Chapter 8

THE EFFECT OF RESERVE COMPONENT MOBILIZATIONS ON CIVILIAN EMPLOYERS

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Prior to 1990, U.S. military reserve units had rarely experienced widespread, ongoing deployments. A number of reserve units served in Korea and in Vietnam; however, in both cases only a small percentage of reservists were called to active service. Reservists served on an individual basis in other operations, but entire reserve units were not mobilized. In fact, reservists were more likely to be mobilized in response to natural disasters or civil unrest than to supplement active forces. Reservists could reasonably believe that they had very little chance of being called to active duty.

Today's reservists can no longer have that expectation. The Gulf war of 1990 marked the beginning of a period in which U.S. military forces deploy overseas on a continual basis, with few respites. These deployments differ from previous operations; although the United States has not engaged in total mobilization, the military services have made regular and sustained use of their reserve components. The composition of forces in all four services means that virtually any sustained deployment demands the participation of reservists and reserve units. To illustrate the point, 40 percent of Army National Guard and Army Reserve members who served between the beginning of the global war on terror in 2001 and October 2007 experienced at least one period of activation. This pattern is likely to continue as long as U.S. forces operate in significant strength in overseas theaters. Some units most needed for sustained peacekeeping, such as public affairs, military police, and Judge Advocate General, are located primarily in the reserve components.

The increased utilization of reserve units has consequences for reserve members. Reservists typically hold civilian jobs. When they are called to active duty, reservists must leave their civilian positions for the duration of their mobilization. Reserve mobilizations thus can affect the incomes of reservists and their families (discussed elsewhere in this volume) and can also affect reservists' employers.

The large-scale mobilization of reservists for the first Gulf war demonstrated a need to protect reservists' civilian employment. Accordingly, in 1994 Congress passed the

Uniformed Services Employment and Reemployment Rights Act (USERRA) which updated and expanded reemployment protections from the Veteran Reemployment Rights Act of 1940. Among other protections, USERRA protects the right of veterans, reservists, National Guard members, and certain other members of the uniformed services to reclaim their civilian employment after absences due to deployment or training. With few exceptions, employers must reemploy reservists, and must also provide rights and benefits determined by seniority, so as not to penalize reservists for their absence.

While USERRA provides employment protection for reservists, it does so at a potential cost to employers. If an employer does not replace a mobilized reservist, the employer loses the reservist's productivity, or must reorganize operations to compensate for the absence. If the employer does replace the reservist, it incurs various costs of search and hiring, and must grapple with the issue of terminating the new employee once the reservist returns. Furthermore, the employer may have to pay employee benefits during the reservist's absence.

In recent years, bills have been introduced in Congress to compensate employers for the presumed costs they suffer from reservist mobilizations. In addition, the Small Business Administration (SBA) has acted to protect the economic viability of small firms that employ reservists. In 1999 the SBA instituted its Military Reservist Economic Impact Disaster Loan (MREIDL) program, which provides loans to small businesses that lose key personnel to reserve mobilization. More recently, the SBA initiated a program called Patriot Express to help veterans, including reservists, establish or expand their small businesses.

Analysis of Employer Costs

Although reservists have faced repeated mobilizations in recent years, little is known about the extent to which reservists' absences have actually imposed costs on civilian employers. To remedy this, the Office of the Assistant Secretary of Defense for Reserve Affairs asked the Institute for Defense Analyses (IDA) to study the costs employers incur due to reserve deployments. IDA's initial report was completed in 2004,[1] and concluded that employers typically experienced short-run costs of hiring, workplace dislocation, and in some cases lost business or reduced revenue.[2] It also concluded that a systematic survey of employer costs was needed. After careful design, a set of respondents were selected and a new survey was conducted.[3] The results and implications of this new survey are described here.

Employer Satisfaction

Employer responses confirm that military reservists are valued employees. The survey asked employers to evaluate reservist employees in eight areas, and compare them to other employees. In all cases, reservists were considered equal or superior to other personnel (Figure 1). Employers prefer reservists because they often possess skills generally superior to other employees. In particular, reservists rank high in terms of leadership, teamwork, and dependability, which are key characteristics associated with military training and experience.

