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REPORT TO THE CONGRESS

Military Retention Incentives: Effectiveness And Administration

B-160096

Department of Defense

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

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WASHINGTON, D.C. 20548

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4 To the President of the Senate and the
Speaker of the House of Representatives

This is our report entitled "Military Retention
Incentives: Effectiveness and Administration."

We made our review pursuant to the Budget and Account-
ing Act, 1921 (31 U.S.C. 53), and the Accounting and Audit-
ing Act of 1950 (31 U.S.C. 67).

We are sending copies of this report to the Director,
Office of Management and Budget; the Secretary of Defense;
the Secretaries of the Army, Navy, and Air Force; and the
Commandant of the Marine Corps.

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Comptroller General
of the United States

C o n t e n t s

		<u>Page</u>
DIGEST		i
CHAPTER		
1	INTRODUCTION	1
	Enabling legislation	1
	DOD study of first-term retention incentives	3
	Recent legislative action	4
2	VRB EFFECTIVENESS	6
	Effect of VRB on first-term reenlistment	6
	Predictability of increased reenlistment	7
	Effectiveness of VRB in attaining required career-manning levels	9
	Time necessary for VRB to eliminate deficit	11
	Agency comments and our evaluation	12
3	FACTORS INFLUENCING REENLISTMENT DECISIONS	13
	Background	14
	Responses of critical-skill personnel intending to reenlist and recently reenlisted	16
	Responses of critical-skill personnel intending not to reenlist	16
	Responses of non-critical-skill personnel	18
	Responses of married and single critical-skill personnel reenlisting or intending to reenlist	18
	Responses of volunteer and drafted critical-skill personnel	19
4	IMPROVEMENTS NEEDED IN BONUS PROGRAM ADMINISTRATION	20
	Need for enlisted personnel career management system	20
	Need for definitive guidance for specifying bonus applications	24

Page

	Bonuses paid for already obligated service	31
	Agency comments and our evaluations	33
5	PROBLEMS OCCURRING AFTER PAYMENT OF BONUSES	36
	Improper assignment of recipients	36
	Unearned bonuses	39
	Agency comments	40
6	CONCLUSIONS AND RECOMMENDATIONS FOR IMPROVING REENLISTMENT BONUS PROGRAM	41
	Recommendations to the Secretary of Defense	42
	Recommendations to the Secretaries and Commandant of the services	43
	Matters for consideration by the Congress	43
7	SCOPE OF REVIEW	44
APPENDIX		
I	Costs of retention incentive programs by fiscal year	47
II	Military skills authorized to receive VRBs and SSPP	48
III	Locations and ships visited	49
IV	Statistical analysis of VRB effectiveness	50
V	Letter dated March 28, 1974, from the Assistant Secretary of Defense (Manpower and Reserve Affairs)	57
VI	Principal officials responsible for the administration of activities discussed in this report	61

ABBREVIATIONS

DOD Department of Defense
GAO General Accounting Office
OSD Office of the Secretary of Defense
SRB selective reenlistment bonus
SSPP shortage specialty proficiency pay
TOPCAP Total Objective Plan for Career Airman Personnel
VRB variable reenlistment bonus

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

1-5
2-20
3-1
4-98

MILITARY RETENTION INCENTIVES:
EFFECTIVENESS AND ADMINISTRATION
Department of Defense B-160096

D I G E S T

WHY THE REVIEW WAS MADE

GAO wanted to find out how well variable reenlistment bonuses (VRBs) worked in helping the Department of Defense (DOD) eliminate career-manning shortages in critically needed skills and how well DOD was carrying out its incentive programs.

Basic facts

To encourage qualified enlisted personnel--especially those with critical skills--to remain after their first enlistments, the Congress authorized DOD to pay several kinds of monetary incentives:

- A VRB for first-term reenlistees who have critical skills (primarily skills having high training costs and being in short supply).
- A regular reenlistment bonus for all first-term personnel upon reenlistment.
- A shortage specialty proficiency pay for career personnel having critical skills in short supply that continue to have insufficient retention after maximum VRB is applied.

DOD plans to spend \$405 million on these incentives in fiscal year 1974. In spite of these incentives, DOD still has low first-term reenlistment rates in many critical skills.

Legislation to eliminate regular reenlistment bonuses and VRBs and to

combine their most effective features in a new selective reenlistment bonus was approved May 10, 1974. If this new bonus proves effective, DOD will phase out shortage specialty proficiency pay.

FINDINGS AND CONCLUSIONS

VRB effectiveness

Although DOD considers VRB effective, VRB does not produce enough first-term reenlistments to eliminate career-manning shortages.

On the average, VRBs increase first-term reenlistments. However, VRB's effect on reenlistment rates in individual skills cannot be predicted accurately. This is because of the strong influence of factors other than money on reenlistment decisions. (See pp. 6 to 9.)

For the 4-year period ended June 30, 1972, VRBs had only a marginal impact on attaining the required career-manning level in 129 of the eligible skills with the largest requirement for enlisted personnel. (See pp. 9 and 10.)

A long time is needed to overcome career-manning shortages if VRBs are the only incentive. GAO estimates that the average Army skill less than 80-percent manned and receiving the maximum VRB gains 10 additional reenlistees because of VRB. Other variables constant, it would take about 26 years for the additional

reenlistees to eliminate the average career-manning shortage. (See pp. 11 and 12.)

Factors influencing reenlistment decisions

GAO interviewed 2,240 military personnel who either had reenlisted recently for the first time or were approaching their first-reenlistment decision. GAO found:

- VRB influenced reenlistment of only 8 percent of the eligible first-term critical-skill population. (See pp. 13 and 14.)
- Larger bonuses could attract 15 percent more of the critical-skill population sampled. (See pp. 13 and 14.)
- VRB was the prime reason for reenlistment for only 13 percent of the critical-skill personnel sampled. Job satisfaction, job security, and educational opportunities ranked higher. (See p. 14.)
- Factors most influencing first-term critical-skill personnel not to reenlist were (1) family separations, (2) lack of personal freedom, (3) poor supervision and leadership, (4) work details, and (5) living conditions. (See p. 14.)
- An alternative for increasing first-term reenlistments would be to allow reenlistment for an unspecified time. About 36 percent of the critical-skill personnel not reenlisting claimed they would reenlist for unspecified periods. (See p. 14.)

Effectiveness of regular bonus and shortage specialty proficiency pay

DOD found in 1971 that:

- About 25 percent, or \$40 million, of the regular reenlistment bonus was paid each year to individuals serving in skills in which adequate retention could be sustained without incentive payments. This is because the law requires that the bonus be paid to all reenlistees. DOD concluded the bonus was unnecessary.
- A major part of shortage specialty proficiency pay was paid to careerists already past critical retention points. DOD concluded that this incentive had only a marginal effect on influencing reenlistments and was extremely cost ineffective. This is because, to yield reenlistments, payments were made to all careerists in a skill rather than only to those reenlisting in the skill.

Responses to GAO's interviews confirmed that shortage specialty proficiency pay had little effect on reenlistment decisions. Of 62 individuals in GAO's sample who were eligible for the pay and reenlisting, only 5 said that shortage specialty proficiency pay had influenced their decisions. (See p. 14.)

Effectiveness of program administration

The Army, Navy and Marine Corps cannot develop proper first-term reenlistment objectives because they have not established long-range requirements planning in their

enlisted force management systems. As a result, these services use VRBs to correct total career-manning shortages rather than to attract only the required number of first-term personnel needed, by skill, to enter the career force each year to maintain proper grade structure. This shortcoming has greatly reduced effective program administration. (See pp. 20 to 24.)

