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The Honorable J. Dennis Hastert
Speaker of the House
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Speaker:

United States Code, title 37, section 323(h), directs the Secretary of Defense to report to Congress on the Critical Skills Retention Bonus (CSRB) program. The Department of Defense is pleased to submit the enclosed consolidated report in response.

The Services manage the CSRB program carefully and offer the bonuses sparingly. The CSRB program is a primary financial tool for improving retention and maintaining manning in skills the Department designates as critical. Management standards and practices are in place to review and designate each critical skill. The Services have done an excellent job tailoring their individual CSRB programs in direct response to changing demands for specific skills. The effectiveness of the CSRB program in retaining officers and enlisted members serving in designated critical skills enhanced the military readiness required to respond successfully to the Global War on Terrorism.

The Department will conduct a more in depth review of the effectiveness of the CSRB program on retention as part of an advisory committee on military compensation matters. The Department appreciates the Committee's interest in this essential program and looks forward to working with Congress to address and improve the retention of high quality officers and enlisted members in designated critical skills.

I am sending a similar letter to the President of the Senate and to the Chairmen and Ranking Members of the Armed Services Committees.

Sincerely,

Charles S. Abell
Principal Deputy

Enclosure:
As stated

REPORT TO CONGRESS

ON

CRITICAL SKILLS RETENTION BONUS PROGRAM

December 2003

Prepared By:
Office of the Under Secretary of Defense
Personnel and Readiness

I. Introduction

Requirement:

In United States Code, Title 37, Chapter 5, Section 323(h), Congress called on the Secretary of Defense to report on the following:

(1) the effect, during the preceding fiscal year, of the provision of bonuses on the retention of members in critical skills for which bonuses were offered and

(2) the intentions of the Secretary regarding the continued use of the bonus authority during the current and next fiscal years.

Report Organization:

This report is organized into two sections as follows:

(1) Section I is an introduction with a description of the congressional report requirements.

(2) Section II provides the information requested.

Summary:

This report provides the information required by United States Code, Title 37, Chapter 5, Section 323(h).

II. Information Required By 37 U.S. Code, §323(h)

1. Analyze the effect, during the preceding fiscal year, of the provision of bonuses on the retention of members in critical skills for which bonuses were offered.

In 2002, the following skills were designated as critical by the Principal Deputy Under Secretary of Defense, Personnel and Readiness (PDUSD(P&R)), and made eligible for payment of a Critical Skills Retention Bonus (CSRB):

Service	Military Occupational Code/Specialty	Occupational Title
Army	18B	Weapons Sergeant
	18C	Engineer Sergeant
	18D	Medical Sergeant
	18E	Communications Sergeant
	18F	Assistant Operations and Intelligence Specialists
	18Z	Special Operations Senior Non-Commissioned Officer
Navy	111X	Surface Warfare Officer
	112X	Submarine Support Officer
Air Force	32E	Civil Engineer
	33S	Communications-Information Systems
	61S	Scientific/Research
	62E	Developmental Engineering
	63A	Acquisition Program Manager
Army, Navy, and Air Force	60N/15BO/45A	Anesthesiology
	60L/16NO/44S	Dermatology
	60G/16RI,6RI/44MD	Gastroenterology
	61J/15CO/45S	General Surgery
	61Z/15DO/45SF	Neurosurgery
	61M/15HO/45B	Orthopedics
	60T/15ID/45N	Otolaryngology
	61R/16YO/44R	Radiology
	Multiple	Physician Subspecialty Category I (Surgery, Cardiology)
	Multiple	All Dentists
	66F/1972/46M	Certified Registered Nurse Anesthetist
	66E/1950/46S	Operating Room Nurse

Analyses, by Service and designated skill, of the effect of CSRB during Fiscal Year 2003 are as follows:

Army Special Forces Enlisted Specialties, see page 5
Navy Surface Warfare and Submarine Support Officers, see page 7
Air Force Officer Specialties, see page 9
Army, Navy, and Air Force Health Professions Officers, see page 11

2. Describe the intentions of the Secretary regarding the continued use of the bonus authority during the current and next fiscal years.

While the CSRB program is available for Service use in the current and next fiscal years, only the Army and the Navy expect to offer CSRB in FY04 and beyond. The Army anticipates requesting additional enlisted skills be designated as critical for CSRB purposes in FY04. The Navy intends to use the CSRB for only Surface Warfare Officers and Submarine Support Officers for the foreseeable future. Because of funding limitations, the Air Force is not offering new CSRB contracts after FY03, although it has anniversary payments for FY03 CSRB agreements due in future years through FY06. The Health Professions have replaced CSRB with other incentive compensation specific to the medical, dental, and nurse professions for FY04 and later. The Health Professions specialties were designated for CSRB in FY03 to "bridge" the designated specialties pending increases in the maximum amount payable in their specialty-unique bonus authorities being enacted, which was accomplished with the passage of the FY03 National Defense Authorization Act.