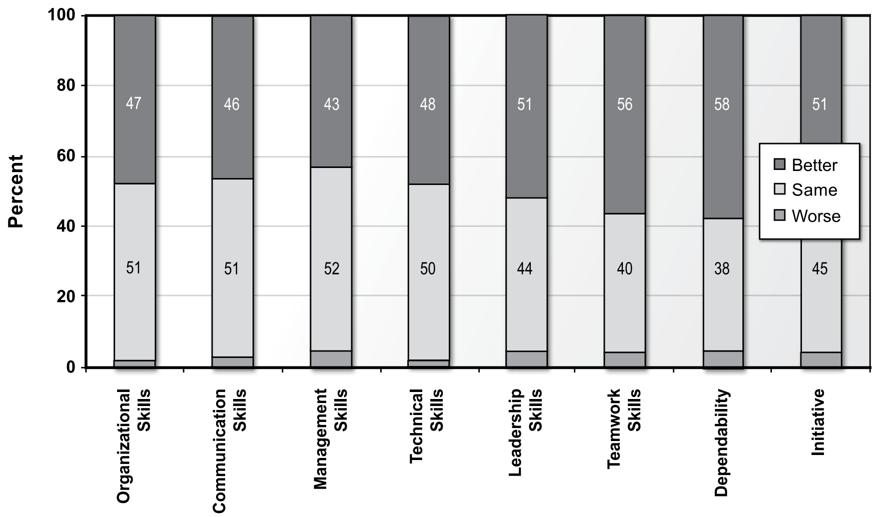

Figure 1. Employers Generally Are Satisfied With Reservist Employees

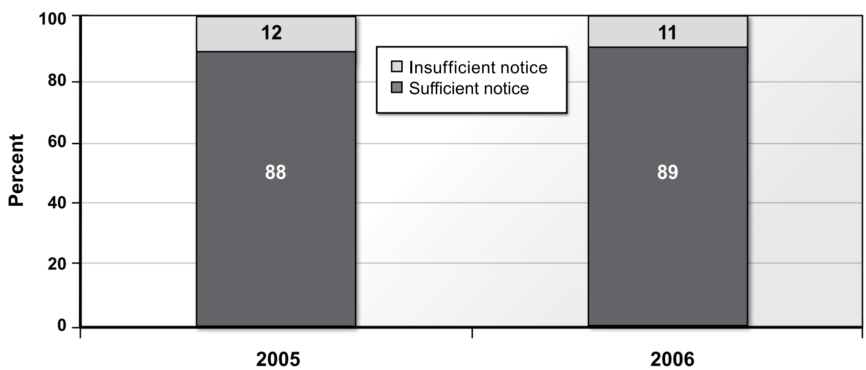

Figure 2. Employers Generally Receive Adequate Notice of Reservists' Activation

The added value that employers see in reservists could motivate them to support reservist employees, even at the cost of periodic absences for deployment. To help employers manage those absences, reservists are typically notified at least 30 days in advance of being mobilized. For the most part, employers consider this an adequate amount of notice (Figure 2).

Overview of Employer Costs

To gain an understanding of the costs employers face, the survey assessed several cost categories. Overall, the majority of respondents reported no workplace costs from reservist activation. In some cases employers claimed to have gained from activations, because they were able to hire temporary workers at lower pay. Among those firms that did report costs, they were generally modest and occurred in similar areas. A small number of employers, however, reported very large costs. These employers were either small businesses or first-responder state or local government agencies. About one-fifth of small firms lost business when their key reservist employees deployed to active duty. Limitations of the survey precluded considering these losses alongside other costs associated with the loss of these employees. The survey also failed to produce quantifiable information on the costs of benefits paid to activated reservists; however, those costs seem modest in most cases.

In addition to these costs, many employers voluntarily provided support to activated reservists or their families. This nonmandatory support provides significant insight into the value employers place on reservist employees. The survey results on voluntary expenditures are described later in this analysis.

Workplace Adjustment Costs

Employers were asked about different kinds of workplace adjustments. One way employers compensate for deployed employees is by retraining other personnel, for which they incur training costs. Others cope with these absences by paying remaining employees overtime. If additional personnel are needed, an employer might hire temporary replacements or, if the nature of the job is such that temporary personnel are not an option, hire permanent replacements.[4] In either event, the employer incurs search and hiring costs, such as employment agency fees, training costs, and differential wage costs for the replacement. In some cases replacement personnel might be paid less than the reservist, leading the employer to derive a gain from the reservist's mobilization.

In each category, the majority of respondents reported no costs from reservist activation (Figure 3).[5] A small number—less than 10 percent—actually derived gains through reduced salaries. Between 20 percent (state and local government agencies) and 35 percent (large, for-profit businesses) reported net costs of workplace adjustment. For them, the median cost varied between $2,320 (for nonprofit establishments) and

$1,880 (for government agencies). Small businesses had net costs of $2,001 and large businesses incurred $1,920 in net costs. Fewer than half of these affected employers had costs over $3,000 per reservist. The costs reported are for the entire period of the reservist's activation. Therefore, most employers had workplace adjustment costs of no more than a few hundred dollars per month over an 11-month mobilization period—the average deployment length for reservists.[6]

