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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

FEDERAL PERSONNEL AND
COMPENSATION DIVISION

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AUGUST 13, 1979

The Honorable Robert B. Pirie, Jr.

Assistant Secretary of Defense

(Manpower, Reserve Affairs and Logistics) *AGC 61073*

Dear Mr. Secretary:

We have completed a survey of the use of the bonus as an incentive in recruiting and retaining members in the Selected Reserves. As a result of our work, we have developed some opinions on the use and direction of the bonus as a tool in manpower management. We recognize that the manpower shortages particularly in the Army Selected Reserves are a serious problem which will not be solved by any single program. However, we believe the Reserve components can utilize the bonus incentive as a highly selective manpower tool adjustable to changing manpower needs. Our findings relating to the 1978 reenlistment test and 1979 Selected Reserve incentive programs are described more fully in the enclosure.

The congressionally directed reenlistment bonus test conducted last year did not result in a significant difference between test and control groups which raises questions regarding the cost effectiveness of this incentive. The test did show a significant difference between test and control units in the percentage of reservists choosing a six year enlistment contract. We recognize the analysis currently being conducted by the Rand Corporation will provide further information that may help to explain the results of the test and provide the basis for some adjustment to the direction of the current reenlistment incentive.

We believe that there is enough statistical information on the current bonus program initiated on December 1, 1978 to make some observations on its impact. In the Army components a total of 10,760 enlistment contracts were written; 10,304 enlistees choosing the enlistment cash bonus, and

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456 choosing the educational assistance option. Reenlistment contracts totaled 6,976; 2,668 reservists choosing three year contracts and 4,308 choosing six year contracts.

The low number of educational assistance contracts reflects, in our view, the limited attraction of this option or its newness. The recent legislative proposal to improve the attractiveness of this option by increasing the amount of reimbursement of eligible expenses from 50 to 100 percent, and basing the recoupment of funds on the amount of time the member satisfactorily served in the reserves, rather than an automatic 100 percent recoupment should help. Also, the decision to eliminate the program restriction which prohibited the enlistment bonus recipients from choosing the split training option should further open the door to the college student market.

Our recent work on reserve recruiting indicates that the Reserve Forces and the Active Forces may be competing in the same market. We believe that the services should give further consideration to increasing the total value of the educational assistance option in order to enhance its attractiveness to full-time students which should help to reduce the level of competition between the Forces. We think that the overall benefits to the individuals, the Reserve Forces, and society by encouraging further educational achievement would far exceed the modest cost involved.

A program adjustment, known as the "open window" approach, expanded the use of the enlistment incentives to all Army Reserve component units during the period March 15, 1979, to June 15, 1979. This change appears to be appropriate in view of the severe manpower shortage in the Army components and the limited time remaining in fiscal year 1979 to use the funds appropriated for the bonus. However, we are concerned that the end of the "open window" may have a negative impact on enlistments in units no longer eligible to pay the bonuses.

While program officials have accumulated data to monitor Selected Reserve incentive program activity, they have not developed a plan to evaluate the effectiveness of the incentives including criteria to measure the effect of the bonuses.

on recruiting and retaining personnel. We believe that this is a key element in program oversight, and should be developed in the near future.)

We recognize that the experience with these incentives is limited and that changes to the new programs after appropriate analysis will probably be necessary. In view of this, we plan to continue monitoring their progress and would appreciate any comments you may have on the observations we have expressed.

Because of their past involvement in initiating this program, we are sending copies of this report to the Chairmen, House and Senate Committees on Armed Services and Appropriations. Copies of this report are also being sent to the Director, Office of Management and Budget, and the Secretaries of the Army, Navy, and Air Force.

Sincerely yours,

H. L. Krieger

H. L. Krieger
Director

Enclosure

INCENTIVE PROGRAMS FOR SELECTED RESERVES1978 REENLISTMENT BONUS TEST PROGRAM

Public Law 95-79 authorized the Department of Defense (DOD) to conduct a reenlistment bonus test in the Selected Army Reserve (USAR) and the Army National Guard (ARNG). The Congress appropriated \$5 million for the program and recommended that \$2 million be distributed to the Army Reserve and \$3 million to the Army National Guard. The Office of the Deputy Assistant Secretary of Defense (Manpower, Reserve Affairs and Logistics) contracted with the Rand Corporation to assist in designing the reenlistment bonus test program, collecting and analyzing statistical information generated from the test, and reporting its findings to DOD. After test and control units were selected from the USAR and ARNG structure the test program was initiated on January 1, 1978 and conducted through the remainder of the fiscal year. The stated objective of the test was to evaluate the effectiveness of the reenlistment bonus as an incentive.

The reenlistment bonus payment was established at an initial payment of \$450 for an eligible member who reenlists for three years and \$900 for a member who reenlists for six years. Subsequent payments of \$150 were to be made upon the completion of each year of the period of reenlistment.

In January 1979, DOD reported to the Congress the following test results which showed that the retention rate of control units in the ARNG was better than the test units but in the USAR the test units achieved a higher retention rate.

<u>Component</u>	<u>Eligibles</u>	<u>Reenlistments</u>	<u>Percent retained</u>
ARNG Test Units	3,410	1,185	34.8
ARNG Control Units	4,832	1,713	35.5
USAR Test Units	1,442	654	45.5
USAR Control Units	2,081	871	41.9

The data also showed that there was a difference in the type of reenlistment contracts between the test and control units. In the ARNG test units 61 percent of the eligible reservists who chose to reenlist selected the six year contract while only 1 percent of the reservists in the control group chose the six year contract. In the USAR 61 percent of the test group and 2 percent of the

control group chose the six year reenlistment contract. These results could be expected as there was no incentive for the reservists in the control groups to make a six year commitment when a three year contract could be followed by another reenlistment.