Army Special Forces Enlisted Specialties

1. On June 25, 2002, the Army requested critical skill designation for the Special Forces enlisted specialties of Weapons Sergeant (18B), Engineer Sergeant (18C), Medical Sergeant (18D), Communications Sergeant (18E), Assistant Operations and Intelligence Specialists (18F), and Special Operations Senior Non-Commissioned Officer (18Z) based on the following:

- Senior enlisted soldiers in the designated specialties were separating before their mandatory separation date based on the Retention Control Point (RCP) for that grade, particularly grade E-7;
- Historical and overall Military Occupational Specialty (MOS) projected operating strength versus authorized strength was at least 10% below the Army average; and
- Historical and overall MOS projected operating strength versus authorized strength at grade E-7, to include the promotion potential E-6 population, was at less than 90 percent fill.
- The manning issues with the designated specialties could not be addressed with the Selective Reenlistment Bonus (SRB) program because under the governing SRB statute, a member's service beyond 16 years of service cannot be considered for SRB calculation purposes.

The Army intended to focus CSRB on Sergeants First Class and Master Sergeants because of the greater operational need versus current grade authorizations and expected loss rate and to target soldiers with 18 to 25 years of Active Federal Service (AFS) with a $6,000 bonus for E-6, $10,000 for E-7, $8,000 for E-8, and $7,000 for E-9 and a two- to four-year contract.

2. On June 28, 2002, the PDUSD (P&R) designated the requested specialties as critical for CSRB purposes and notified Congress of the same.

3. The Army could have offered CSRB as early as September 28, 2002; Army made the first offer on October 1, 2002. The FY03 projected cost was $3.5M. 395 soldiers were eligible for CSRB; 302 took for a total of $7.8M. The Army funded CSRB at $1.5M through FY09, with additional funding from the SRB program. The Army paid CSRB of $10K to E-7s, except $8K for E-8s in 18Z, with an average three-year contract and a breakdown as follows:

MOS	Critical Skill	Eligible	Took
18B	Weapons Sergeant		18
18C	Engineer Sergeant		25
18D	Medical Sergeant		26
18E	Communications Sergeant		38
18F	Assistant Operations and Intelligence Specialists		36
18Z	Special Operations Senior Non-Commissioned Officer		159
	Total	**395**	**302**

4. As a result of CSRB, retention in the senior NCO ranks improved, and the Army was able to meet mission requirements. It should be noted that the designated specialties were covered by Stop-Loss, but the Stop-Loss has since been lifted.

5. While the FY03 CSRB program has helped ameliorate the Army's manning in the designated specialties, more needs to be done. Thus, the Army is continuing to offer CSRB to all designated

skills in FY04. Furthermore, the Army is preparing a request to designate additional skills as critical and eligible for CSRB. Based on their anticipated 300 takers in FY04, the Army has identified $3.1M in the FY04 Military Personnel Account for these bonuses.

Navy Surface Warfare and Submarine Support Officers

1. On May 17, 2002, the Navy requested critical skill designation for the specialties of Surface Warfare Officer (111X) and Submarine Support Officer (112X) based on the following:

- Failure to meet accessions goals from FY92 to FY99;
- Lower than historical retention for these under accessed year groups; and
- Large numbers of officers leaving the Navy for civilian employment.

The Navy intended to target O-4 (Lieutenant Commander (LCDR)) sea duty assignable post-department head surface warfare officers. At the time, the Navy was short over 300 post-department head surface warfare LCDRs and over 102 junior surface warfare officer Commanders (CDR)s. For Submarine Support Officers, the Navy wanted to focus on O-4 to O-6 submarine qualified officers who do not screen for Executive Officer or Commanding Officer, and thus lose their Nuclear Additional Qualification Designations and the associated nuclear officer incentive pay. While not assignable to submarine sea billets, these officers are needed to fill support roles ashore.

2. On June 28, 2002, the PDUSD (P&R) designated the requested specialties as critical for CSRB purposes and notified Congress of the same.