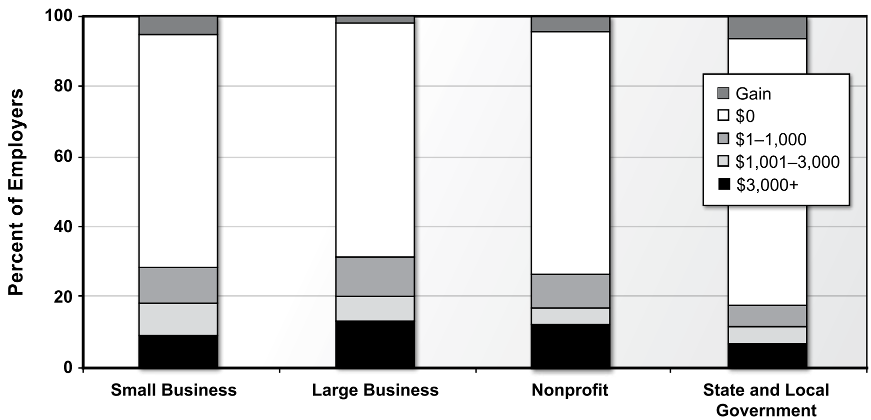

Figure 3. Most Employers Have Little or No Workplace Adjustment Costs

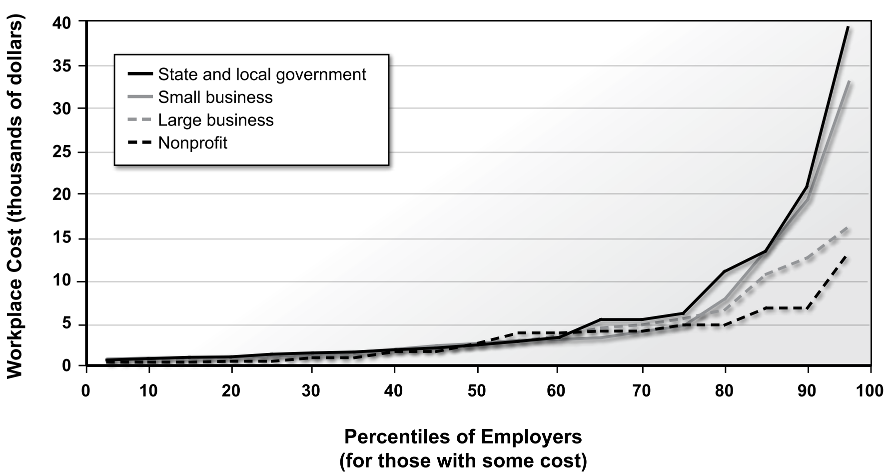

Figure 4. Some Employers Had Very Large Workplace Costs

A relatively small minority of employers experienced much higher costs from reservist activation (Figure 4). Ninety-five percent of employers had workplace costs of less than $5,000; however, costs for the other 5 percent—or 15 percent of those with some costs—were sometimes much greater. In particular, some small businesses had costs over $30,000, and some government agencies' workplace costs approached $40,000. All of the severely affected government agencies were first responders, such as police departments or emergency medical teams. Their high costs stemmed from training and overtime wages for remaining personnel. (In addition, some first responder agencies elect to continue paying at least partial wages to their activated reservists, as do many state and local government agencies. Such payments, however, are voluntary and do not constitute workplace adjustment costs.) In the case of severely affected small businesses, high costs were primarily due to training expenses for employees filling the jobs of the mobilized reservists.

Lost Business

A preliminary study of employer costs suggested that losing business was a common consequence of reservist mobilization among small businesses.[7] Loss of a key employee might mean reduced marketing, diminished productivity, the inability to seek large-scale jobs, or shifts in a firm's output.[8] Some respondents to the earlier survey reported they were driven out of business by their reservists' activation. While only a very small percentage of large firms reported any loss of business, more than 20 percent of small businesses did (Figure 5). Given the open-ended nature of the question, reported losses varied greatly, from $25 to $1 million. The wide variation suggests employers may have different concepts of lost business, while indeed experiencing severe losses in some instances.

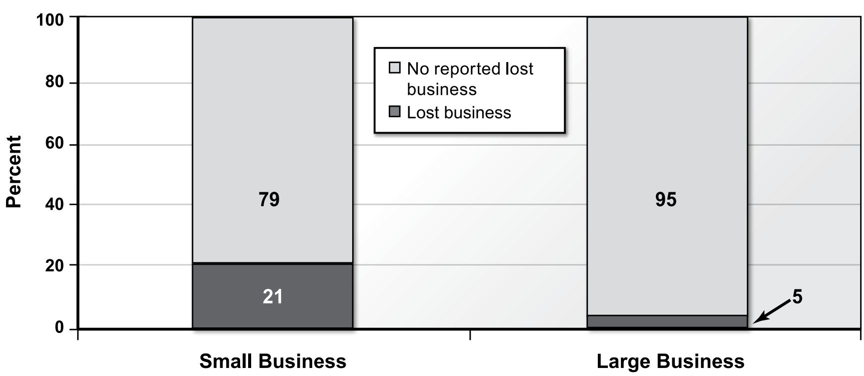

Figure 5. Some For-Profit Employers Lost Business from Reservist Activation

Benefits for Reservists

USERRA mandates that employers provide some benefits to reservists during absences for active duty. In practice, however, USERRA mandates impose fewer costs on employers than one might assume. The principal benefits paid by employers include pensions and annual, sick, or family leave. USERRA requires that employer-provided health insurance benefits be continued only for reservist absences of 30 days or less. Reservists on active duty for more than 30 days are covered by the military's health care system for active personnel, and a reservist's family is eligible for TRICARE coverage while the reservist is on active duty. Some employers choose to continue health coverage for activated reservists, but that is a voluntary expenditure rather than a cost of mobilization. However, an employer may require a reservist to pay up to 102 percent of costs for continuing an employer-sponsored health care plan.

Similarly, USERRA requires that employees continue accruing leave during periods of active duty service, but only if the employer provides leave accrual for employees "on furlough or leave of absence." In every category of employers, only a minority provide leave accrual during active duty (Figure 6). State and local government agencies are the most likely to have leave accrual provisions, while small businesses are the least likely to have them.