At the recommendation of the House Armed Services Committee, in 1968 DOD directed each service to develop a long-range planning system for managing its career enlisted force. (See p. 22.)

By 1973 only the Air Force had developed such a system. The Air Force system identifies manning deficits by skill and years of service. VRBs can be used to attract each year only the actual number of first-term reenlistees needed by skill. If each service were to establish a similar system, management of first-term retention could be improved. This could result in a more balanced career force. (See p. 22.)

Although DOD guidelines provide that certain characteristics be considered in applying VRBs, firm criteria have not been developed for the services to follow in applying, adjusting, or removing VRB. As a result, decisionmakers have to use their judgment in specifying use of VRBs. (See pp. 24 to 31.)

Most regular bonuses and VRBs are computed, in part, on already obligated service time, because each service, in allowing its personnel to reenlist before completing their initial enlistments, counts the time remaining in the initial enlistments in computing the bonuses.

GAO estimates that about 15 to 25 percent of all bonuses are for already obligated service. This problem was overcome by enactment of the selective reenlistment bonus program. (See pp. 31 to 33.)

Problems occurring after payment of bonuses

Many Army and Marine Corps individuals receiving VRBs were not working in the skills for which VRBs had been paid. (See pp. 36 to 39.)

A serviceman, once awarded a reenlistment bonus, must either complete his tour of duty or refund the unearned part of the bonus. A review of 443 cases requiring such refunds disclosed that recoupment efforts had been largely unsuccessful. (See pp. 39 and 40.)

RECOMMENDATIONS

Because individuals place major importance on factors other than money in deciding whether to reenlist, the Secretary of Defense should impress upon the services the need to insure that individuals:

- Do not have their personal freedom restrained during off-duty hours.
- Receive the highest quality supervision and leadership.
- Are effectively used in the skills for which they are trained.

The Secretary should also:

- Consider recommending legislation which would allow enlisted personnel to reenlist for unspecified periods.

AGENCY ACTIONS AND UNRESOLVED ISSUES

--Develop optimum bonus administration criteria that can be used in conjunction with approved long-range career management systems.

--Improve the bonus administration criteria that the Army, Navy, and Marine Corps must use until they develop enlisted career management systems that can predict reliably skill retention requirements by years of service. These criteria should clearly delineate the circumstances under which a bonus should be applied, adjusted, and removed.

DOD generally agrees with many of GAO's findings and recommendations. DOD concurs that it is difficult to quantify effectiveness of VRB in attracting additional reenlistments, particularly on an individual-skill basis. DOD's comments are included as appropriate in the report.

MATTERS FOR CONSIDERATION
BY THE CONGRESS

The military services should be required to develop, as soon as possible, enlisted personnel management systems which would be responsive to the House Armed Services Committee's 1968 recommendation.

--Insure that (1) the services use VRB recipients in the skills which qualified them for the VRBs, unless the Secretary of the service determines that waivers are necessary in the interest of the service concerned, and (2) misassigned VRB recipients are identified and properly assigned.

Since the advantages of such systems are fully accepted, the Appropriations and Armed Services Committees may want to:

The Secretaries of the Army and Navy and the Commandant of the Marine Corps should establish priorities for developing long-range requirements planning in their enlisted personnel career management systems.

--Inquire why the Army, Navy, and Marine Corps are taking so long to develop such systems.

The Secretaries and the Commandant should review how well individuals awarded reenlistment bonuses are screened and the adequacy of the system for recouping unearned bonuses.

--Consider restricting funds for enlisted retention incentives in the Army, Navy, and Marine Corps if enlisted personnel management systems are not developed and approved by a specified date.

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CHAPTER 1

INTRODUCTION

Throughout military history it has been necessary to offer some monetary incentive to get personnel to reenlist. Three retention incentives--the variable reenlistment bonus (VRB), the regular reenlistment bonus, and shortage specialty proficiency pay (SSPP)--were enacted at different times over 20 years.

In recent years the funds spent for these incentives have ranged from \$440 to \$500 million annually. Appendix I shows, in the aggregate, the services' program expenditures during fiscal years 1971-73, estimated expenditures in fiscal year 1974 and programmed funds for fiscal year 1975. Appendix II shows the number of skills eligible for each incentive and the percent they represent of the total number of skills in the services.

ENABLING LEGISLATION

Section 207 of the Career Compensation Act of 1949 first termed the career reenlistment incentive a reenlistment bonus. Under this act, personnel reenlisting could receive, depending on the length of their reenlistments, bonuses ranging from \$40 to \$360 for each of their first four reenlistments. The cumulative total bonus could not exceed \$1,440 during one's career and could not be paid for reenlistment exceeding 30 years.

Because first-term reenlistments continued to decline in the early 1950s, the Department of Defense (DOD) requested major modifications to the reenlistment bonus portion of the Career Compensation Act of 1949. On July 16, 1954, legislation (37 U.S.C. 308) enacted by the Congress raised the scale for computing bonuses and based the computation on the number of years for which the individual reenlisted and the grade he held at the time of reenlistment. This act increased to \$2,000 the cumulative amount an individual could receive during a 20-year career.

The act provided that an individual be paid a bonus of a month's basic pay for each year of a first reenlistment, two-thirds of a month's basic pay for each year of a second

reenlistment, one-third of a month's basic pay for each year of a third reenlistment, and one-sixth of a month's basic pay for each year of a fourth or subsequent reenlistment. This bonus, which is the regular reenlistment bonus today, is paid for all skills, regardless of their retention or manning situation. Because of increased pay levels, the \$2,000 maximum is usually paid before the third reenlistment.

By 1958 reenlistments still had not risen to an acceptable level and, based on the recommendations of the Cordiner Committee Report, DOD requested an additional monetary incentive. On May 20, 1958, 37 U.S.C. 307 became effective, which authorized proficiency pay for individuals designated as possessing special proficiency in military skills. The enlisted member could be either advanced to any pay grade or paid not more than \$50, \$100, or \$150 monthly, in addition to any other pay, allowances, or special or incentive pays to which entitled. The amount of the pay depended on the degree of criticality of the skill.

The Secretary of Defense selected the monthly form of payment and in 1958 implemented the initial proficiency pay program. The program has since been revised; today DOD has three types of proficiency pay--SSPP, special duty assignment, and superior performance. Only SSPP is specifically a retention incentive pay. It is paid to all career personnel possessing critical skills in short supply that continue to have insufficient retention after the maximum VRB is applied.

In 1965 DOD told the Congress that additional reenlistments were needed in skills accounting for about 40 percent of the total enlisted force strength to achieve all the services' manning objectives. DOD stated that, in a few of the most critically undermanned skills, constituting about 5 percent of the force strength, losses of \$10,000 or more occurred when a first-termer failed to reenlist and operational capability suffered because of severe shortages of careerists.

Since the problem was considered primarily one of retaining first-term personnel in specific critical skills, a strong reenlistment incentive for first-term personnel at the time of reenlistment was necessary. With this goal in mind, the Congress enacted 37 U.S.C. 308g effective September 1, 1965, which authorized a VRB which is in addition to the regular reenlistment bonus and which is paid only at the time of first reenlistment.

