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STATEMENT OF

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BEFORE THE

SUBCOMMITTEE ON MANPOWER AND PERSONNEL
SENATE COMMITTEE ON ARMED SERVICES

ON

THE USE OF MONETARY RECRUITMENT
AND RETENTION INCENTIVES



Mr. Chairman and Members of the Subcommittee:

We appreciate the opportunity to appear before you again today to discuss a most pressing problem facing the military services; that of how to best use monetary incentives to attract and keep sufficient numbers of quality people to man the force. We believe that in addressing this problem the two basic questions that need to be asked are: What are the most reasonable cost-effective means of achieving the military manpower objectives? And, do military managers have the necessary tools to achieve this overriding goal?

There are obviously many nonmonetary, quality-of-life factors--such as the necessity for frequent changes in location, family separations, and long work hours--which are, to a greater or lesser extent, within the services' ability to control and

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which impact on recruitment and, more importantly, on retention. The services' management of these nonmonetary factors could be the topic of a separate discussion. However, the focus of my comments today is on the use of monetary incentives, and what mix of incentives are the most cost-effective and provide management with the most appropriate tools.

As we have testified before, we do not see pay, bonuses, specialty pays, educational benefits, or any other component of the compensation system as issues in and of themselves to be looked at in isolation. Rather, we see the total compensation package, encompassing the complete life-cycle of a military member, as a set of management tools to be used to achieve specific mission-related goals and requirements. We have also said before that we believe fundamental changes are needed in the way military members are managed and paid and that, until some basic military management concepts change and reforms are instituted in the compensation and retirement systems, the Congress will be bound to dealing with the pay issue--including bonuses, educational benefits, and all other monetary incentives--on a piecemeal basis. But, we recognize that these fundamental changes will not come easily. In the meantime, manpower problems still need to be dealt with in the most cost-effective way possible and in a way that will not create new and expensive problems for the future.

OVERVIEW OF THE MANPOWER PROBLEM

Before discussing the various alternative incentives for attracting and retaining the correct number and quality of

people to meet the services' active duty manning goals, I believe it would be appropriate to briefly review the nature of the manpower problems the services face. I know this committee is well aware of these problems, but I believe an overview would help place the various ongoing monetary programs as well as some of the initiatives being considered into proper perspective.

Since switching to the All-Volunteer Force (AVF) in 1973, the supply of military manpower has become almost entirely dependent upon conditions of the labor market. I will not debate the merits of the AVF versus conscription, but I will point out that, except for first-termers, this situation would change little regardless of whether we have an AVF or draft system. The continuing problem will be how to adjust compensation and other benefit policies to attract and keep the needed number, quality, and mix of people at the lowest possible cost.

Despite perceptions to the contrary, over the 8 years of the AVF, the Active Force has never been more than 1.5 percent below their total funded authorized strength levels. In fact, for at least the last 2 fiscal years, the Active Force has essentially stood at its authorized strength. Also, the Active Career Force--generally considered to be those with more than 4 years of service--has remained relatively stable for each of the services. Serious manning level shortfalls have been experienced in the reserves, but in the Active Force, the problems do not seem to be in recruiting and retaining the right number of people in

aggregate. Rather, the problems are in recruiting and retaining quality people with the right mix of skills and experience to man the force.

The skill imbalance problems vary from service-to-service, from grade-to-grade, and from occupation-to-occupation, but they can generally be categorized as

- shortages in skills that are highly marketable in the civilian economy;
- shortages in skills that are not marketable, but which are generally thought of as being unattractive; and
- overages in occupations which are relatively easy to fill.

We could discuss at length the specific manpower problems facing the services and the intensity of the problems for any particular skill, but to give you some flavor for the kinds of manpower problems I am talking about, I will cite just a few examples.

During 1981, the Air Force projected that, by the end of the fiscal year, it would be short about 15,000 E-5s through E-7s in selected occupations--generally highly marketable avionics occupations. However, as the Air Force expected to meet its total authorized yearend strength level of about 188,000 for these grades, the 15,000 shortage would be offset by personnel at the same grades in other occupations. Using specific skill level and percentage of manning criteria, the Air Force also identified

73 "chronic critical skill" shortage occupations. It projects that, by the end of fiscal year 1982, it will be about 11,300 people (18 percent) short in these occupations. However, in mentioning this example, it is important to note that the Air Force's list of critical skill shortages, and the reasons for them, is continuously being reviewed and is in an almost constant state of change.

The Navy also has shortages in skills that are highly marketable, particularly nuclear and computer technicians and operations specialists. The Army projects shortages of air traffic radar controllers, maintenance mechanics, and other similar skills in high demand in the civilian economy. As I have indicated before, we believe that to attract and retain people with these skills will require a different set of solutions than is required to retain people without marketable skills.