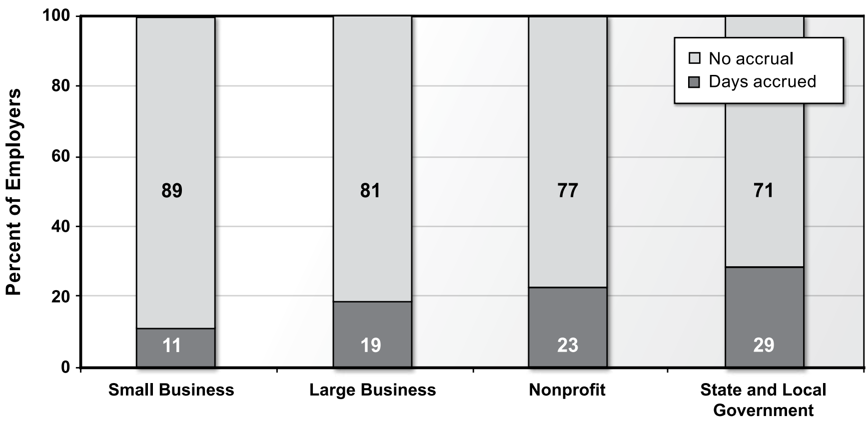

Figure 6. Some Employers Incur Costs of Leave Accrual During Activation

Pension costs may also impose less of a burden on employers than USERRA appears to mandate. Most retirement plans in the private sector are contributory, requiring contributions from the employee. USERRA requires employers to provide accruals for absent reservists only if reservists make contributions. Reservists need not make contributions during activation, but may make them up upon returning from active duty; employers are then required to make up their contributions. National data suggest that pension costs associated with reservist mobilization are not excessive. In 2003, for example, only 35 percent of employees in small businesses participated in a pension plan, while 65 percent of employees in large businesses did. For state and local governments, 98 percent of employees participated in pensions in 1998. The average cost to employers for pension plans is about $1 per hour for private employers, and $2.50 for state and local governments. But due to differing employee participation rates, employers' monthly pension costs for reservists who made full contributions upon their return would be about $430 for private firms and $440 for state and local governments.[9] The cost of pension accrual would be about $4,800 for an 11-month activation.[10]

Voluntary Support

A significant percentage of employers provided some amount of voluntary support for activated reservists and their families (Figure 7). In some cases this support took the form of continuing health care benefits for reservists' families, which allowed them to use their existing family medical providers without going through the unfamiliar mechanisms of TRICARE. Some employers provided other forms of in-kind support such as care packages, phone cards, laptop computers, home repair, and in a few cases, making car loan and mortgage payments. A breakout of these kinds of support is in Appendix B.

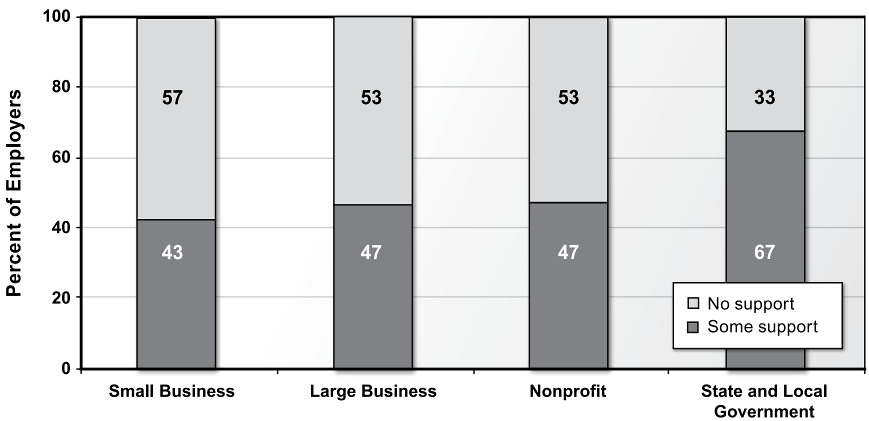

FIGURE 7. MANY EMPLOYERS PROVIDE VOLUNTARY SUPPORT FOR ACTIVATED RESERVISTS

The most common type of voluntary support was the continuation of some portion of the reservist's pay while on active duty. Such support included continuing the reservist's full pay for the duration of his or her mobilization, continuing it for some period such as 30 or 90 days, making up the difference between military and civilian pay, or a combination of these approaches. The most common practice for employers is to stop the reservist's pay upon mobilization (Figure 8). Over half of state and local government agencies elect to provide some form of pay support, as do 25 percent or more of large businesses and nonprofits. Small businesses appear less able to provide pay support.