The VRB amount is determined by multiplying the regular reenlistment bonus by a multiple of one to four, which is based on the training investment and the degree of career-manning shortage in the particular skill. The bonus may not exceed four times the regular bonus, or \$8,000. The normal method of payment is in annual installments spread over the period of the reenlistment. Lump-sum payments may be authorized in meritorious cases.

DOD STUDY OF FIRST-TERM RETENTION INCENTIVES

DOD's most recent published study of first-term retention incentives completed in 1971 found that:

- VRB was the most effective retention incentive and offered the greatest retention return for the funds invested.
- About 25 percent, or \$40 million, of the regular bonus was paid each year to individuals serving in skills in which adequate retention could be sustained without payment of retention incentives, because the law required the bonus to be paid to all reenlistees. According to DOD, the bonus was unnecessary.
- Much of the SSPP was paid to careerists who had already passed the critical retention points. DOD concluded that this incentive was only marginally effective in influencing reenlistment decisions and was extremely cost ineffective. The cost ineffectiveness stemmed primarily from payments to all careerists serving in a skill to yield reenlistments as opposed to payments solely to individuals reenlisting in the skill.

The 1971 DOD study concluded that VRB greatly increased first reenlistments. DOD based this conclusion on a 1968 analysis of fiscal years 1963-67 first-term reenlistment data. DOD identified skills eligible for a VRB during fiscal years 1966-67. The reenlistment rates obtained in these skills, after awarding the VRBs, were adjusted for influences other than the bonus. The basis for the adjustment was the trends in reenlistment rates in skills not eligible to receive VRB during fiscal years 1963-67. Nonmonetary influences on reenlistment rates were assumed to be the same for both VRB and non-VRB skills.

The study concluded that a bonus was the most effective incentive to solve the present retention problems and recommended that the Secretary of Defense seek legislation to implement a selective reenlistment bonus (SRB) and terminate the requirement to pay the regular bonus to all personnel who reenlist. DOD stated that, should SRB prove effective, DOD would phase out SSPP.

RECENT LEGISLATIVE ACTION

On March 22, 1972, the Secretary of Defense sought legislation to combine the most desirable features of the regular bonus and VRB into SRB as part of the Uniformed Services Special Pay Act of 1972. The proposed SRB would be payable to members who have completed at least 21 months of service and reenlist for at least 3 years. The amount of the bonus would vary, depending on the severity of the retention problem in the critical skill in question with a maximum bonus of \$15,000 payable for each reenlistment.

The proposed SRB would be:

- Payable only to individuals in critical military skills.
- Payable at the first reenlistment and, if necessary, the second and subsequent reenlistments.
- Computed on the basis of multiples of one through six with each multiple being a month's basic pay of the reenlistee multiplied by the number of years of additional obligated service not to exceed 6 years.
- Payable in either a lump sum or installments.

The House of Representatives passed the proposed legislation (H.R. 16924, 92d Cong.), but the Senate did not act on it before the close of the 92d Congress.

The Secretary of Defense resubmitted the Uniformed Services Special Pay Act to the Congress on April 2, 1973. This submission excluded obligated service in excess of 12 years for SRB computation purposes. No congressional action was taken on that legislative proposal. On November 27, 1973, DOD submitted the SRB and enlistment bonus provisions of the Special Pay Act package as separate high-priority legislation.

This proposal precluded the payment of SRB to personnel with more than 10 years of service.

On December 20, 1973, the Senate passed the proposed SRB legislation (S. 2771, 93d Cong.), after reducing the SRE maximum for each reenlistment to \$12,000. On March 18, 1974, the House of Representatives passed Senate bill 2771 with certain amendments. The maximum bonus for each reenlistment was reinstated to \$15,000. Also an expiration date of June 30, 1977, for the SRB authority was added. On April 10, 1974, the House of Representatives and Senate conferees agreed to the June 30, 1977, expiration date and to the \$15,000 maximum bonus. The \$15,000 maximum was agreed to with the understanding that it would be payable only to personnel in the nuclear field.

The Senate adopted the conference report on April 23, 1974, and the House of Representatives adopted it the following day. On May 10, 1974, the legislation was approved as Public Law 93-277, with an effective date of June 1, 1974.

CHAPTER 2

VRB EFFECTIVENESS

Although DOD considers it effective, VRB does not produce enough critical-skill reenlistments to eliminate career-manning deficits. GAO analyses show:

- On the average, VRBs increase first-term reenlistments. However, because of the strong influence of factors other than money, the reenlistment rate changes resulting from VRB applications to individual skills cannot be accurately predicted.
- For the 4-year period ended June 30, 1972, VRBs had only a marginal impact on attaining the required career manning in 129 of the eligible skills with the largest requirement for enlisted personnel.
- Generally, a long time is necessary for solely VRB applications to overcome a career-manning deficit.

EFFECT OF VRB ON FIRST-TERM REENLISTMENT

We obtained VRB and reenlistment data on all skills that had VRB changes between fiscal years 1971 and 1972 and, using regression analysis, estimated the expected effect of a VRB change on the reenlistment rate of a skill. We also estimated the effect of two bonus amounts larger than the highest authorized VRB. (App. IV describes the analytical methodology used.)

The analysis showed significant positive correlations between bonus changes and reenlistment rate changes for all the services except the Marine Corps; i.e., increases in bonuses, on the average, increased the reenlistment rate. The following table shows the average percentage increase in reenlistment rates that could be expected under various VRB increases for the Army, Navy, and Air Force.

Percent Increase in Reenlistment Rates From Each
VRB Level and Higher Dollar Amounts (note a)

	<u>VRB-1</u> (note b)	<u>VRB-2</u>	<u>VRB-3</u>	<u>VRB-4</u>	<u>\$10,000</u>	<u>\$15,000</u>
Army	-	24.3	36.4	48.5	69.0	103.5
Navy	-	35.7	54.8	69.3	112.7	169.0
Air Force	19.6	36.1	62.4	77.8	124.9	187.4

^aPercentage increases are based on an analysis of many skills.
(See app. IV.)

^bThe Army and Navy did not pay VRB-1 during the analysis period.

PREDICTABILITY OF INCREASED REENLISTMENT

Our analysis of the predictability of the estimated increases' being realized showed that the reenlistment rate increases resulting from a VRB application to an individual skill could not be accurately predicted. The plots in the following graph demonstrate the wide range of reenlistment ratios--1972 first-term reenlistment rates divided by 1971 first-term reenlistment rates--resulting from a given VRB change in 68 Army skills. For example, 10 Army skills received an average VRB increase of \$3,512; however, the change in the reenlistment rate among these skills ranged from an increase of 30 percent to a decrease of 60 percent.

The graph also shows (1) the estimated change in the reenlistment rates as a result of each dollar change (the solid line) and (2) the 95-percent confidence intervals around each estimated reenlistment rate ratio (the dashed lines). The 95-percent confidence interval means that, in 95 of 100 instances, a change in VRB dollar amount should change the reenlistment rate somewhere between the lower and upper confidence lines; i.e., from a minimum of plus or minus 13.5 percent for the average VRB level-one dollar increase (\$1,755) to a maximum of plus or minus 26 percent for the average VRB level-four dollar increase (\$7,028). (App. IV contains similar graphs for the Air Force, Navy, and Marine Corps.)