1979 SELECTED RESERVE INCENTIVE PROGRAM

In fiscal year 1979 Public Laws 95-485 and 95-457 authorized DOD to use three bonus incentives to attract and retain qualified personnel in units of the Selected Reserves. These incentives include an enlistment cash bonus, an enlistment educational assistance bonus, and a reenlistment cash bonus. The congressional appropriation for the program was \$25 million, of which \$21.6 million was for enlistment bonuses. The Army Reserve and Army Guard received \$17.7 million of total resources.

The legislation states that to be eligible to receive an enlistment cash bonus or educational assistance a person must enlist in a Selected Reserve unit for not less than six years, be a graduate of a secondary school, and never have served in the military. To be eligible for the reenlistment cash bonus a member must not have more than ten years of total military service and reenlists or extends his/her enlistment in a selected reserve unit or an occupational specialty approved by the Secretary of Defense.

The enlistment cash bonus was established at \$1,500 payable \$750 upon satisfactory completion of initial active duty for training, including specialty training; \$200 at the satisfactory completion of the second and third years; and \$350 at the satisfactory completion of fourth year. The educational assistance bonus was established at \$2,000 for the payment of 50 percent of the educational expenses of the enlistee with the provision that the amount provided a member not exceed \$500 in any 12-month period. If a member fails to participate satisfactorily with his unit, he must refund all educational assistance received but if the member received a cash bonus, only a proportion of the bonus must be repaid.

The reenlistment cash bonus is established at \$1,800 for a six year reenlistment, and \$900 for a three year reenlistment. Half of the bonus amount is to be paid upon execution of the reenlistment contract and annual payments of \$150 at the satisfactory completion of each year of the term of the contract.

DOD believed that the enlistment incentive resources would be most effectively used if they were directed at early deploying (within the first 60 days) units. The reenlistment bonus resources were applied to units designated as deploying within 30 days. This decision would allow half the Army Reserve and Army Guard units to be eligible to pay enlistment bonuses and 25 percent of the units to pay reenlistment bonuses.

DOD also established program reporting requirements designed to provide information to manage the program; and track program progress and changes in force profiles.

On December 1, 1978, the ARNG and USAR components started the program. According to an Army official, after the results for December and January were examined, program managers felt that emphasis on early deploying units alone would not allow for the maximum use of funds appropriated for fiscal year 1979. On February 14, 1979, the Army recommended to DOD that all units in the ARNG and USAR be permitted to offer the enlistment incentives to qualified applicants who enlist during the period March 1, 1979 through May 31, 1979. Reenlistment bonuses would continue to be available only to early deploying units. DOD approved the recommendation on February 27, 1979, but adjusted the time frame for the program to March 15, 1979 through June 15, 1979. This change has been referred to as the "open window."

On March 1, 1979, another program adjustment involving the use of split training (taking recruit and initial skill training at different times) was proposed by the Army Reserve. According to a program representative the potential market of students was limited by excluding this training option which could better accommodate a student's educational schedule with required training time in the Reserves. DOD approved the use of the split training option on May 29, 1979.

On June 15, 1979 the revised "open window" program terminated. An Army official advised us that during the final weeks enlistments were high, and the Army components expected continued good results in the early deploying units as there is now a strong awareness of the bonus program and recruiters are enthusiastically promoting it. We noted, however, that even with the "open window" feature, the components spent only 40 percent of the money budgeted for the enlistment options.

The following table shows Army's Incentive Program results for the period December 1, 1978 through June 30, 1979.

<u>Type of contract</u>	<u>Program target</u>	<u>Contracts written</u>	<u>Resources committed (note a)</u>
USAR:			
Enlistment bonus	2,694	2,851	\$1,180,000
Educational assistance	898	160	80,000
Reenlistment (3 yrs.)	1,348	1,097	494,000
Reenlistment (6 yrs.)	2,328	2,104	1,894,000
ARNG:			
Enlistment bonus	11,078	7,453	\$4,450,000
Educational assistance	2,769	296	150,000
Reenlistment (3 yrs.)	1,320	1,017	460,000
Reenlistment (6 yrs.)	1,980	1,265	1,140,000

a/According to an Army official an additional 35 percent of the bonus payments will be made from fiscal year 1980 appropriations.

(Program representatives said that the program has been successful despite the fact program targets were not met for any type of bonus except for the enlistment cash bonus in the USAR. The most severe shortfall was in the educational assistance option. Program representatives believe the shortfall in this bonus resulted from it being viewed as less attractive than the cash payment.

In April 1979, DOD proposed two changes in the law regarding the educational assistance bonus in order to place the educational assistance payments on a more competitive basis with the enlistment cash bonus. The first proposed change is to increase the amount of eligible expenses which may be reimbursed from 50 to 100 percent. The second change is to base the recoupment of educational assistance payments on the time the enlistee has satisfactorily served in the reserves, rather than an automatic 100 percent recoupment. The Committee on Armed Services, House of Representatives included these proposed changes in the DOD Authorization

bill for fiscal year 1980. The Senate Committee on Armed Services had not issued its report on the bill when our work was completed.

While DOD established reporting requirements to track program activity, it has not developed an evaluation plan or criteria for measuring the effectiveness of the bonus as an incentive. Program representatives agree that this is a factor they have not as yet addressed. Army components have made some general observations on changes in strength but cannot specifically relate these changes to the incentive program. They also agree that more specific analysis is in order.