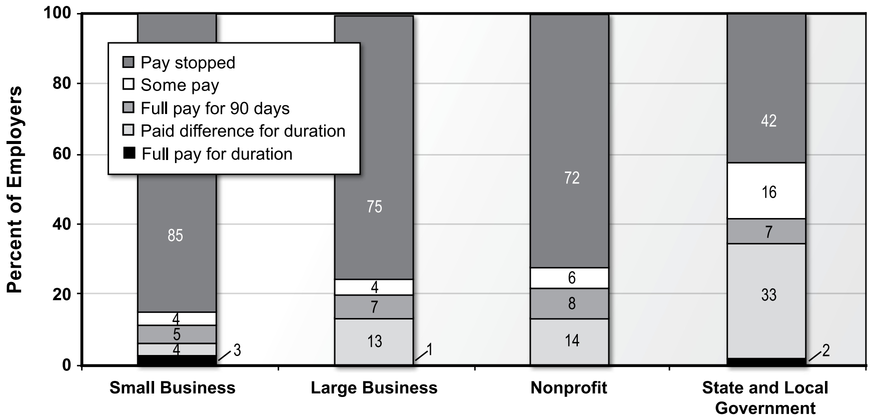

FIGURE 8. MANY EMPLOYERS PROVIDE CONTINUATION OF PAY FOR ACTIVATED RESERVISTS

Implications for Public Policy

In recent years, several bills have been introduced in Congress designed to provide relief to employers of activated reservists. The Hope at Home Act, S. 1142 in 2005, proposed a tax credit of 50 percent of wage costs to employers who paid differential wages to their activated employees. In 2007, the Patriot Employers Act, S. 1945, proposed a one percent income tax credit for employers meeting several criteria. The Eagle Employers Act, H. 5907 in 2008, made a similar proposal. However, at the time these policy proposals were formulated, no data were available on the magnitude and distribution of employers' costs. Thus, the proposals were devised without a complete picture of the problem they were intended to address. The survey of employer costs, described here, provides the first systematic data on the nature and extent of the problem. In light of this new data, cases can be made both against and for policies that provide relief to affected employers.

The results of this survey offer guidance not only on whether employer costs should be targeted by public policy remedies, but also on different policy options.[11] First, only a minority of employers experience costs from mobilization, and of those who do, only a small minority are severely affected. However, employers' costs may be greater than the study team was able to tabulate. In addition to the tabulated workplace costs, some small businesses reported costs from reduced sales, revenues, or profitability. Further, some employers may incur costs from accrual of benefits, especially pension contributions. Many employers also choose to make voluntary contributions to support reservist employees called to active duty. Although voluntary support is not a mandated employer cost of mobilization, it may affect both employers' attitudes toward employing reservists and reservists' willingness to return after completing active duty.

Finally, the survey results suggest that some reservists may be reluctant to notify their employers of their reserve affiliation. The high proportion of employers who said they did not employ activated reservists, despite the fact that the survey sample was drawn from a list of reservists' employers, indicates some employers may not know their employees are reservists. If that is the case, reservists may fear being penalized or sanctioned by employers for their reservist status, despite USERRA protections. If this is indeed the reality reservists face, an indemnification program may be necessary to improve employment conditions.

The Case Against Policy Remedies

There are both theoretical and practical arguments to not compensate or indemnify employers for costs associated with reservist activation. We offer four theoretical arguments. The first and most compelling is that reservist absences are simply a risk or an expected cost for employers. Like any other business risk, employers must incorporate it into their business decisions. In fact, reservist absences have become more predictable given the pace of mobilizations and deployments since 2003; employers should be able to incorporate expected absences into their business planning. In this argument, indemnifying employers for the costs of activation is unnecessary and would confer windfall gains on good planners while bailing out bad ones.

Second, there is no guarantee that an indemnification policy would provide any benefit to reservists themselves. The objective of public policy in this area should be to offer employers an incentive to employ reservists, and not to penalize or discriminate against them. However, benefits for employers would only be loosely related to reservists' employment because many reservists have not been, and are unlikely to be, subject to activation. Moreover, any broad indemnification policy would not link benefits to employers' costs, and thus would not provide direct job protection.

Third is the question of whether any policy remedies are needed to protect reservists. Reservists generally are attractive and successful employees. If some employers choose not to employ reservists because of the possibility of activation, other employers would likely be eager to hire them. Thus, the fact that some employers incur costs does not necessarily impact overall reservist employment.

Finally, any need for new policy remedies is diminished by the existence of the SBA MREIDL loan program. Another SBA program, Patriot Express, provides guaranteed loans to veterans who own small businesses. If a business is truly disadvantaged by reservist activations, these programs offer interim financial support. Businesses that cannot repay loans may not be viable in the long run anyway, and would be forced to close, which would result in the reservist having to find other employment.

There are also practical reasons why policy remedies may be undesirable. The data show that only a minority of establishments report costs from reservist activation. Consequently, any broad-based policy would compensate two-thirds of all employers for costs they did not actually incur. Moreover, the costs employers do incur vary widely; any policy establishing a single indemnification rate would undercompensate some employers and overcompensate others. These considerations argue against the kinds of programs proposed in draft legislation. On the other hand, a practical argument can be made against programs that compensate employers for actual costs. Such programs would be expensive to administer and reimbursement amounts would have to be determined on a case-by-case basis. Such a program would also have to define what costs qualify for aid, and in what amounts.