This graphic analysis shows the estimates and the ranges of estimates that could be expected if reenlistment decisions were influenced only by VRB. The wide range of reenlistment rate ratios for given VRB average dollar changes, as shown in the graphs, and the responses to our questionnaire (see ch. 3), indicate that most reenlistment decisions are based on factors other than money. The influence of other factors was further demonstrated in our analysis by the facts that (1) only 14 percent of the change in the reenlistment rates could be explained by changes in VRB levels (see app. IV) and (2) the reenlistment rate decreased an estimated 25 percent at the no-VRB-level change in the 68 Army skills shown in the graph. In the Air Force and Navy graphs, the influence of other factors increased the reenlistment rate at the no-VRB-level change.

The analysis shows that, on the average, a VRB will increase reenlistment rates. However, because different skills react differently to similar bonus amounts, it is not possible to predict with accuracy how an individual skill will react to a given bonus change. Therefore we believe that any management decision concerning the VRB impact must take into account the strong influence of other factors on the reenlistment rate.

EFFECTIVENESS OF VRB IN ATTAINING REQUIRED CAREER-MANNING LEVELS

As of June 30, 1972, 129 of the most populated skills accounted for 45 percent of total authorized career strength. Each of these skills was eligible for a VRB sometime during the previous 4 years. Our analysis of the effect of VRB applications on deficits in career manning in these skills over several years showed that:

- An improvement in manning could be attributable to VRB in only six skills.
- VRB effectiveness in reducing the deficit was questionable in 25 skills. Other factors strongly influenced the improved deficits.
- VRB had little or no effect on the remaining 98 skills. Improved deficits did exist in some of them, but the improvement was attributable to reduced requirements in career manning and/or an increased base from which to draw first-term reenlistments.

Following are typical examples from each service of the 98 skills analyzed where VRB had little or no effect.

- The Navy radarman skill's career-manning deficit remained relatively constant although eligible for a VRB-4 for the entire 4 years. In fiscal year 1969 the skill was manned at 56.9 percent and at the end of fiscal year 1972 was manned at 57.6 percent. If the career-manning requirement had not been reduced by 1,459 personnel during this period, the deficit would have increased while personnel in the skill were receiving the maximum VRB.
- The Marine Corps interrogator-translator skill's career-manning deficit increased slightly although eligible for a VRB-3 for 3 years and a VRB-4 in fiscal year 1972. In fiscal year 1969 the skill was manned at 55.4 percent of its requirement and at the end of fiscal year 1972 the career-manning level was 54.7 percent of its requirement.
- The Army combat engineer skill's career-manning level improved considerably during the 4-year period. In fiscal year 1969 the skill was manned at 46.8 percent of its requirement and by the end of fiscal year 1972 was overmanned at 109.6 percent of its requirement. However, the primary cause for the improvement was a reduction in the career-manning requirement from 10,040 in fiscal year 1969 to 4,033 by the end of fiscal year 1972. The skill was eligible for a VRB-3 the first 2 years and a VRB-2 the last 2 years of the period.

TIME NECESSARY FOR VRB TO ELIMINATE DEFICIT

The table below shows the number of VRB skills in each service that were less than 80-percent manned as of June 30, 1973.

	<u>VRB skills</u>	<u>Percent of VRB skills</u>	<u>Percent of total skills</u>	<u>Authorized strength of the undermanned VRB skills</u>	<u>Percent of total authorized career strength</u>
Army	148	73	33	96,775	35
Navy	14	27	14	48,330	22
Marine Corps	151	60	43	16,620	32
Air Force	<u>10</u>	14	4	<u>8,209</u>	4
Total	<u>323</u>	56	28	<u>169,934</u>	22

The career-manning deficit for all VRB skills less than 80-percent manned was 63,175 on June 30, 1973.

We analyzed the effect of a VRB-4 bonus on career-manning levels in the Army by identifying 81 skills eligible for this bonus level that were less than 80-percent manned as of June 30, 1973. The career-manning deficit for these skills was 21,200 personnel as of June 30, 1973. We determined that the average number of first-term reenlistments in these skills was 29 during fiscal year 1973. Because these skills were already receiving a VRB-4, we estimated, using the 48.5-percent VRB-4 improvement factor (see p. 7), that the average number of reenlistments in these skills would have been 19 without the bonus. Therefore the 10 additional average reenlistments can be attributed to the payment of a VRB-4. If the first-term reenlistment rate, career-manning requirements, and the base from which reenlistees are drawn remain constant, it would take approximately 26 years for solely a VRB-4 to eliminate the average career-manning deficit of 262 in these skills.

This analysis illustrates that the VRB incentive in isolation provides limited assistance to DOD in attaining the objective of adequate career-manning levels in critical skills. The additional first-term reenlistees that can be attracted by this incentive are only a small percentage of the actual deficit. However, even if the incentive could

eliminate a career-manning deficit in a short period, it would not necessarily be desirable. This could cause other problems. As discussed in chapter 4, we believe the objective of VRB should be to attract only the required number of first-term personnel needed by skill to enter the career force each year to maintain proper promotion opportunity as well as appropriate levels of technical and supervisory experience. Other techniques, such as retraining qualified surplus individuals who are in overmanned skills, should be used to correct career-manning deficits in senior-level positions.

AGENCY COMMENTS AND OUR EVALUATION

DOD agreed in a letter dated March 28, 1974, that it was difficult to quantify the effectiveness of VRB in attracting additional reenlistments, particularly on an individual-skill basis. (See app. V.)

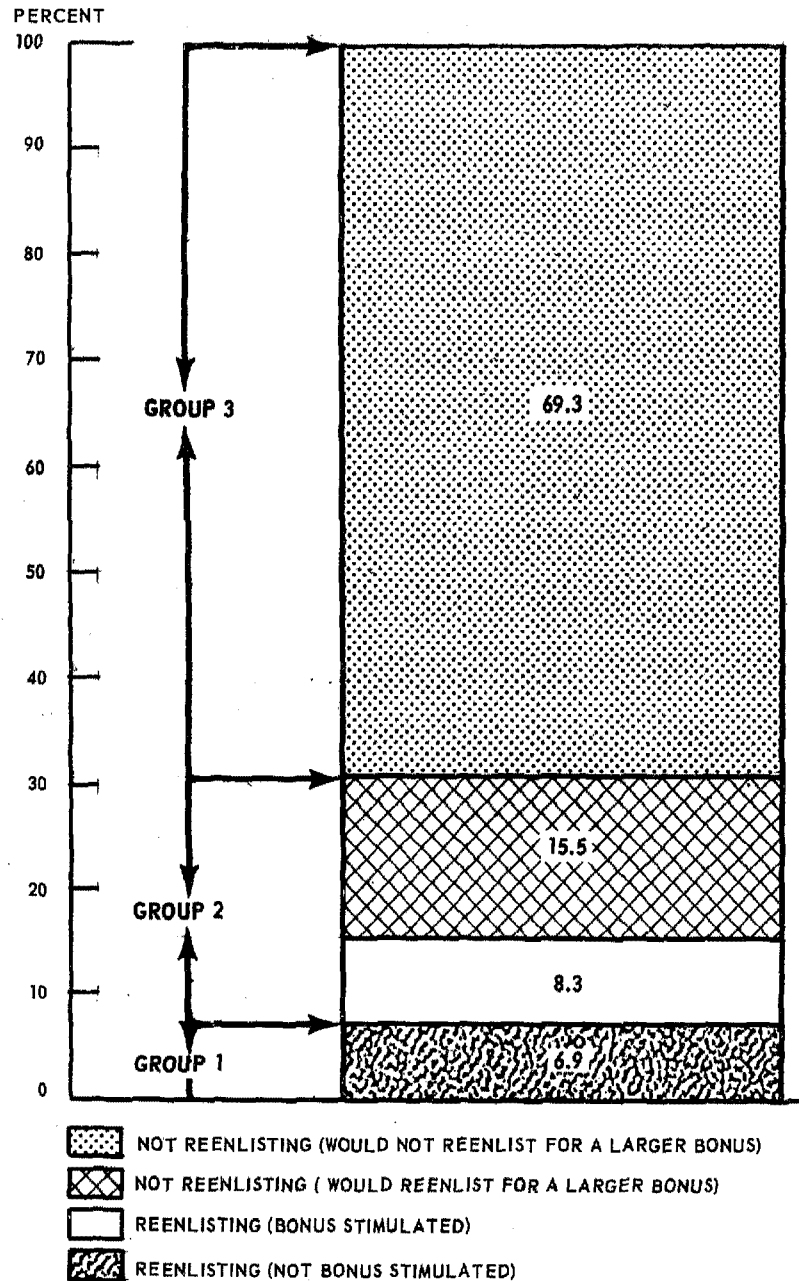
DOD, in an attachment to its letter, said that our analysis did not consider the cost effectiveness of VRB and that we used cost in our analysis but did not actually compare the cost of an individual's bonus to the cost of retraining a replacement. We agree that a cost-effectiveness analysis should be made, but we believe that DOD should make it. DOD's evaluation comparing the cost of training a replacement to the cost of paying a bonus should consider:

- The cost of paying a bonus to many personnel who would reenlist without it.
- The experience factor, since the bonus would retain a journeyman and a replacement would be an apprentice.
- The incremental cost of retraining personnel. Service schools already exist; therefore, only the cost of training additional students should be used for comparative purposes.
- The fact that some retraining is required because of surplus personnel in some skills.
- Whether personnel in overmanned skills are being retrained in critical skills before reenlistment and then paid bonuses to reenlist. This would result in DOD's incurring both costs.

CHAPTER 3

FACTORS INFLUENCING REENLISTMENT DECISIONS

Responses to GAO's questionnaire by 2,240 military personnel who either had recently reenlisted for the first time or were approaching first-reenlistment decision points disclosed that VRB had positive effects on the reenlistment decisions of only 8 percent of the 1,052 first-term critical-skill sample population eligible for reenlistment.



Group 1, or 6.9 percent of the critical-skill population, would have reenlisted without a VRB. Group 2, or 23.8 percent of the population, consisted of those personnel who either were stimulated to reenlist by VRB or could be enticed to reenlist by a larger VRB. Only 8.3 percent of this group received an amount requisite for its reenlistment. The remaining 15.5 percent were not offered a large enough incentive. If the services wanted to obtain this additional 15.5 percent, they would have to increase VRBs. The third group, or 69.3 percent, was not affected by VRB or any higher reasonable offer.

Responses to GAO's questionnaire further disclosed that:

- VRB was the prime motivator in the positive reenlistment decision of only 13 percent of the critical-skill personnel sampled. Job satisfaction, job security, and educational opportunities ranked higher. About 50 percent of the personnel reenlisting cited these three factors as those most influencing their decisions.
- SSPP had little effect on reenlistment decisions. Of the 62 individuals eligible for SSPP and reenlisting, only 5 indicated that SSPP had influenced their reenlistment decisions.
- An alternative for increasing first-term reenlistments would be to allow reenlistment for an unspecified time. About 36 percent of the critical-skill personnel not reenlisting claimed they would reenlist for an unspecified period.
- Factors that most influenced first-term critical-skill personnel not to reenlist were (1) family separation problems, (2) lack of personal freedom, (3) poor supervision and leadership, (4) work details, and (5) living conditions.

BACKGROUND

We interviewed, using a questionnaire, 1,986 first-term personnel within 180 days before the end of their initial enlistments and 254 personnel within 120 days after they had reenlisted for the first time. These personnel were assigned to 14 military installations and 7 ships.

(See app. III.) Our goal was to interview at least 200 personnel at each activity. However, because of the small military population at Navy and Air Force activities initially selected, we visited additional Navy and Air Force activities. We conducted our interviews from November 1972 through March 1973. Our objectives were to determine:

- The percentage of the critical-skill population that was bonus stimulated.
- Factors influencing reenlistment decisions.
- Reactions to alternatives and variations to the present incentive programs.

We grouped the interviewees according to whether they possessed critical or noncritical skills and then subdivided the two groups according to each interviewee's reenlistment decision. (See chart below.)

Other factors considered were pay grade, age, service branch, VRB level, enlisted status (volunteer or drafted), and marital status.

	<u>Critical- skill personnel</u>	<u>Non-critical- skill personnel</u>
Intending to reenlist	159	123
Intending not to reenlist	<u>893</u>	<u>811</u>
	1,052	934
Recently reenlisted	<u>150</u>	<u>104</u>
	<u>1,202</u>	<u>1,038</u>

Our analysis primarily concerned (1) critical-skill personnel intending to reenlist and those recently reenlisted and (2) critical-skill personnel not intending to reenlist. We placed secondary emphasis on analyzing personnel by non-critical skill and marital and enlisted status.

RESPONSES OF CRITICAL-SKILL PERSONNEL
INTENDING TO REENLIST
AND RECENTLY REENLISTED

Of the 309 personnel in this group, about 63 percent indicated they would reenlist even if VRB were reduced by one-half. About 43 percent indicated they would reenlist even if there were no VRB.

To determine the most important factors influencing positive reenlistment decisions, these personnel were asked to rank the three items that most influenced their decisions. The following table shows the rankings for all services.

<u>Factors</u> <u>influencing</u> <u>reenlistment</u>	<u>First</u> <u>choice</u>	<u>Second</u> <u>choice</u>	<u>Third</u> <u>choice</u>	<u>Number of</u> <u>personnel</u> <u>influenced</u>
VRB	39	65	46	150
Fringe benefits	35	63	44	142
Job security	52	44	28	124
Educational opportunities	48	34	31	113
Job satisfaction	54	19	29	102

The table shows that VRB does influence reenlistment decisions. However, VRB was the prime motivator in the positive reenlistment decisions of only 13 percent of the critical-skill personnel sampled. Job satisfaction, job security, and educational opportunities ranked higher.

Of those personnel receiving the highest bonus awards, 62 were eligible for SSPP. Only five of these individuals said SSPP influenced their decisions.

RESPONSES OF CRITICAL-SKILL PERSONNEL
INTENDING NOT TO REENLIST

To determine whether the 893 individuals in this group could be enticed to reenlist, we asked what effect (1) increased bonuses, (2) an unspecified-reenlistment-time policy, and (3) increased SSPP to those offered the incentive would have on them. We also asked them what had influenced their decision not to reenlist.

Some 163 individuals, or 18 percent, indicated they might reenlist for a larger VRB. However, 74 indicated

they would reenlist only for a bonus larger than or equal to the maximum \$15,000 bonus offered in the SRB.

An alternative to increasing bonus payments could be an unspecified-time commitment policy. To determine the effect of such a change on reenlistment decisions, we asked 893 personnel if they would remain in the service if they did not have to commit themselves for a specified period. About 36 percent indicated they would. The range was from 30 percent in the Navy to 44 percent in the Air Force.

Of those possessing critical skills and not reenlisting, 113 were eligible for SSPP. We asked them if their decisions would have been different if SSPP were increased. Only 18 individuals, or 16 percent, said they would reenlist for increased SSPP.