Each service also has shortages in skills which are generally thought of as being unpleasant or unattractive for whatever reason--possibly because of an unpleasant working environment, long family separation, or because it is a skill without any demand in the civilian economy. The Navy, for example, has a shortage of boiler technicians. While being a boiler technician does not require a heavy training investment, the work environment--in the engine room of a ship--is generally unpleasant, particularly in diesel-powered ships. The Army has had a chronic problem filling its combat arms positions--skills that are both dangerous and without a civilian occupation counterpart. Solutions to these

problems will obviously require an innovative set of solutions which may differ substantially from the kinds of incentives needed to keep people with marketable skills.

Finally, there are some skills in all of the services which are relatively easy to fill and which are in a surplus position. These would include administrative clerks and other similar occupations. The Army, for example, has too many specialists in material control, accounting, material storage and handling, and behavioral science. Incidentally, one reason people with these types of skills stay in the services is because they are generally paid more than their age and occupation counterparts are paid in the private sector. One problem facing the services, then, is how to get and keep people in occupations where they are needed the most.

In summary, on an aggregate basis, each active service is essentially fully manned at their authorized strength levels. However, the mix of skills and grades--which the services equate with experience--is out of balance, with large surpluses in some skills and equally large shortages in others. The point I would like to emphasize is that these conditions create vastly different types of manpower supply problems, both in recruiting and retention. A solution which fits one problem does not necessarily fit others. In fact, a solution to one problem--for example, one of recruiting a sufficient number of high-quality people--could, if applied across-the-board, exacerbate other problems--for example, one of retaining highly trained technicians.

I would also like to emphasize that the manpower staffing problems are very dynamic and fluid. A problem today may not be a problem next month or next year. Both the supply of the right kind of people and the demand for them changes constantly as a result of changing internal and external conditions.

Given the nature of the services' manpower problems, then, what might be the ideal ingredients for a management system to deal with the problems? What tools would a manager in any large organization need to overcome his manpower staffing problems in the most cost-effective and efficient manner possible?

While whole textbooks have been written on this topic, it seems to us that there are basically five key ingredients.

1. Managers should have adequate resources at their disposal to deal with the problem.

2. Managers should have the authority to apply the resources in a timely manner and an early warning system to know when problems are developing.

3. The problem-solving solutions should be flexible so that managers can make adjustments to them--add to, subtract from, or apply differently--as conditions change.

4. Managers should have the authority to apply resources to manpower problems in the most cost-effective manner; in other words, to target the money to the problem.

5. Managers should have an adequate feedback and evaluation system so that they can determine whether the solutions are working or when more or less resources are needed.

We see this as somewhat of an ideal environment in which all managers would no doubt like to function. We also recognize that it may not be totally achievable, either for business or Government. There are limits to available resources and constraints on management authority. Nevertheless, within the realm of judicious oversight and control by the Congress, we believe that the tools provided to Defense managers should strive to include the elements I have just described.

ALTERNATIVES FOR ACHIEVING RECRUITING AND RETENTION GOALS

Now that I have given you a brief overview of the nature of the services' manpower problems and our view of the management tools needed to respond to the problems in a timely and cost-effective manner, I would like to discuss some of the alternative monetary incentives for achieving recruitment and retention goals. It would not be possible to comprehensively discuss all the various incentives currently in use, let alone all the options which might be available. But, before I discuss specifically the active duty enlistment and reenlistment bonus programs--the committee's primary interest today--I will briefly mention some of the incentives currently in use, as well as those under consideration by Defense and the Congress. Each of these I will discuss in terms of how well they meet the criteria I have just laid out.

Regular military compensation

Probably the most obvious and important attraction and retention incentive currently in use by the services is regular

military compensation (RMC), generally considered as the military equivalent to a civilian salary. It is composed of basic pay, basic quarters and subsistence allowances, variable housing allowance, and the value of the tax advantage for the nontaxable allowances. Obviously, without a reasonable salary, it would be very difficult to attract and keep the people the services need.

While virtually all the studies we have seen show that the level of RMC is probably the most important factor in an enlistment or reenlistment decision, it has serious drawbacks as a management tool. First, because of the way this component of the pay system is structured--pay rates being based on rank, years of service, and "need" rather than on the basis of work performed--it is probably the least flexible component of the pay system insofar as addressing specific manpower problems. This system results in paying people in some occupations far more than is needed to attract and keep them and paying people in other occupations far less than is necessary to satisfy the requirements of those occupations. Second, numerous studies have shown that most service members--enlisted and officers--underestimate the value to them of RMC. This is because RMC includes a computed tax advantage on nontaxable allowances and the value of the advantage differs for each individual. Also, not all members, even at the same grade and longevity step, receive the same allowances. To the extent that pay is not visible to the service members, it is worthless as a recruitment or retention tool. Third, many members see the RMC system as inequitable because two people at the same grade, with the same

years of service, and doing the same work may receive a different RMC depending on their marital status, number of children, and whether they live on or off base. To correct the visibility and equity problems, we and many others have long advocated changing to a military salary system.