The preceding discussion is couched in terms of for-profit businesses; however, it also applies to nonprofits and even to state and local government agencies. These employers can anticipate reservists' activations and plan for overtime, reduced productivity, and other effects of their absences. Most of those employers report no costs, and thus are not in need of indemnification or other policy remedies. Across-the-board programs would be as inefficient for nonprofits and state or local agencies as they would be for other employers.

The Case for Public Policy

Each argument against remedial policy can be countered with an argument in favor of such aid. The claim that employers should internalize the risk and cost of reservist activations demands a level of knowledge and certainty that does not exist in the business world. Even if they anticipate employees being activated, employers do not know when the mobilization will occur, for how long the employees will be absent, or what the business workload will be during their absence. Therefore, reservist activations impose costs that are difficult for employers to estimate and anticipate. In this environment, employers may have a bias against employing reservists, though the advantages reservists provide might overcome some of that bias. That said, reservists would still tend to be underemployed or underpaid compared to their inherent skill levels. Despite USERRA protections, employers can find ways to limit hiring or continuing to employ reservists. For example, they may limit reservists' promotions, demand that they relocate, or change their job descriptions. Indemnifying employers for mobilization costs is one way to provide relief. It could also serve as a financial inducement to continually employ reservists.

The SBA's programs do not address the effects of mobilization; they merely shift them to a later point in time. Businesses that receive loans eventually have to repay them, incurring costs that competing employers do not. Even if the SBA's loan terms are favorable, they can affect liquidity, cash flow, and a business's ability to compete. Affected businesses may fold, leaving no job for the reservist.

To be sure, the need for policy remedies cannot be dismissed because only a minority of employers experience costs from mobilization. Reservist activations have a disparate impact across all categories of employers and within those categories. In particular, small businesses have greater costs than large ones, and are more likely to suffer lost business. Among government agencies, first responders face the highest costs of activation. Residents of states or localities whose first responders are subject to mobilization must pay higher costs, or experience diminished service. Thus, the burden of military mobilizations upon employers and taxpayers is imposed unequally.

Policy Options

There are three kinds of policy remedies to consider: tax credits, liberal loans, and grants. Each of them poses challenges in terms of effectiveness, dollar costs, administrative complexity, and impact upon recipients. Tax credits are the simplest option. A program could be designed to offer employers a fixed dollar credit for each month a mobilized reservist is absent. Such a program would be simple to administer, and would only add minimally to costs for preparing or auditing a tax return. Dollar costs could be fixed at any level; based upon survey data, $700 per month is a reasonable amount. To include beneficiaries with no net tax liability, the program could contain a negative tax feature.

Two drawbacks arise with this program. First, as the data show, over two-thirds of all benefits would go to employers who did not incur any costs, while those who did might not be fully compensated. In other words, very few employers would actually receive credited amounts equal to their costs. The second drawback is that a tax credit would exclude those who incur some of the most significant costs: nonprofits and government agencies. This issue is especially pertinent for government agencies, including the first responders who are most severely affected. Under the tax credit approach, these agencies would receive no benefit; the people they serve would face degradations in service or need to pay higher taxes to maintain adequate service levels.

Loan programs offer different advantages. The greatest advantage of business loans is that they already exist in the form of SBA programs, and SBA already has the capability to administer them. A loan program would be much more efficient than tax credits, because only employers who could show costs would be eligible. A loan program would probably pay out less money overall.

There are, however, several drawbacks with this approach. First, loan programs would have high administrative costs for the government and employers. Employers would have to document their costs and comply with application procedures. Second, criteria for eligibility may exclude some affected employers; the MREIDL program, for example, requires that the activated reservist be a "key employee." Third, the SBA's program by definition is restricted to small businesses. Although a broader program could include other employers, such as nonprofits, it would still be unlikely to benefit the first responder agencies that are hardest hit by mobilization. Finally, loan programs only defer the costs employers incur, and would thus fail to correct the inherent inequities in reservist activations. Because the loan is only a transitory benefit, the cost of obtaining it might easily outweigh its value.

A third approach could include grants for employers who incur costs from reservist mobilization. The advantage of a grant program is that it could be limited to severely affected employers, thus making efficient use of public funds. It would be targeted to protect and encourage reservists' employment. A grant program could also be offered to nonprofits and even to state and local government agencies. The major drawback of such a program is similar to that of a loan program. Grants would be administered on a case-by-case basis, and would impose high administrative costs on the government and applicants. New regulations would be needed to protect the government from fraud, since the money would not need to be repaid and employers would have a strong incentive to apply.

Choosing Between Policy Options

Policy makers must determine the necessity of indemnifying employers' costs from reservist mobilization. It may well be that drawbacks of public policy options outstrip their advantages; costs to employers might be less onerous than the taxpayer burden of an indemnification program. On the other hand, if policy makers decide to pursue employer indemnification, the study concludes that a limited, targeted grant program for employers who experience severe costs would be the best option. Such a program would focus directly on the employers who need it. Grants would be of greater value than loans to employers, resulting in the highest likelihood of protecting reservists' jobs. Grants would avoid windfall gains for employers who did not incur costs, and would come closest to matching the costs actually incurred. The administrative costs of applying for grants could dissuade employers who only experienced minor costs from applying.