To determine the most important factors influencing negative reenlistment decisions, we asked all the personnel to select the three factors that most influenced their decisions. The primary reasons cited for all the services were:

<u>Factor</u>	<u>Percent</u>
Family separation	19
Lack of personal freedom	19
Poor supervision and leadership	13
Other (civilian job opportunity)	13
Work details	12

The following is a summary, by service, of the reasons most frequently cited which influenced individuals not to reenlist.

<u>Rank</u>	<u>Army</u>	<u>Air Force</u>	<u>Navy</u>	<u>Marine Corps</u>
1	Poor supervision and leadership	Poor supervision and leadership	Family separation	Work details
2	Work details	Work details	Work details	Lack of personal freedom
3	Lack of personal freedom	Family separation	Lack of personal freedom	Poor supervision and leadership
4	Family separation	Lack of personal freedom	Poor supervision and leadership	Living conditions
5	Living conditions	Pay and promotions	No control over assignments	Family separation

RESPONSES OF NON-CRITICAL-SKILL PERSONNEL

We made only limited analyses of the responses of these 1,038 personnel because sufficient numbers of non-critical-skill personnel had reenlisted.

The following table shows, for all services, the five factors that most influenced the decisions of 227 non-critical-skill personnel who either had recently reenlisted or intended to reenlist.

<u>Factor</u>	<u>First choice</u>	<u>Second choice</u>	<u>Third choice</u>	<u>Number of personnel influenced</u>
Job security	51	43	26	120
Fringe benefits	32	48	34	114
Educational opportunities	32	27	29	88
Pay and promotion	18	24	28	70
Job satisfaction	28	19	19	66

Responses of non-critical-skill personnel intending not to reenlist showed that 18 percent would reenlist if eligible for a VRB and 33 percent would reenlist for an unspecified period. The primary reasons why personnel possessing noncritical skills would not reenlist were lack of personal freedom and family separation.

RESPONSES OF MARRIED AND SINGLE CRITICAL-SKILL PERSONNEL REENLISTING OR INTENDING TO REENLIST

Married and single personnel differed significantly only in identifying the primary factors influencing the reenlistment decision, as shown below.

<u>Single</u>	<u>Percent</u>	<u>Married</u>	<u>Percent</u>
Job satisfaction	22	Job security	23
Educational opportunities	18	Fringe benefits	15
VRB	13	Job satisfaction	14
		Educational opportunities	14

RESPONSES OF VOLUNTEER AND DRAFTED
CRITICAL-SKILL PERSONNEL

The reenlistment decisions of volunteer and drafted personnel were generally influenced by the same factors. For example, VRB was the most frequent reason volunteer personnel cited for reenlisting and the second most frequent reason cited by drafted personnel.

CHAPTER 4

IMPROVEMENTS NEEDED IN

BONUS PROGRAM ADMINISTRATION

Certain problems have greatly reduced effective reenlistment bonus program administration:

- Because the Army, Navy, and Marine Corps do not have adequate personnel management systems, VRB applications are made to correct total career-manning deficits by skill rather than to attract only the required number of first-term personnel actually needed to enter the career force each year to maintain proper grade structure.
- Because DOD has not established firm criteria for specifying bonus applications, such applications within each service and among the services are not always uniform.
- Because each service, in allowing its personnel to reenlist before completing initial enlistment obligations, counts the time remaining in the initial enlistment in the reenlistment period in computing the bonus.

NEED FOR ENLISTED PERSONNEL CAREER MANAGEMENT SYSTEM

One of the main issues affecting the proper management of the services' enlisted force and reenlistment incentives has been their inability to establish an enlisted personnel career management system which would adequately regulate first-term retention and skill-manning balances. At the end of fiscal year 1973, the actual manning of particular skills varied considerably and many skills were overstaffed or understaffed by more than 20 percent of requirements. The chart below, provided by DOD, illustrates the skill-manning imbalances in the enlisted career force for each service as of June 30, 1973.

	Total career skills	Skills less than 80-percent manned		Skills more than 120-percent manned		Percent of skills over- manned and undermanned
		Number	Percent	Number	Percent	
Army	450	191	42	110	24	67
Navy	103	21	20	7	7	27
Marine Corps	350	168	48	40	11	59
Air Force	<u>255</u>	<u>19</u>	7	<u>151</u>	59	67
Total	<u>1,158</u>	<u>399</u>	34	<u>308</u>	27	61

DOD said that a career-manning deficit of 74,117 personnel existed in the 399 undermanned skills and that 91,138 excess personnel were in the 308 overmanned skills. These personnel represented 9.5 and 11.6 percent of the career-manning requirement, respectively.

The VRB objective is to assist the military services in attaining and sustaining desired career-manning levels by attracting into the career force first-term personnel possessing critical skills who would not otherwise reenlist. The Army, Navy, and Marine Corps--and the Air Force, until recently--have been applying VRBs to correct total deficits in career manning. As a result, the designation of skills for a VRB can be influenced by shortages in senior-level positions.

This approach does not accomplish what the VRB objective should be; that is, attracting only the required number of first-term personnel needed, by skill, to enter the career force each year to maintain proper promotion opportunities as well as appropriate levels of technical and supervisory experience within the skills. It is inefficient personnel management to base requirements planning on the reenlistment of a first-termer to fill a senior-level job opening. Other techniques, such as retraining qualified individuals having surplus skills, should be used to fill these jobs. To this extent, VRB applications may be contributing to skill imbalances by attracting either too many or too few first-termers each year. Until the number of such personnel, by skill, needed to enter the career force each year is known, reenlistment bonuses cannot be applied effectively and only a crude assessment is possible of the effectiveness of bonuses as a retention incentive.

The problem of matching eligible, skilled personnel with job openings while maintaining a viable organization structure was discussed during House Armed Services Committee hearings in fiscal year 1968. The Committee pointed out that there were exceptional complexities to be considered in managing the enlisted force, including (1) the need to assign enlisted men by skill and the great variation in requirements and retention from skill to skill, (2) the severe impact of changes in force levels, (3) the great differences in the top six grades' requirements from service to service, and (4) the morale and retention impact in extending time-in-grade requirements and hence slowing promotions. The Committee believed these problems should be dealt with administratively rather than by legislation.

In December 1968 the Assistant Secretary of Defense for Manpower and Reserve Affairs directed each service to develop a long-range enlisted force management system. Such a system, the Assistant Secretary said, should enable developing an annual sound realistic retention objective for each skill. He directed that each service, among other things, establish by occupational field (1) the input and continuation rate of first-term personnel to sustain or build toward a desired career structure and (2) the desired distribution of personnel by grade and years of service.

In 1973 the Air Force fully implemented its Total Objective Plan for Career Airman Personnel (TOPCAP) system. This system, we believe, should allow for proper management of first-term retention, including more effective VRB applications, and should result in a more balanced career force. According to DOD, the other services have not yet fully responded to the Assistant Secretary's directive because of the leadtime required to accumulate data necessary to analyze trends and make projections of their career enlisted force.

Air Force

The Air Force hopes to achieve an overall ideal force structure by 1981 through TOPCAP. Under TOPCAP, the career requirement for each skill is quantified by year group from 5 to 30 years of service. The overall objective for each year group is initially based on manpower position requirements at the supervisory and superintendent levels. These requirements are stratified by years of service using the

historical continuation rates of each skill. Through this technique, the Air Force determines how many personnel it needs to retain at the end of their fourth year of service, which is the initial reenlistment decision point for most airmen. The program emphasizes the importance of matching the size of the 4- to 5-year objective against the actual number of personnel in the group, to monitor reenlistment achievements and shortcomings.