In addition to its lack of flexibility, visibility, and equity, the RMC component of the military pay system also has other drawbacks in terms of the criteria I mentioned earlier. Defense has not always been given adequate resources--pay has been capped--pay is difficult to target--impossible to target by skill under existing authority--and the feedback mechanism does not reliably tell managers whether an increase has helped solve specific problems.

Special and incentive pays

Another group of incentives which are generally much more in tune with the key management ingredients I mentioned are the whole host of special and incentive pays. These include such things as (1) aviation career incentive pay, (2) submarine duty pay, (3) diving pay, (4) sea duty pay, (5) hazardous duty pay, (6) jump pay, (7) special pays for physicians, dentists, optometrists, and veterinarians, (8) proficiency pay, and (9) others I have not mentioned.

These pays have generally been provided to solve some special problem. However, they also lack in flexibility, timeliness of application, and they tend to become institutionalized and lose their value as a recruitment or retention incentive. For example, diving duty pay for officers was set at \$110 per month in 1961 and

has remained at that level until just recently. As a result of this committee's initiatives, the 1981 pay bill increased diving duty pay for officers to \$200 per month, but, in the meantime, the value of the \$110 had dropped to \$36.34 in constant 1961 dollars, and the Navy experienced severe shortages in this occupation.

Educational benefits programs

An increasingly difficult problem the services, particularly the Army, have had to face in recent years is the declining enlistments of high-quality, high-school diploma graduates. An incentive device that has become very popular with the services and the Congress to help resolve this problem are educational benefits.

The common objective of the current programs, as well as the proposed "GI Bill," is to provide the services with an educational assistance program that would prompt enlistments of adequate numbers of high-school graduates and other individuals who would score high on the armed services entrance exams. Because recruiting trends since the Vietnam-era GI Bill terminated at the end of 1976 have not been favorable, the services, in principal, are supporting the prospects for the more expensive "GI Bill."

The services' support is based in large measure on enlistment statistics since the end of the Vietnam-era GI Bill which show an overall shift of new recruits from the top mental categories to the least acceptable mental category. They point out, for example, that recruits scoring in mental categories I and II dropped from 38 percent in fiscal year 1976 to about 33.5 percent in fiscal year 1981 while at the same time recruits scoring in the

mental category IV rose from about 7 percent to about 18 percent. The Army experienced the greatest reductions in quality recruits, falling from about 31 percent in mental categories I and II in 1976 to only about 23 percent in 1981. At the same time, Army recruits in mental category IV increased from about 15 percent in 1976 to about 31 percent in 1981.

The downward trend in the quality of new recruits which had been fairly constant from 1977 through 1980, and which the services point to in justifying a new GI Bill, appears to have stopped, at least temporarily. Preliminary 1981 data indicates a 7-percent improvement over 1980 in mental categories I and II recruits, and a better than 13 percent decline in recruits scoring in mental category IV. Unless 1981 is an aberration, these new numbers would seem to weaken the services' argument that a new GI Bill is needed at this time.

Although the purpose of the Vietnam-era GI Bill, like the World War II and Korean War GI Bills, was to compensate service personnel for their sacrifices during a war period, it also served as a recruiting device, one which military officials would like to have once more.

Several bills proposing such increased postservice educational benefits have been submitted to the Congress. However, only one, the Veterans Educational Assistance Act of 1981 (H.R. 1400), has received congressional action. This bill, as reported by the House Committee on Veterans Affairs, would limit eligibility to enlistees

having a high-school diploma or an equivalency certificate. But, even with this limitation, the bill could cost \$2 to \$5 billion annually.

There are currently about 10 different GI Bill proposals pending in the Senate Committee on Veterans Affairs, and they vary considerably as to the amount of benefits, transferability, and other provisions.

Whereas the old GI Bills, which people so fondly remember, were enacted in response to the generally very low pay levels of that era and were used as a readjustment benefit for military members serving in a wartime or emergency situation, the common purpose of the pending GI Bill proposals is to provide new recruitment and retention incentives.