3. The Navy could have offered CSRB as early as September 28, 2002 and made the first offer to Surface Warfare Officers on October 1, 2002, and to Submarine Support Officers on August 1, 2003. For Surface Warfare Officers, the Navy offered a short-term single year option of $12,000 for one year with additional one-year contracts at $12,000, and a Long Term Multi-Year Option of $22,000 for three years with additional three-year contracts at $12,000. The Navy anticipated a 20 percent take rate for the one-year option, and 80 percent for the three-year option at a projected cost of $8.8M for FY03. For Submarine Support Officers, the Navy offered $10,000 for one year, $11,000 for two years, and $12,000 for three years. The Navy anticipated a 10 percent take rate for the one- and two-year, and an 80 percent take rate for the three-year option at a projected cost of $3.3M for FY03. The Navy actually paid $8.9M in CSRB for FY03 to the following:

Military Occupational Code/Specialty	Critical Skill	Eligible	CSRB Takers	Paid
111X	Surface Warfare Officer	514	480 297x1yr 183x3yr	$7.6M
112X	Submarine Support Officer	244	109 21x1yr 31x2yr 57x3yr	$1.3M

4. Before CSRB was offered, the retention rate for CSRB-eligible Surface Warfare Officers was 92 percent, and the loss rate was 8 percent. After one year of CSRB, the retention rate improved

to 95 percent, and the loss rate fell to 5 percent. As a result of CSRB, the Navy has been able to fill many demanding mid-grade billets in challenging assignments at sea through retention of officers with vital military skills. Pre-CSRB, these jobs would have been gapped because of the shortage of mid-grade officers.

For Submarine Support Officers, CSRB was not offered until August 1, 2003 and so the retention effect can not yet be measured. Based on the take rate for just two months of offering CSRB in FY03, the Navy expects the take rate for Submarine Support Officers to increase significantly for FY04. For FY04, the Navy estimates it will pay a total of $2.38M in CSRB to Submarine Support Officers.

5. While the FY03 CSRB program has helped ameliorate the Navy's manning in the designated specialties, more needs to be done. Thus, the Navy is continuing to offer CSRB in FY04. The Navy intends to use CSRB for Surface Warfare and Submarine Support Officers through FY05 and projects a need for continued payments in the outyears.

Air Force Officer Specialties

1. On December 5, 2001, the Air Force requested critical skill designation for the officer specialties of Civil Engineer (32E), Communications-Information Systems (33S), Scientific/Research (61S), Developmental Engineering (62E), and Acquisition Program Manager (63A) based on the following:

- These specialties are among the lowest manned career fields in the Air Force. As a career field, Scientific/Research is manned at 87 percent, Developmental Engineering at 80 percent, and Acquisition Program Manager at 72 percent, versus the Air Force average of 92 percent. Shortages, dipping down to 59 percent are most severe at the O-3 and O-4 levels of the designated career fields.
- Low manning is attributed to under-accession due to competition for and shortage of qualified personnel. Low continuation of officers from the four- to 11-year point has combined with low recruiting to worsen the problem.

The Air Force intended to focus CSRB on Scientific/Research, Developmental Engineering, and Acquisition Program Manager in FY02 with a re-evaluation after 60 days of implementation, and offers to Civil Engineer and Communications-Information Systems, funds permitting. For FY03, the Air Force intended to offer CSRB to officers in all designated specialties with four to 13 years of commissioned service at $10,000 per year for a four-year contract. Those eligible members with 11 to 13 years of service would be offered three- to one-year contracts, also for $10,000 per year.

2. On February 6, 2002, the PDUSD (P&R) designated the requested specialties as critical for CSRB purposes and notified Congress of the same.

3. The Air Force could have offered CSRB as early as May 6, 2002 and made the first offer on February 3, 2003. 5,616 officers were eligible, and 4,796 took CSRB for a program total of $48M in FY03, and anniversary payments of $46M in FY04, $42M in FY05, and $38M in FY06. The breakdown is as follows:

AFSC	Critical Skill	Eligible	CSRB Takers	Paid
32E	Civil Engineer	697	585	$ 5.9M
33S	Communications-Information Systems	2,020	1,797	$18.0M
61S	Scientific/Research	504	409	$ 4.1M
62E	Developmental Engineering	1,483	1,264	$12.6M
63A	Acquisition Program Manager	912	741	$ 7.4M
	Total	**5,616**	**4,796**	**$48.0M**

4. Since offering CSRB to the designated specialties, the Air Force has observed retention improvement. Specifically, manning levels experienced the following increases, with one exception:

	Manning O-3 and O-4	**Assigned/Authorized**	
AFSC	**Critical Skill**	**FY02**	**FY03**
32E	Civil Engineer	69.6%	72.3%
33S	Communications-Information Systems	73.7%	74.6%
61S	Scientific/Research	67.9%	61.1%
62E	Developmental Engineering	61.1%	62.4%
63A	Acquisition Program Manager	71.7%	75.7%

5. Although the CSRB program has helped ameliorate the Air Force's manning in the designated specialties, the Air Force is not planning to use CSRB in FY04 or the out-years due to the lack of available funding.