When the estimated number of first-term reenlistments in any skill is expected to fall short of the goal, the Air Force can (1) designate the skill for a VRB, (2) transfer and retrain personnel from other skills, or (3) reenlist prior-service personnel with the desired skill and years of service. The Air Force retrains and reenlists prior-service personnel in lieu of using bonuses to correct shortfalls in advanced-year groups.

Even though TOPCAP stratifies first-term reenlistments needed by skill, the Air Force reenlisted almost 4,700 personnel in skills for which the requirements had already been achieved during the first 6 months of fiscal year 1973. The Air Force told us it was developing an improved Selective Reenlistment Program which would eliminate the need to resort to surplus reenlistments when a shortage of reenlistments was projected for the near future.

Army

The Army's first-term reenlistment objectives represent merely percentages of each command's enlisted strength. During fiscal year 1973, the monthly first-term reenlistment objective for each command was two-tenths of 1 percent of the strength at the end of the previous month. The annual first-term objectives were not related to the command objectives or skill requirements and were revised periodically on the basis of the Army's capability to retain personnel. The Army, during the second quarter of fiscal year 1974, began applying controls to restrict eligible first-term personnel in grades E-4 and above from reenlisting in surplus skills.

Navy

In 1972 the Navy established its Career Reenlistment Objectives Management Program to provide a system under which:

--Imbalances would be corrected in career skills.

--Viable and attractive career patterns would be provided to all enlisted members.

The program develops first-term reenlistment objectives for each skill. However, these objectives are based on the deficit between estimated and desired career-manning levels and represent an attempt to gradually bring career strength (all enlisted personnel with over 4 years of service) closer to career requirements (enlisted positions in grades E-5 and above). The objectives are not directed toward immediate achievement of career requirements but are based on feasible reenlistment capabilities.

Marine Corps

The Marine Corps establishes annual first-term reenlistment objectives on the basis of the number of reenlistments needed to sustain the ideal career-manning level of each occupational field. It develops and uses these objectives to monitor progress in reenlistments. Field activities are provided guidance on the percentage of first-term and career marines that should be reenlisted.

NEED FOR DEFINITIVE GUIDANCE FOR SPECIFYING BONUS APPLICATIONS

Even with career management personnel systems that can determine first-term reenlistment objectives, bonus applications cannot be fully effective until DOD's guidelines for specifying bonus applications are improved. The guidelines do not clearly delineate (1) the circumstances under which VRBs should be applied, (2) what level should be applied, (3) how VRB levels should be adjusted, and (4) when VRBs should be removed. As a result, decisionmakers have to use their own judgment in specifying the application. Their practices vary within the same service as well as among the services.

Criteria for designating skills

Two major criteria have been established to identify and evaluate critical skills. The skill must:

- Offer a reasonable prospect of enough improvement in career manning in response to the award to justify its cost.
- Have reflected, or be projected to reflect, a significant shortage in career manning by the end of the budget year.

DOD advised that a third major criterion, inadequate first-term retention, was also being used to identify and evaluate critical skills.

DOD says these criteria serve as the normal standards for designating skills. They govern in the absence of other overriding considerations. Not every skill must meet these criteria exactly if other considerations relevant to achieving the policy objectives justify an award. Other considerations include job essentiality and career-manning-level trends.

Under the first criterion, the quantitative indicator of the expected career-manning improvement in a military skill is the expected additional reenlistments to be gained from awarding VRBs. The following table shows DOD's estimating factors for projecting first-term reenlistment rate improvement.

First-term reenlistment rate percentage with <u>no incentive</u>	Percent increase in reenlistment rates from each level of VRB application			
	<u>VRB-1</u>	<u>VRB-2</u>	<u>VRB-3</u>	<u>VRB-4</u>
10 and below	30	35	65	75
11 to 15	30	35	65	70
16 to 20	25	30	55	60
21 to 25	20	25	45	50
26 to 30	15	20	35	40

These estimating factors represent average changes in reenlistment rates and do not reflect the variation of individual VRB applications. DOD cautions that actual experience for each service may vary substantially from these overall estimates and, when available, should be used in predicting improvement to be realized from any VRB award. However, without evidence to the contrary in a particular

skill, the estimating factors should be used in projecting first-term reenlistment rate improvement.

Under the second criterion, the relationship between a skill's current or projected career-manning shortage and the training investment (i.e., the time and cost of formal school training required to qualify first-term personnel in a skill) is considered. The following table shows the combination of training investment and career-manning criteria a skill must meet to qualify for VRB.

<u>Training investment (percentile)</u>	<u>Current or projected career manning level (percent)</u>
75 and above (note a)	95 or less
50 to 74	90 or less
25 to 49	80 or less
24 and below	Career inventory less than the number of billets authorized in pay grades E-6 and above plus 50 percent of billets authorized in pay grade E-5.

^aThe skill group with the highest training costs.

The Air Force uses the third criterion of inadequate first-term retention in lieu of the career-manning-level criterion to identify skills for VRB application under its TOPCAP system. The other services will do likewise upon development of similar systems that are approved by OSD. In the meantime, retention experience is used by the Navy, Army, and Marine Corps only as a tool to further evaluate a skill with inadequate career manning. A skill's first-term reenlistment rate above the service average would indicate that first-term retention is not the cause of the career-manning shortfall and that a VRB application would be inappropriate.

Using the above criteria each service Secretary can designate skills, subject to annual reviews and approval by the Secretary of Defense, for VRB awards.

Criteria for reducing and terminating awards

These criteria require the service Secretaries and the Assistant Secretary of Defense for Manpower and Reserve Affairs to annually review the retention and career-manning situation in any skill that has attained, or is projected to attain, a career-manning level of more than 105 percent. Skills that no longer meet the eligibility criteria must be scheduled for award reduction or termination. The review must consider the projected retention and career-manning situations in the absence of the current award so that a skill will not be reduced or terminated solely because the current award has attained and is sustaining adequate retention and career manning in a skill.

Analysis of criteria

DOD's criteria have not been modified in over 5 years even though its own study concluded in 1971 that they should be reexamined. The study recommended, however, that the criteria be strictly adhered to until revised criteria were developed.

We found that:

- Manning deficits were being used (as pointed out on p. 21) as primary criteria for applying VRB in all the services except the Air Force. Thus VRBs were being applied to correct total career-manning shortfalls by skill rather than to attract only the required number of first-term personnel needed to enter the career force each year to maintain proper grade structure.
- The only criteria that existed for determining the appropriate VRB level were the average improvement estimates in the DOD instruction for administering the bonus program. As pointed out on page 25, DOD cautioned that actual experience for each service might vary substantially from those estimates.

- Although DOD criteria require that there be "a reasonable prospect of enough improvement in career manning in response to the award to justify its cost" and a DOD representative stated these criteria were being followed, analysis of each service's VRB designation process showed that this factor was not adequately considered. Officials interviewed stated that they would consider not authorizing a VRB for a skill with a high reenlistment rate because the rate would probably increase very little.
- Criteria have not been developed for adjusting the amount of VRBs as manning levels improve.
- Different criteria have been developed for determining whether a VRB should be reduced and terminated (105 percent of career manning) and for designating a skill for award (95 percent and lower, depending on the training investment). This can result in skills' remaining eligible for VRB when they no longer would qualify.