Yet, when one considers that any recruitment or retention incentive should be a tool used by management to solve manpower problems, one can begin to question the reasonableness of the GI Bill proposals. If, for example, H.R. 1400 was enacted, the application of the resources would be out of Defense management's control; managers would not have the authority to apply or remove the incentive on a timely basis as the high-quality recruit problems increased or diminished; managers would not have flexibility to adjust the incentive as conditions change; and problems in Defense's feedback system would not tell managers how well their programs might be working. Further, because of its very nature, the GI Bill would very soon become institutionalized

and be looked upon as a "right" rather than as an incentive or tool to be used to solve a particular problem.

Further, because this "incentive" would be paid to many people who would not need it to join or stay in the service, most of the expenditure would be unnecessary. For example, if a GI Bill is enacted which is limited to high-school graduates or those with an equivalency certificate, the supply of such people is expected to increase by about 5 to 10 percent. In other words, to attract every 21st and possibly 22nd quality recruit, incentives would be paid to 20 others who could be expected to enlist without the incentive. As a consequence of this, the cost per additional quality enlistee would be excessively high, up to \$200,000 in one recent estimate.

Enlistment and reenlistment bonus programs

Active duty enlistment bonuses and selective reenlistment bonuses are Defense's two major cash incentive programs for attracting and retaining personnel in skills where critical shortages exist. In terms of meeting the criteria of being good management tools, these programs probably come closer than any other monetary incentives currently being used by the military. For the most part, adequate resources have been made available to managers, Defense managers have the authority to adjust the application of resources in a timely manner, managers generally have had the authority to target the resources to the specific problem, and managers get relatively good and timely feedback on

how well the resources applied are working--although there is some question about this last item.

While the programs themselves come very close to having all the key ingredients, that does not mean that Defense managers have always taken full advantage of the latitude and flexibility these programs offer nor does it mean that bonuses are necessarily the most cost-effective solution to a particular problem.

Before I comment on the cost-effectiveness of the bonus programs and on some of the management problems we and others have observed, let me just briefly outline the 7-year history of these two bonus programs.

Over the years, all of the services have had, from time to time, problems meeting their manning requirements. This was true even during the draft era in terms of the Career Force. In 1974, the Congress authorized the current enlistment and selective reenlistment bonus programs to replace other less targeted and less flexible bonus programs which were proving to be costly and ineffective. The law initially authorized enlistment bonuses of up to \$3,000--increased to \$5,000 in October 1980 and now increased to \$8,000 in the new October 1981 Uniformed Service Pay Act--to attract quality people to enlist in those occupations where shortages exist. The basic bonus authorization legislation provides Defense managers the flexibility to pick the occupations where enlistment bonuses will be paid and to set the amount of the payment up to the maximum.

Selective reenlistment bonuses were initially authorized for up to \$12,000, except for Navy nuclear technicians who were authorized up to \$15,000. These maximums were subsequently increased to \$16,000 and \$20,000, respectively.

The key to both of these programs, and the instruction the Congress gave to Defense managers, was that (1) the bonuses were to be applied selectively to specific problem areas and (2) they were to be used only after Defense had determined that, for the particular problem, bonuses were the most cost-effective solution, i.e., that all other incentive or investment options would be less cost-effective. In other words, the Congress expected Defense to apply good management principles and "manage" the programs.

Since the programs were introduced in fiscal year 1975 through the proposed fiscal year 1982 budget, both have experienced rapid growth. The number of occupations covered by enlistment bonuses has grown from 68 to 120, and occupations covered by selective reenlistment bonuses, including the various zone levels, has grown from 598 to 673. Also, the number of payments made under both programs has grown from 65,182 in fiscal year 1975 to an estimated 111,368 for fiscal year 1982. The dollar value of new payments has grown from \$172.3 million to an estimated \$695.4 million for the same period. Appendices I and II provide more detail on where the growth has occurred and which services depend more heavily on the bonus programs.

According to DOD estimates, new fiscal year 1982 enlistment bonuses will be paid to about 40,000 enlistees out of total

enlistments of 340,400 and selective reenlistment bonuses will go to 71,340 out of 192,400 reenlistees. The growth of the bonus programs is further evidenced by the fact that bonuses for fiscal year 1982 will account for almost 25 percent of all enlistment and reenlistment bonuses awarded since these programs began. Bonus awards during the period fiscal year 1975 (first full year of operation) through fiscal year 1982 are closing in on the \$3 billion mark. The most dramatic growth has occurred in just the last 2 years--fiscal years 1981 and projected 1982.

How effective are the bonus programs?

The questions of how successful the bonus programs have been and whether Defense managers have used the tools at their disposal in the most cost-effective manner are difficult to answer. Much depends on how effectiveness is measured. Defense officials have told us and have testified that both the enlistment and reenlistment bonus programs have been extremely successful. They point out that these bonus programs are less costly than their predecessors and that recruitment and retention rates have improved since the programs were initiated.

