More Information section for contact information.)

### 9. Individual Service Member Input

The BAH process does not require input from individual service members. Service members with questions or issues regarding BAH rates should submit questions to their MHO or through their chain of command to their Service compensation representative. Housing offices are the best resources for BAH questions. They can provide information quickly and efficiently, as well as escalate questions to the appropriate representatives.

## Rate Computations

### 10. Housing Profiles and Standards

DoD uses housing standards that allow members a BAH that correlates to what civilians who earn comparable amounts typically pay for housing. That is, we use housing standards to link housing costs with a particular paygrade. The standards are necessary to enable the Services to forecast BAH costs for budgeting purposes; however members are free to choose where to live and in what type of dwelling.

DoD determines standard profiles for each anchor point as shown below. For these anchor point pay grades, the local median housing cost of that profile is the local median housing cost for the particular pay grade. Local median costs for other pay grades, that are not anchor points, are determined by interpolating (or 'filling in') between the anchor points. The standards for E-4 personnel (both with and without dependents) are the minimum and apply to grades E-1 to E-3. To interpolate rates for non-anchor pay grades, we calculate the difference between anchors and add a percentage of that difference to the lower anchor rate.

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

| Description | Formula | Example |
|---|---|---|
| **E-6 with dependents local housing cost (3br TH):** | A | 1000 |
| **W-3 with dependents local housing cost (3br SFD):** | B | 1200 |
| **Difference:** | C: B – A | 1200 - 1000 = 200 |
| **36% of that difference:** | D: C x % | 200 x .36 = 72 |
| **E-7 with dependents interpolation:** | A + D | 1000 + 72 = 1072 |

Effective 1 January 2008, the Quadrennial Review of Military Compensation recommended that the Without Dependent rate be at least 75% of the With Dependent rate. The Without Dependent rate may be higher than the floor percentage for any given pay grade and MHA, and the floor percentage increment does not imply a mandatory percentage increase in all Without Dependent rates each year.

### 11. BAH Housing Standards & Interpolation between Anchor Points

| With Dependents | | Calculate local cost difference between anchors. Add % of difference to anchor. | Without Dependents | | Calculate local cost difference between anchors. Add % of difference to anchor. Raise to With rate floor if lower. |
|---|---|---|---|---|---|
| **Grade** | **Housing Type** | **BAH Interpolation** | **Grade** | **Housing Type** | **BAH Interpolation** |
| E-1 | 2br | Midpoint of 2br APT and 2br TH | E-1 | 1br APT | Same as E-4 |
| E-2 | 2br | | E-2 | 1br APT | Same as E-4 |
| E-3 | 2br | | E-3 | 1br APT | Same as E-4 |
| E-4 | 2br | | E-4 | 1br APT | Anchor |
| E-5 | 2br TH | Anchor | E-5 | 1br APT | 67% |
| O-1 | 2br TH | 11% | O-1 | 2br APT | Anchor |
| O-2 | 2br TH | 98% | E-6 | 2br APT | 7% |
| E-6 | 3br TH | Anchor | W-1 | 2br APT | 31% |
| W-1 | 3br TH | 1% | E-7 | 2br APT | 53% |
| E-7 | 3br TH | 36% | O-2 | 2br APT | 83% |
| O-1E | 3br TH | 44% | O-1E | 2br TH | Anchor |
| W-2 | 3br TH | 52% | W-2 | 2br TH | 19% |
| E-8 | 3br TH | 75% | E-8 | 2br TH | 20% |
| O-2E | 3br TH | 93% | O-2E | 2br TH | 44% |
| O-3 | 3br TH | 98% | E-9 | 2br TH | 51% |
| W-3 | 3br SFD | Anchor | W-3 | 2br TH | 54% |
| E-9 | 3br SFD | 16% | O-3 | 2br TH | 64% |
| W-4 | 3br SFD | 22% | O-3E | 3br TH | Anchor |
| O-3E | 3br SFD | 26% | W-4 | 3br TH | 9% |
| W-5 | 3br SFD | 48% | O-4 | 3br TH | 40% |
| O-4 | 3br SFD | 58% | W-5 | 3br TH | 45% |
| O-5 | 4br SFD | Anchor | O-5 | 3br TH | 63% |
| O-6 | 4br SFD | 1% | O-6 | 3br SFD | Anchor |
| O-7 | 4br SFD | 2% | O-7 | 3br SFD | 2% |

* APT – Apartment; TH – Townhouse/Duplex; SFD – Single Family Dwelling

### 12. Setting the Rates

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

- Review the local median housing costs for each MHA
- Evaluate MHA and profile-specific utility data
- Prescribe BAH rates based on data input and DoD housing standards policy

To calculate BAH rates, we:

1) Determine the total housing costs (median rent + average utilities) for each MHA for all the anchor points.
2) Calculate (using the Housing Standards table above) a separate BAH rate for each of twenty-seven distinct pay grades that correspond to military ranks for members with and without dependents.

**13. Absorption**

In an effort to continue balancing the growth in compensation costs, the BAH program incorporated a change in BAH rates in 2015.

