OFFICE OF THE UNDER SECRETARY OF DEFENSE
4000 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-4000

PERSONNEL AND
READINESS

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The Honorable Duncan Hunter
Chairman, Committee on Armed Services
United States House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

I have enclosed a report to Congress on the impact of compensation initiatives on recruiting and retention as required by §1015, title 37, United States Code. Targeted pay raises in the years 2001 through 2004, the effects of the war in Afghanistan and Iraq, among many other factors, have made it difficult to disentangle the impact the Fiscal Year 2000 compensation initiatives have had. Nevertheless, the enclosed report, which was produced by RAND, addresses the issues in a comprehensive manner. Its scope is such that it should sufficiently cover the subject matter for the intervening years.

Lastly, I wish to personally thank the Congress for its concern and unwavering support for the members of the United States Armed Forces. Unquestionably, your efforts have contributed immeasurably to the Department's success in recruiting and retaining quality personnel. I am sending a similar letter to the President of the Senate, Speaker of the House of Representatives, and to the Chairman and Ranking Member of the Senate Armed Services Committee.

Sincerely,

Charles S. Abell
Principal Deputy

Enclosure:
As stated

cc:
The Honorable Ike Skelton
Ranking Member

Report to Congress

Effects of FY 2000 Compensation Initiatives on Recruiting and Retention

October 2003

Report to Congress
Impact of the FY 2000 National Defense Authorization Act Compensation Enhancements on Recruitment and Retention

In response to difficulties the Services were experiencing in recruitment and retention, Congress approved the FY 2000 National Defense Authorization Act that provided significant increases in military compensation. Military pay was increased on average 6.2 percent to include a 4.8 percent across-the-board raise and 1.4 percent in targeted pay increases. Annual pay raises until the year 2006 will be based on the Employment Cost Index (ECI) plus 0.5 percent, 1 percent higher than existing law had provided. The NDAA also provided increased bonus ceilings, reformed military retirement benefits and increased specialty pays, including those for aviators.

In 1999, the Services faced a growing catalogue of problems. Recruit quality, although still high by historical standards, had declined since 1993. Army and Navy missed their recruiting goal in 1998 and three Services, Army, Navy and Air Force, did not make goals in 1990 despite increases in recruiting resources. All Services were having difficulty retaining members. The Air Force had missed its first and second term enlisted retention targets starting in FY 1998, while the Army experienced declines in first- and second-term reenlistment rates since 1997. Although Navy reenlistment rates rose during the late 1990s, they still fell short of target. Officer retention rates fell in the second half of the 1990s, especially among Air Force officers and those in their mid-career. Aside from these general declines, losses were experienced in key areas. In the Army, declines in the ranks of captain were a problem and retention of aviators in all Services was problematic.

Recruitment and retention problems were attributed to three factors; the economic expansion in the civilian economy, more frequent and longer deployments, and the ramifications of the drawdown that started in the early 1990s. The economy started its unparalleled expansion in April 1991 with economic growth continuing until March 2001. During this 10-year period, unemployment fell to a 30-year low and job opportunities were abundant. For the military member or potential recruit, the expanding employment opportunities and rising relative incomes in the private sector made a career in the military less attractive. Not only was potential private sector income rising, but the increased frequency and length of deployments was decreasing the quality of military life and creating hardship for many members.

After the Gulf War, the military needed to reduce its size and the downsizing was accomplished in part by disproportionately reducing the number of accessions. As this cohort aged, higher retention rates would be required as these members reached mid-career officers and enlisted status in order to meet manpower requirements. The synthesis of increased retention targets, coupled with growing opportunities in the private sector and decreased quality of life in the military was the failure of some Services to make retention goals.

Congress and the Administration responded to these human resource problems by providing an unprecedented series of compensation improvements in the FY 2000 National Defense Authorization Act. The improvements in military compensation were in three areas, improvements to basic pay, increases in special pays and bonuses and retirement reform. These improvements were informally labeled the Triad.

Basic pay was increased 4.8 percent across the board and additional pay cells were increased to a maximum of 9.9 percent. The targeted increases amounted to an additional 1.4 percent on average, resulting in a total pay raise of 6.2 percent. Furthermore, Congress committed to raising military pay by 1 percent above the prevailing amount until 2006. Annual pay raises will now be equal to the ECI plus 0.5 percent. To handle selected pockets of retention problems, the Triad provided for an increase in selective reenlistment bonuses (SRBs) and increased the number of skills eligible to receive the SRB. It raised the maximum enlistment bonus to $20,000 and increased the number of specialties eligible to receive it. A number of special pays were increased and/or restructured including Aviation Continuation Pay, Nuclear Officer Incentive Pay and Career Sea Pay. Finally, the Triad contained provisions to reform the military retirement program by allowing members to receive a $30,000 bonus and continue under Redux or opt for the High-Three retirement system. Congress also asked for an annual report analyzing the impact of the Triad on retention and recruitment.

An evaluation of the impact of the Triad on retention and recruitment requires a separation of the myriad changes that were occurring in the private sector economy, the military and military compensation. Because of the complexity of the problem and the resources needed to address these issues, the Department of Defense asked the RAND Corporation to analyze the impact of the Triad on recruiting and retention. The enclosed report contains RAND's conclusions that the Department fully supports. RAND concluded that retention improved in FY 2001 as a result of the Triad. The Air Force met its first term retention goal, second term retention improved, and career retention held steady. The Navy found significant improvements in retention and predicted that endstrength for FY 2001 would exceed authorized strength. The Marine Corps and Army reported retention to be under control. Officer retention improved even in previous problem areas.

In response to a decline in high-quality recruits in the 1990s, the Services increased recruiting resources including advertising, college fund awards, the number of recruiting stations and the number of recruiters. The Triad raised enlistment bonuses and increased the number of specialties eligible for the enlistment bonus. RAND concluded that the recent improvement in recruiting was in part attributable to the Triad. All Services met their accession goal in FY 2000 and FY 2001. The percent high-quality in the Department of Defense increased from 59 to 61 percent. The Army experienced an increase from 53 percent in FY 1999 to 59 percent in FY 2001 (excluding their GED-plus program) The Navy was the only Service to experience a slight decline in recruit quality.