We agree with DOD with regard to the relative cost of the existing bonus programs versus the programs they replaced. We noted that at their peak in fiscal year 1973, the old bonus programs--combat enlistment bonuses, regular and variable reenlistment bonuses, and proficiency pay--amounted to \$527 million. This amount was not surpassed under the new programs, even in current dollars, until fiscal year 1980. DOD estimates that the

enlistment and selective reenlistment bonuses, proficiency pay --which has increased rapidly over the last couple of years--and carryovers from the old bonus program cost an estimated \$736 million in 1981 and will cost about \$828 million in 1982. However, in constant 1973 dollars, even these amounts are less than the cost of the old bonus programs--by \$166 million for fiscal year 1981 and by \$147 million for fiscal year 1982.

While comparing relative program costs is certainly one way to measure program effectiveness, there are several other questions which need to be asked, and answered, before one could reasonably conclude that these are the most cost-effective programs for resolving specific skill shortage problems. For example, are bonuses the least costly method of attracting the additional number of people needed to fill shortages in specific skills? What cost-benefit analyses have been made of the bonus programs, and what have they shown--i.e., what is the the marginal cost of bonuses to attract or retain those who would not otherwise join or remain in the services? Are cash bonuses being used only after other incentives or investments are shown to be less cost-effective?

Our office has just begun a study which includes as one objective to determine how well these questions of program effectiveness have been answered. Through a number of different literature searches, we have identified about 150 studies which deal either directly or indirectly with the question of bonus program effectiveness.

Our preliminary findings are that, while evidence exists that the enlistment and selective reenlistment bonus programs have improved recruitment and retention rates, the studies do not show what the cost-benefit ratio is for bonus programs as compared to other recruitment or retention investments. Most of the studies tend to look at bonuses in isolation, rather than in terms of whether bonuses are more or less cost-effective than other alternatives. For example, a 1977 Rand study concluded that a 10-percent increase in first-term reenlistment bonus amounts can be expected to yield about 20 percent more first-term reenlistments. The yield was not as high for enlistment bonuses, with a 10-percent increase in value producing only a 12.5-percent increase in enlistments.

Effectiveness studies of this type are very valuable as part of the management information feedback system, but the problem is that they do not provide sufficient insight to determine whether, on a dollar-for-dollar basis, bonuses have a higher or lower payoff than other alternatives--both alternative incentives or other investments such as more or less recruiters, or more or less advertising.

We recently had the opportunity to be briefed on a study conducted by the Center for Naval Analysis which focused on the factors affecting the supply of first-term enlistees. This study looked at the relative importance to a new recruit of various policies and programs and also the relative cost of each policy and program for each additional enlistee attracted by it. In general, their

study concluded that (1) the adequacy of regular military compensation was the most important factor affecting recruitment, (2) the loss of GI Bill benefits at the end of 1976 caused a decline in enlistment supply, but to reinstate it would be an extremely expensive way of increasing the supply as compared to enlistment bonuses, and (3) for small expansions of supply, investments in more recruiters and advertising are more cost-effective than either bonuses or a new GI Bill. We believe that this and similar studies of the variables, affecting retention in specific skills, would be extremely valuable to the subcommittee in its decisionmaking process.

Are the bonus programs being properly administered?

As I mentioned earlier, while the bonus programs seem to have most of the key ingredients for good management, this does not necessarily mean that the tool is being wisely or properly used. We are living in an era where terms like frugal, prudent management of resources, and thrifty spending have been emphasized and reemphasized. Everybody is being asked to tighten their belts, to reduce waste, and save. These programs should be treated no differently. Opportunities for doing things better and, most importantly, more cost-effectively cannot be ignored.

Questions that need to be asked in this regard include: Are bonuses really selective, as intended? Are bonus computations and payments accurate? To what extent are bonus recipients not being used in their occupational specialty? Do manpower requirements reflect actual needs or what the services would like to have? To

what extent are bonus contracts not fulfilled, and what are the reasons? Are bonuses paid to people who probably would reenlist without them? How are the bonus programs monitored?

Recent reviews by the Defense Audit Service and the service audit agencies suggest millions of bonus dollars are being wasted through deficiencies in program administration. Problems identified cover the whole spectrum of the bonus cycle, from the skill selection process, through assignment and utilization, and into contract terminations. Here are some highlights of these reviews.

Selectivity--A recent Naval Audit Service report indicated that the Navy controls the number and level of selective reenlistment bonuses by source rating rather than by enlisted classification codes, a more selective method for choosing bonus recipients. As a result, some occupations were on the bonus list which probably should not be, while others were not on the list although they probably should have been. In a test of submarine personnel, the Naval Audit Service reported in June of this year that 222 bonuses totalling \$2.2 million were paid to people in overmanned occupations. Conversely, other critical occupations were undermanned, but bonuses were not being paid.