Such a grant program could supplement the loan programs currently available through the SBA, while SBA's experience in this area could provide a model for developing this initiative. In order to ensure the grants go to the most severely affected employers, employers would need to document their costs, and grants would only cover those amounts. This would ensure the program's efficiency, reduce the administrative cost to the government, and reduce the program's overall dollar cost. In considering a program of this kind, however, the issue of first responder state and local government agencies must be addressed. In order to promote public safety and health care, the grant program could include a dollar amount earmarked for first responders. These applicants would still be required to document the extent of their costs, but fast-track procedures could be implemented to help agencies meet their staffing and coverage needs.

Conclusions

The Employers Economic Impact Survey presents data, for the first time, on the extent to which employers of reservists are affected when those reservists are called to active duty. The survey shows that only a minority of employers incur costs due to deployment. For those who do, costs of workplace adjustments usually do not exceed a few hundred dollars per month. Overall costs to employers may be greater, however, due to lost business, personnel benefits, and voluntary expenditures. That said, few employers appear to be severely affected by reservists' activation.

An argument can be made that public policy should take into account the minority of employers who experience considerable economic losses. The available public policy approaches include tax credits, loans, and grants—each of which offers advantages and drawbacks. The objectives of public policy should include reducing the possibility of adverse effects on reservists' employment, holding down administrative costs, and focusing benefits on those employers who are most in need. Among public policy options, the study concludes that a grant program, tailored only to employers who can demonstrate substantial losses, offers the greatest promise of achieving these goals.

Appendix A. The Survey of Employer Costs

The Survey Instrument

To develop and administer the survey, the Office of the Assistant Secretary of Defense for Reserve Affairs contracted with a professional survey research company, CALLC. The survey researchers worked with the Institute for Defense Analyses (IDA) to design a survey instrument to provide data on all potential employer costs due to deployment. Efforts were made to ensure that the survey would meet standards for sample size, response rate, and coverage. The sample was stratified to cover variations of industry, size of establishment, geographic region, and type of establishment (for-profit, not-for-profit, or state/local government agency).

The survey design process proved challenging. The design team was concerned about the ability and willingness of employers to provide the requested information, which might have required them to retrieve data from several years earlier. Furthermore, asking about different types of potential costs made the survey lengthy and complex. As a result, a two-part survey instrument was designed. Part I addressed the costs of benefits provided to reservists during their absence from the employer: pension, leave, and health costs. The survey also asked employers about the extent to which they provided voluntary support to their absent reservists. Part II addressed workplace costs such as hiring replacement personnel, rearranging workloads, paying overtime, and lost business. Each part of the final survey instrument was designed to take 20 to 30 minutes to complete. To reduce the burden on respondents, Part I was intended to be completed by an establishment's human resources manager, while Part II was targeted to a workplace manager.

Administering the Survey

CALLC conducted pretests of the survey to estimate the time needed to complete both parts, and to obtain feedback from employers about technical issues such as proprietary data. CALLC also fielded a pilot survey prior to full implementation to further test employers' ability to provide the required information. The pretests and pilot indicated that the completed instrument posed no major difficulties for respondents. Employers generally indicated no aversion to responding to the survey.

To develop a respondent sample, IDA drew on a Department of Defense database: the Civilian Employment Information (CEI) file. This database includes identification of reservists' civilian employers. The CEI file was not a perfect database at the time of the survey for several reasons. First, it is not comprehensive, although the percentages of respondents from all four military services have increased. Second, it is not necessarily current; reservists are asked to identify their current civilian employer, and the information is often not up to date. Third, there is no quality control on the data provided by reservists. Nonetheless, the CEI is the only database that exists on the civilian employers of military reservists. IDA first identified military reservists who were called to active duty during calendar years 2005 and 2006. These reservists were then matched with the employers cited in the CEI to yield a population of employers who had experienced the mobilization of one or more reservists during 2005 and 2006. From this population of employers, IDA and CALLC eventually drew a sample of 2,205 employers. Due to the limitations of the CEI, not all employers actually employed mobilized reservists.

For reasons common to survey research, the survey could not be administered to all 2,205 employers. Some employers were misidentified in the CEI. Others could not be linked to business addresses. Some may no longer have been in operation. Ultimately, CALLC sent out 1,527 survey questionnaires to employers identified through the CEI. The survey was fielded in the summer and fall of 2007. Despite the length and complexity of the survey, the response rate from the surveyed establishments was very satisfactory. In total, 997 employers returned at least one part of the two-part survey instrument, a response rate of 65 percent. Of the 997 employers who responded to the survey, only 549 said that they had employed reservists who were called to active duty. Some of those who responded to the survey only completed Part I or Part II, rather than both sections. Of the 549 employers aware that their reservists had been mobilized, 478 completed the full survey. Since analysis of the results requires completion of both sections, the survey ultimately produced 478 valid responses.

All of the respondents were drawn from the subset of the CEI consisting of the listed employers of reservists who were mobilized. We cannot determine the reasons why 448 employers claimed not to have employed such reservists. It is possible that reservists' identification of their employers in the CEI may have been out of date. It is conceivable that some reservists called to active duty may have resigned rather than take military leave. It is also possible that the employer personnel who responded to the survey may not have been aware of the mobilized employee, as the survey materials did not include the name of the matched reservist.