Army, Navy, and Air Force Health Professions Officers

1. On July 2, 2002, the Assistant Secretary of Defense for Health Affairs requested critical skill designation for Army, Navy, and Air Force Health Professions Officers in the following specialties:

- Physician Specialties—Anesthesiology, Dermatology, Gastroenterology, General Surgery, Neurosurgery, Orthopedic Surgery, Otolaryngology, Radiology, Physician Subspecialty Category I (Surgery)
- Dentists (all)
- Nurse Specialties—Certified Registered Nurse Anesthetists (CRNA), Operating Room Nurses

The request was based on retention problem areas, the following factors pertain:

- Civilian versus military pay gap at the first career decision point;
- Minimal ability to access directly fully trained personnel from the civilian sector;
- Insufficient number of military members accepting existing, maximized retention bonuses; and
- Large numbers of members leaving military service for more lucrative civilian employment.

Health Affairs also requested two exceptions to CSRB policy in order to offer $50,000 CSRB for Anesthesiology and Radiology and to offer CSRB to certain officers still serving their original service obligations.

2. On July 3, 2002, the PDUSD(P&R) designated the requested specialties as critical for CSRB purposes and notified Congress of the same. The PDUSD also waived the $30,000 annual limit on individual CSRB payment and authorized payment to a member in the initial obligation of service.

3. The Health Professions could have offered CSRB as early as October, but funding constraints resulted in agreements with an effective date of December 1, 2002. The FY03 anticipated take rate was 80 percent with a projected cost of $100.35M. The following chart shows the actual CSRB takers in the designated health professions, and the amounts paid in CSRB in FY03 to those specialties. Total execution was $40.8M; total take rate was 52% (physicians 27%, dentists 60%, nurses 67%).

Specialty	CSRB	Army			Navy			Air Force			DoD		
		Eligible	Takers	Paid ($M)	Eligible	Takers	Paid ($M)	Eligible	Takers	Paid ($M)	Eligible	Takers	Paid ($M)
Anesthesiology	$50,000	78	22	$ 1.1	89	50	$ 2.5	44	9	$ .45	211	81	$ 4.05
Dermatology	$10,000	40	0	$ 0	10	0	$ 0	21	0	$ 0	71	0	$ 0
Gastroenterology	$20,000	41	14	$ .28	12	4	$ .08	5	4	$ .08	58	22	$ .44
General Surgery	$30,000	145	34	$ 1.02	91	45	$ 1.35	92	14	$ .42	328	93	$ 2.79
Neurosurgery	$20,000	17	2	$ .04	14	2	$ .04	7	2	$ .04	38	6	$ .12
Orthopedics	$30,000	135	35	$ 1.05	89	34	$ 1.02	54	15	$ .45	278	84	$ 2.52
Otolaryngology	$10,000	35	1	$ .01	19	0	$ 0	16	0	$ 0	70	1	$ .01
Radiology	$50,000	134	31	$ 1.55	72	22	$ 1.1	108	23	$ 1.15	314	76	$ 3.8
Physician Subspecialty Category I (Surgery, Cardiology)	$20,000	128	38	$ .76	56	27	$ .54	36	6	$ .12	220	71	$ 1.42
Dentistry	$12,000	596	416	$4.992	1257	607	$ 7.284	543	417	$ 5.004	2396	1440	$ 17.28
Certified Registered Nurse Anesthetist	$10,000	201	108	$ 1.08	191	79	$ .79	205	106	$ 1.06	597	293	$ 2.93
Operating Room Nurse	$ 8,000	292	221	$1.768	213	224	$ 1.792	369	244	$ 1.952	874	675	$ 5.512
Totals		**1,842**	**922**	**$13.65**	**2,110**	**1,094**	**$16.496**	**1,500**	**840**	**$10.726**	**5,452**	**2,856**	**$40.872**

4. Since offering CSRB to the designated specialties, improvements in retention have been observed in the Health Professions. Specifically, Anesthesiology, Orthopedics, and Radiology retention rates for FY03 exceeded those for FY02. Neurosurgery, Dermatology, General Surgery, Dentistry (including Orthodontistry and Oral and Maxillary Facial), CRNA, and Operating Room Nurse experienced retention rates in excess of the average historical rates.

5. The Health Professions CSRB was only intended to bridge the gap until the enactment of permanent change in the incentive compensation for the designated specialties, which has been accomplished. Therefore, it will not be offered in FY04, and there is currently no intent to offer it to the Health Professions in future years.