In September 1980, the Army Audit Agency reported that the Army has no formal method for prioritizing skills based on essentiality and that the selective reenlistment bonus program uses old data to make bonus selections. One test showed that bonuses amounting to \$6.8 million in 13 occupations may have been improperly paid due to the poor selection process. Similar problems

were noted in the enlistment bonus program, where the auditors questioned the payment of \$2 million in a test of about one-third of the eligible occupations.

While our study is in its early stages, we have seen some indications that there may be a problem with timely applications of the bonus tool, both in getting an occupation on the bonus list and in getting it off. We were told that in the Air Force, for example, it may take up to 3 years to get an occupation off the reenlistment bonus list after it is no longer short of personnel.

Tracking--Both the Army and Navy have poor systems for tracking bonus recipients, according to service auditors. Army Enlisted Master Files, a key monitoring device, failed to show enlistment bonuses for 95 percent of the people receiving such bonuses during the auditors' test period. Such poor recordkeeping makes tracking virtually impossible. Similar problems were noted by the Navy auditors who concluded that ill-kept management information systems make it difficult to determine what benefits the Navy receives from the skills for which bonuses are paid.

Assignment and use--Bonus recipients being assigned or used outside their critical skills is not uncommon. In a recent study of the selective reenlistment bonus program, the Defense Audit Service estimated that 6 percent of all recipients, DOD-wide, were malassigned--that is, they were formally misused outside their skills. This could be documented by the service records. What could not be substantiated was an estimated additional 12

percent potentially being malused. If these figures are anywhere near accurate, this means almost one of every five selective reenlistment bonus recipients are not working in the critical skill for which he or she was paid a bonus.

In its September 1980 report, the Army Audit Agency also cited malutilization as a significant problem. In a test at five Army bases, the auditors determined that individuals receiving \$8 million in reenlistment bonuses were not being used in their skill. Rates of maluse ranged between 7 and 20 percent at the installations reviewed. Auditors found bonus recipients being used as customs inspectors, recreational specialists, and as members of a local marksmanship team. The auditors further cited Army usage reports as grossly understating the problem. These reports showed maluse running at only 4 percent Army-wide.

Navy auditors have also reported problems in this area. Drawing from a sample of submariners who received reenlistment bonuses, Navy auditors recently found 59 people who had received \$680,000 in bonuses being assigned 3-year shore duty as recruiters, which is not a critically short occupation.

Recoupments of unearned bonuses--Millions of dollars have been lost each year as a result of bonus recipients leaving the service before completing their enlistments and reenlistments. Unearned bonuses have been the subject of numerous audit reports, including recent reports by the service audit agencies and GAO. The Defense Audit Service, for example, estimated that during fiscal years 1978 through 1980 unearned bonuses totalled \$12.5

million. Particularly disturbing is the fact that most unearned bonuses are never recovered. Army auditors reported that only about 12.5 percent of these debts are collected and a review by our office a few years earlier showed an even poorer recoupment rate--6.5 percent.

It is hard to say how much of the cost growth in these bonus programs can be attributed to these types of internal management problems, but we believe that substantially lower program costs could be achieved if these problems were cleared up. We were particularly pleased to see that this committee, along with your counterparts in the House, specifically directed the Secretary of Defense to tighten up procedures for recouping unearned bonus payments. We believe that similar action on the part of the Secretary of Defense is warranted with regard to the other bonus administration problems noted by auditors and investigators over the years.

SUMMARY

Mr. Chairman, I recognize that today I have extended my remarks considerably beyond the narrow question of bonuses. But, what we have tried to present is a framework for assessing the relative worth of a particular incentive in terms of whether the incentive has the key ingredients needed to be useful as a management tool. Again, we think that for an incentive to be most useful, managers should have (1) adequate resources, (2) authority to apply the resources in a timely manner, (3) authority to make adjustments, (4) authority to target the resources to the problem

areas and to stop feeding resources once the problem is well, and (5) good feedback to know if the targeting is working.

Some of the incentives we discussed today, such as the bonus programs, contain most of these key ingredients, while others, such as the proposed GI Bill, have almost none. As I have said to this subcommittee before, we firmly support the concept that, if additional money is the only answer, it should be focused on solving specific problems. We generally do not support across-the-board solutions unless the problem is truly a universal one. Both the enlistment and selective reenlistment bonus programs are "targeted" programs. However, as I have pointed out, the relative cost-effectiveness of these programs as compared to other monetary or nonmonetary incentive alternatives has not, in our opinion, been adequately tested.