Appendix B. Incidences of Non-Pay Support

TABLE B-1

All Employers	Percentages
Continued health coverage	22.3
Care packages	18.1
Technology (laptops, web cameras, etc.)	4.2
Phone cards	3.4
Home and yard repair	3.4
Gifts	2.7
Unspecified help to family	2.5
Monetary (donations, bills, etc.)	2.3
Letters/e-mails	1.9
Other/not described	1.9

Notes

1. See Glenn A. Gotz, Colin M. Doyle, Neil M. Singer, and Karen W. Tyson, *Analysis of Employer Costs from Reserve Component Mobilization*, IDA Paper P-3872, February 2004.
2. In its report, IDA identified the kinds of costs that employers experience due to their employees' mobilization. The costs included lost productivity and revenue, costs of using remaining employees to compensate for lost productivity, costs of hiring and pay for temporary or permanent replacement personnel, and the costs of benefits such as leave and pension contributions while reservists were mobilized.

IDA undertook a limited survey to validate this taxonomy and to learn whether there were other kinds of costs that employers had experienced. The sample for the survey was drawn from a list of small businesses that had received MREIDL loans from the SBA. The IDA team recognized that its sample was nonrandom in several important respects. First, it consisted entirely of small businesses, and was limited to those small businesses that had experienced significant economic impact from the mobilization of a key employee (a requirement for eligibility under the MREIDL program). Second, the sample was not random with respect to geographic region, industry, or even type of establishment; it excluded employers in the not-for-profit and public sectors. Third, the sample was limited to eight firms because of resource and time limitations.

Despite its limitations, the survey supported the IDA taxonomy and added some information on the experience of affected employers. Typically, employers experienced short-run costs of hiring, workplace dislocation, and in some cases lost business or reduced revenue. Some businesses took several months (or even years) to return to their previous level of profitability following their reservist's return. A few employers claimed that the value of the SBA loan program was diminished by the requirement for repayment. They ultimately had to bear the costs of the reservist's absence, although they might be able to shift the costs from one time period to another in which they could better repay the loan.

IDA also examined the types of relief that employers might be offered through public policy if the survey concluded that their costs supported such policies. Depending on the nature of employer costs, appropriate policies might include tax relief, formula grants, or case-by-case indemnification. Each of these approaches would have its own combination of windfall benefits, program costs, and administrative costs for both employers and the government. Thus, recommendations about public programs were deferred pending the results of a systematic survey.

3. Appendix A contains a detailed discussion of the survey design and employment.

4. In the earlier IDA study, some employers were forced to hire permanent replacements because their activated reservists were skilled professionals for whom temporary replacements could not be found.

5. Although the survey was designed to permit stratification of the results along several dimensions, the number of completed responses was not large enough to conduct all of the planned analyses. Instead, the sample was only large enough to stratify respondents into four groups: small for-profit firms (fewer than 100 employees), large for-profit firms, private nonprofits, and state and local government agencies. Of the 478 complete responses, 172 were from small firms, 149 from large firms, 37 from nonprofits, and 120 from government agencies. The survey asked employers about the costs they incurred separately in 2005 and 2006. Results for the two years are combined in the analysis.

6. Activations for fiscal years 2002 through 2006 are averaged across all services.

7. Designing survey questions to ask employers about lost business proved difficult. Part of the difficulty was one of terminology: Did the firm lose revenue, profit, gross receipts, or sales? The issue also arose of what baseline was used to calculate the loss of business. In the end, the study team decided to raise the issue of lost business as an open-ended question, in effect letting employers decide what the appropriate definition was and how much they were affected.
8. For example, one medical partnership surveyed in the earlier study had to reduce its workload of surgeries and substitute patient consultations and physical therapy when one of its surgical partners was called to active duty.
9. The hourly costs of pensions reported are spread across both participating and nonparticipating workers. Thus they do not measure the individual pension cost for a worker who has a retirement plan. In order to compute the monthly cost for such a worker, we multiplied the hourly rate by 170, and then divided the result by the participation rate.
10. The employer survey included questions about pension costs; however, the responses were difficult to interpret and proved to be unusable. Issues arose because some survey questions proved to have multiple interpretations. First, employers were asked if they made contributions to a defined benefit plan, *and* if they made contributions to a defined contribution plan. CALLC was able to eliminate the ambiguities in these responses; however, many employers contributed to both kinds. Second, questions regarding the contribution rates for defined contribution plans elicited ambiguous results that prevented us from distinguishing employer from employee contributions. Third, employers were asked what amount they contributed to a plan upon the reservist's return; some of this data was reported as monthly amounts. It is unclear whether these numbers were the monthly accumulations during activation that the employer was required to make up, or were new contributions that simply restarted on the reservist's return.
11. We cannot aggregate the different elements of employer costs into a total cost for any employer or group of employers due to limitations in the design and implementation of the survey. The survey provides detailed data on workplace costs and voluntary contributions. We cannot quantify costs due to loss of business. We have broad estimates of benefit costs, but these are not derived from the survey and are not specific to employers with activations. Nonetheless, the available results are useful in considering public policy options.