Based on authority provided in the Fiscal Year 2015 and Fiscal Year 2016 National Defense Authorization Acts, a member cost-sharing element (out-of-pocket expense) of one percent was introduced into the BAH rates in 2015. This out-of-pocket expense increased by one percent annually until it was capped at 5%. Out-of-pocket expenses were 2% in 2016, 3% in 2017, 4% in 2018 and have been consistent at 5% since 2019 (including in 2022). The out-of-pocket is administered using an absorption rate, which is computed to ensure members of a similar pay grade/dependency status pay the same amount out-of-pocket regardless of their location. However, depending on members' actual housing choices, they may or may not actually have to pay out of pocket for their housing. (Refer to the Frequently Asked Questions section for more information on the implementation of these changes.)

DoD is committed to the preservation of a compensation and benefit structure that provides members with a suitable and secure standard of living to sustain a trained, experienced, and ready force now and in the future.

## Frequently Asked Questions

**14. Why doesn't BAH cover all my housing costs, or my mortgage payment?**

One of the common misconceptions regarding BAH is that it is intended to cover all of a service member's housing costs. The original BAH law stated that the allowance could cover no more than 80% of calculated housing costs. Accordingly, the average service member had at least 20% of out-of-pocket expenses subtracted from their allowance calculation. In 2000, the Secretary of Defense committed to reducing the planned average out-of-pocket expense for the median member to zero by 2005. In 2015, the planned out-of-pocket expense was reintroduced at a rate of 1% of national average costs per grade. In 2022, it is 5%.

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

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

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

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

**15. How will the out of pocket impact service members?**

The actual impact of the changes to BAH computations will vary depending on a member's housing choices. Members who rent a median-priced property will have to pay a small amount above their BAH rate. Members who choose to economize in their housing choices may have all their housing expenses covered by BAH. Some members, renting properties above the median price for the area, have already been paying some housing costs out of pocket.

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

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

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

One such choice that members frequently make is to "trade-off" a longer commute to work for either a larger or less expensive house in an outlying area. For example, two members assigned to a downtown duty station may make drastically different housing choices. One member may choose to use all of his or her housing allowance to rent an apartment in the city, with a commute time of only 10 minutes to the downtown duty station. The second member might prefer to rent a less expensive three-bedroom house in an outlying neighborhood and commute to that same downtown duty station from 20 or 30 miles away. Both members are free to choose the situation that best suits them.

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

Two reasons. First, government housing (especially privatized housing) often surpasses typical local community housing in quality and size. Second, family size is the basis for on-base housing assignment. That is, Services house families with more dependents in units with enough bedrooms to meet their family needs. The BAH approach is based on comparing a member's compensation

with that of civilians who earn the same. Members at higher grades receive BAH based on more bedrooms and larger dwelling types. The only distinction is with or without dependents, not the number of dependents.

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

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

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

BAH is defined for every location in the United States, even though some locations may have no military population, because we must be prepared to pay BAH in case a member or dependent ever establishes eligibility in that location. Collecting rental data for all such locations is not practical. To handle these situations, we combine these areas with other MHAs of similar cost for which we have sufficient rental cost data. Pooling the data in this manner gives us sufficient data to establish statistically reliable housing costs and BAH rates.

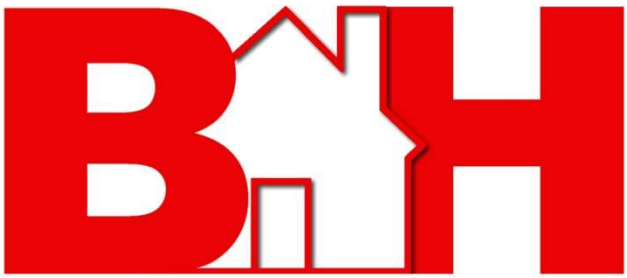
We determine comparable housing costs using Fair Market Rents published annually for all counties by the Department of Housing and Urban Development. After grouping or pooling the data, the result is a set of counties with comparable housing costs and BAH rates called a County Cost Group (CCG). There are 39 CCGs. We then calculate average housing costs by size and type of dwelling for each CCG using the BAH rates associated with MHA-based counties in each group. Although half the U.S. counties (about 1,500) are in CCGs, these counties contain less than 2 percent of military members eligible to receive BAH.

## Obtaining More Information

For an overview of BAH, visit https://www.defensetravel.dod.mil/site/bah.cfm. You can look up individual rates using the BAH Calculator and review additional Frequently Asked Questions regarding the program.

To review the BAH regulations, refer to the DoD Financial Management Regulation, Volume 7A, Chapter 26 at https://comptroller.defense.gov/Portals/45/documents/fmr/Volume_07a.pdf.

To review the BAH Law, refer to Title 37 USC § 403 at http://uscode.house.gov.

For issues regarding your BAH, contact your Service Compensation Representative ***THROUGH YOUR CHAIN OF COMMAND***:

| Service | Office | COM Phone | DSN |
|---|---|---|---|
| **Air Force** | AF/A1PA, Military Compensation Policy | 240-612-4354 | 612-4354 |
| **Army** | DCS, Army G-1, Compensation & Entitlements | 703-692-6819 or -5946 | 222-6819 or -5946 |
| **Coast Guard** | U.S. Coast Guard (CG-1332) | 202-475-5398 | N/A |
| **Marine Corps** | Manpower Plans and Policy Division, Military Policy Section | 703-784-9386 | 278-9388 |
| **Navy** | Pay & Policy | 703-604-5477 | 664-4990 |