It seems to us, and I believe you will agree, that at this particular juncture this committee has a unique opportunity to have a profound and long-range impact on the cost and effectiveness of military manpower. Some of the things you will be reaching judgments on over the next year include (1) whether to extend or make permanent the enlistment and reenlistment bonus authority, (2) whether a GI Bill should be enacted and, if so, what its goals and objectives should be and how it should be structured, (3) whether some of the special and incentive pays are duplicative and cost-effective in achieving their objectives, and (4) continuing questions about how military pay adjustments should be made.

To adequately evaluate the cost and effectiveness of each variable involved, and to evaluate how each variable interacts with and impacts on other variables, is indeed a very difficult job. However, the decisions you make in dealing with the services' manpower problems could ultimately determine the future affordability of our military forces. I hope that our testimony will help in making these important judgments, first by outlining the dynamic nature of the manpower problems, and second by providing a framework for testing the cost-effectiveness of the various alternatives.

We noted that the conference report accompanying the October 1981 Uniformed Services Pay Act directs the Secretary of Defense to implement a test program, using the full range of enlistment bonuses authorized, designed to test the effectiveness of various bonus levels for the new 3-year enlistment bonus authority. The conference report indicates that the test program should be designed with the same care as was taken in designing the recently completed educational assistance test program.

We fully support the need to test bonus program effectiveness and the committee's desire that the test program be carefully structured to include specific evaluation measures. We are concerned, however, that a test program patterned after the educational assistance test program may not provide the answers you are looking for. We have just recently completed a review of the educational assistance test program evaluation. Our concern with this test program is that it was not designed to measure the relative cost-effectiveness of the various educational assistance

packages as compared to other enlistment incentives--such as bonuses for example. We believe that any test of an incentive program should be designed not only to measure its effectiveness in terms of increasing the number and quality of people recruited and retained, but it should be designed to measure its cost-effectiveness relative to other available inducements which would achieve the same end result. Only in this way can this committee be assured that all the tradeoffs have been considered and that the incentive programs it authorizes are the least costly alternatives for achieving the desired results.

We believe that to help you reach conclusions about the reasonableness and cost-effectiveness of the various alternatives, the subcommittee should consider expanding the direction given to the Secretary of Defense in the pay bill conference report. We believe that more than one test program is needed to evaluate relative cost-effectiveness, and should be carefully structured and controlled, and include specific evaluation measures. The experiments should include different incentive devices to test their cost-effectiveness and their relative impact on recruiting and retention. The test might include different levels of enlistment and reenlistment bonuses, variations of an educational benefit, and proficiency pay. One alternative incentive that might be included in the test program would be one whereby upon enlistment an individual is given a lump-sum, which would be sheltered from use until completion of his/her enlistment contract. At that time, he/she would receive the lump-sum payment, plus

interest, to be used for educational or other purposes. Such a deferred annuity scheme should be targeted, both to skill and to high-quality youth. Under this type of selective educational benefit program, the amount of the payment could be quite large and still be far less expensive than an across-the-board, universally available GI Bill.

Again, we believe that the long-range success, i.e., cost-effectiveness, of any alternative monetary incentive depends to a large extent on the ability of Defense managers to control the use of the incentive to achieve their manpower goals, not only in aggregate, but also for individual occupations and skill levels, and we believe that the next year offers a unique opportunity to make significant progress.

My testimony today has focused on the use of monetary incentives to attract and retain the quantity and quality of people the services need. However, I would like to emphasize that there are many nonmonetary management actions the services can and should pursue before reaching a conclusion that only additional money will solve the problem. We believe that service members should receive a reasonable level of pay. However, beyond that, money solutions should be applied only as a last resort, after the specific cause of a problem has been thoroughly analyzed and management actions have proven to be ineffective.

Mr. Chairman, this concludes my formal statement. My colleagues and I would be happy to respond to any questions you may have.

SELECTIVE REENLISTMENT BONUSESPAYMENTS AND PROGRAM OUTLAYS

| Fiscal Year | Army | | Navy | | Marine Corps | | Air Force | | DOD | |
|----------------|----------------|----------------------|---------------|----------------------|---------------|----------------------|--------------|----------------------|----------------|----------------------|
| | Number | Dollars (million) | Number | Dollars (million) | Number | Dollars (million) | Number | Dollars (million) | Number | Dollars (million) |
| 1975 | 21,355 | \$ 52.3 | 378 | \$ 0.6 | 2,674 | \$ 5.9 | ---- | - 0 - | 24,407 | \$ 58.8 |
| 1976+T | 31,172 | 71.7 | 369 | 0.6 | 3,323 | 8.1 | ---- | - 0 - | 34,864 | 80.4 |
| 1977 | 22,066 | 48.0 | ---- | - 0 - | 2,653 | 5.5 | ---- | - 0 - | 24,719 | 53.5 |
| 1978 | 12,296 | 28.4 | ---- | - 0 - | 2,445 | 5.7 | ---- | - 0 - | 14,741 | 34.1 |
| 1979 | 14,707 | 34.7 | 450 | 0.9 | 3,123 | 7.1 | ---- | - 0 - | 18,280 | 42.7 |
| 1980 | 14,858 | 39.8 | 1,908 | 3.2 | 3,480 | 7.7 | ---- | - 0 - | 20,246 | 50.7 |
| 1981 | 18,028 | 57.0 | 6,215 | 9.9 | 2,898 | 7.2 | 2,354 | 2.8 | 29,495 | 76.9 |
| 1982 | <u>26,295</u> | <u>89.0</u> | <u>7,385</u> | <u>12.5</u> | <u>3,387</u> | <u>10.9</u> | <u>2,962</u> | <u>3.8</u> | <u>40,029</u> | <u>116.2</u> |
| TOTAL: | <u>160,777</u> | <u>\$420.9</u> | <u>16,705</u> | <u>\$27.7</u> | <u>23,983</u> | <u>\$58.1</u> | <u>5,316</u> | <u>\$6.6</u> | <u>206,781</u> | <u>\$513.3</u> |

NOTE: The above figures are the number of new awards each year and the dollar outlays relating to those awards. Since the method of paying bonuses has varied from time to time, these figures do not represent total entitlements or total program costs, but they are reasonably close—at least for enlistment bonuses.

SELECTIVE REENLISTMENT BONUSESPAYMENTS AND PROGRAM OUTLAYS

| <u>Fiscal Year</u> | <u>Army</u> | | <u>Navy</u> | | <u>Marine Corps</u> | | <u>Air Force</u> | | <u>DOD</u> | |
|------------------------|----------------|------------------------------|----------------|------------------------------|---------------------|------------------------------|------------------|------------------------------|----------------|------------------------------|
| | <u>Number</u> | <u>Dollars (million)</u> | <u>Number</u> | <u>Dollars (million)</u> | <u>Number</u> | <u>Dollars (million)</u> | <u>Number</u> | <u>Dollars (million)</u> | <u>Number</u> | <u>Dollars (million)</u> |
| 1975 | 16,800 | \$ 42.6 | 14,242 | \$ 42.0 | 936 | \$ 2.8 | 8,797 | \$ 26.1 | 40,775 | \$ 113.5 |
| 1976+T | 10,816 | 11.3 | 9,651 | 16.5 | 716 | 1.2 | 3,528 | 3.4 | 24,711 | 32.4 |
| 1977 | 12,721 | 12.3 | 9,507 | 16.2 | 1,056 | 1.1 | 2,799 | 2.8 | 26,083 | 32.4 |
| 1978 | 16,219 | 18.9 | 10,480 | 19.4 | 2,169 | 2.2 | 3,205 | 3.5 | 32,073 | 44.0 |
| 1979 | 15,116 | 38.0 | 10,323 | 48.3 | 2,496 | 7.8 | 3,954 | 17.3 | 31,889 | 111.4 |
| 1980 | 15,367 | 63.5 | 14,309 | 115.8 | 2,996 | 21.6 | 5,088 | 30.3 | 37,760 | 231.2 |
| 1981 | 23,155 | 124.6 | 22,356 | 259.4 | 9,773 | 79.3 | 16,163 | 74.9 | 71,447 | 538.2 |
| 1982 | <u>21,996</u> | <u>138.3</u> | <u>24,083</u> | <u>304.6</u> | <u>5,051</u> | <u>44.4</u> | <u>20,209</u> | <u>91.9</u> | <u>71,339</u> | <u>579.2</u> |
| TOTAL: | <u>132,190</u> | <u>\$449.5</u> | <u>114,951</u> | <u>\$822.2</u> | <u>25,193</u> | <u>\$160.4</u> | <u>63,743</u> | <u>\$250.2</u> | <u>336,077</u> | <u>\$1,682.3</u> |

NOTE: The figures above depict the number of new awards each year and the dollar outlays relating to those awards. These figures do not represent total entitlements or total program costs because the method of paying bonuses has varied from time to time. For example, payments in FY 1975 and the first half of FY 1976 were a mix of lump-sum and installments. Installments were the method of paying all bonuses during the second half of FY 1976 through the first half of FY 1979. Lump-sum payments were used for all bonuses since the second half of FY 1979. Since the above data is for new payments only, the figures are understated in terms of full program costs because they do not include payments owed as a result of using the installment method during some periods. Full program costs were readily available only for DOD (not the individual services), so we used the above data instead which probably provides fairly accurate percentage relationships among individual services in terms of their shares of program outlays.