Results of diverse practices

The following two tables, provided by DOD, show the average VRB multiple assigned to skills within the same training investment percentile and career-manning-level ranges on June 30, 1973, for the Army and the Navy.

Army

Career-manning level (percent)	Training investment (percentile)							
	24 and below		25 to 49		50 to 74		75 and above	
	Number of VRB skills	Average VRB multiple	Number of VRB skills	Average VRB multiple	Number of VRB skills	Average VRB multiple	Number of VRB skills	Average VRB multiple
106 and above	0	-	0	-	2	3.5	2	4.0
96 to 105	0	-	3	2.7	1	4.0	5	3.4
91 to 95	1	2.0	4	3.0	3	3.3	3	2.7
81 to 90	3	2.3	3	3.3	5	4.0	5	3.0
71 to 80	0	-	5	2.6	7	3.6	5	3.6
70 and below	18	2.8	26	2.9	41	3.5	41	3.6

Navy

Career-manning level (percent)	Training investment (percentile)							
	24 and below		25 to 49		50 to 74		75 and below	
	Number of VRB skills	Average VRB multiple	Number of VRB skills	Average VRB multiple	Number of VRB skills	Average VRB multiple	Number of VRB skills	Average VRB multiple
106 and above	0	-	0	-	2	2.0	2	3.0
96 to 105	1	3.0	4	2.5	4	2.5	5	2.0
91 to 95	0	-	3	1.3	2	2.0	4	3.8
81 to 90	5	1.4	3	3.0	6	3.5	4	2.8
71 to 80	2	3.5	7	3.3	3	3.3	0	-
70 and below	2	3.5	1	4.0	1	4.0	2	3.0

According to DOD criteria, the average level of VRB should increase as career manning decreases and training investment increases. Though there generally appears to be such a trend, the Army and Navy VRB applications during fiscal year 1973 did not always follow this trend. For example, the Army's 75-and-above-percentile training investment at 91- to 95-percent manning level has a lower average VRB application than at 96- to 105-percent manning level. The Navy statistics indicate that higher VRB amounts were frequently applied to the 50- to 74-percentile grouping rather than to the 75-and-above-percentile group, which is the most expensive training investment group of skills. In both services VRBs were being applied to skills manned above 105 percent, the manning level at which VRBs should be reviewed for VRB reduction or termination.

Army and Navy officials gave the following reasons when asked why certain skills received VRB levels that appeared inconsistent with published criteria.

--Aggregation of closely related skills--combining skills that are so closely related that a degree of interchangeability exists to arrive at an aggregated career-manning level--can result in one or two over-manned skills in the group receiving a VRB because the undermanned skills more than offset the over-manned skills. Although this technique appeared valid and was authorized, the following examples of questionable VRB applications were justified under this method.

1. The Navy used this method to justify paying the sonar technician (surface) skill a VRB-4 during fiscal year 1973 even though it was overmanned. The combined grouping of all sonar technician skills showed a projected end of fiscal year 1973 career-manning level of 97 percent, or 2 percent more than the eligibility criterion of 95 percent.
2. The Army used this method to justify paying the nuclear power plant mechanic/operator skill a VRB-4 during fiscal year 1973 even though the skill's career manning was projected to be 119 percent at the end of the fiscal year. The aggregate grouping of closely related skills showed overmanning.
3. The Army aggregated a ballistic meteorological crewman skill manned at 103 percent with an electrical instrument repairman skill manned at 22 percent to justify paying a maximum VRB. The interchangeability in this case appeared questionable since personnel in one skill repaired equipment while personnel in the other skill worked with data provided by the equipment.

--Skills essential to mission requirements generally receive special consideration in determining VRB eligibility. DOD instructions allow for the normal eligibility criteria to be preempted when overriding considerations concerning a particular skill are evident. Examples of skills in this category were:

1. The Navy justified paying the hull technician skill a maximum VRB while manned at 68 percent even though the skill was in the lowest training investment quartile.
2. The Army justified paying the explosives ordnance disposal specialists skill a VRB because of the "extremely vital functions performed by these explosives experts." It was manned at the 84-percent level and was in the lowest training investment quartile.

--VRB changes greater than two multiples would reduce morale. This reasoning was given, even though it was not included in the VRB adjustment criteria, when the Navy reduced the fire control technician (ballistics missile) skill from a VRB-4 to a VRB-2 when the skill's career-manning level reached 124 percent, or 19 percent more than the 105-percent criterion for VRB termination.

These same officials could not explain why many skills continued to receive what appeared to be higher-than-warranted VRB payments. They agreed that VRB levels in many of these skills should be reduced. For example,

- The Army's radio relay and carrier attendant skill (25- to 49-percentile training investment) had been receiving a VRB-2 since July 1972 even though December 1972 data showed that the skill had a projected end of fiscal year 1973 career-manning level of 104 percent.
- The Army's sergeant missile guidance repairman skill (75-and-above training investment percentile) was paid a VRB-4 during fiscal year 1973 even though the end of fiscal year 1973 career-manning level was projected to be 104 percent.
- The Navy's radioman skill (24-and-below training investment percentile) was paid a VRB-4 during fiscal year 1973 even though the skill was projected to have an end of fiscal year 1973 career-manning level of 91 percent.
- The Navy's electronics technician (communications) skill had been receiving a VRB-2 since July 1972 even though the end of fiscal year 1973 career-manning level was projected to be 141 percent.

BONUSES PAID FOR ALREADY OBLIGATED SERVICE

Most regular bonuses and VRBs are computed, in part, on service time already obligated. This occurs because each service, in allowing its personnel to reenlist before completing their initial enlistment obligations, counts the time remaining in the initial enlistment in the reenlistment

period in computing the bonus. DOD is concerned with this problem, and advises us that SRB, if approved by the Congress, would eliminate this deficiency by computing the amount of SRB only on the basis of additional obligated service. This legislation was approved May 10, 1974.

The table below shows the minimum service time required in most cases in each service before first-reenlistment contracts can be executed.

	Initial enlistment (years)	<u>Eligible for reenlistment</u>
Army	2, 3, 4, or 6	After 21 months.
Air Force	4 or 6	After 36 months.
Navy	3 or 4	During last 12 months.
	6	After 4 years; the remaining 2 years are automatically counted as first reenlistment.
	3, 4, or 6	Under two special programs, after 21 and 24 months of service, respectively.
Marine Corps	2	After 15 or 22 months, depending on reenlistment period.
	3 or 4	During last 12 months. Personnel completing 24 or more months may extend up to 4 years and receive SSPP.

We estimate that about 15 or 25 percent of all bonus payments are paid for already obligated service time. Fiscal year 1972 data showed:

- The Air Force paid an estimated \$4.6 million in VRBs and \$3.9 million in regular bonuses for already obligated service time.

- The Marine Corps paid an estimated \$2 million in VRBs and about \$800,000 in regular bonuses for already obligated time.
- The Navy paid an estimated \$14.5 million in VRBs and \$4.7 million in regular bonuses for already obligated service time.
- The Army data was not readily quantifiable in dollars; however, reenlistment statistics showed that a significant amount of bonus funds was spent for already obligated service. Over 80 percent of reenlisting first-termers had at least 3 months remaining of their initial enlistment periods. Over 8,000 first-term personnel reenlisted before completing 2 years of service. About 50 percent of all Army reenlistees received VRBs.

AGENCY COMMENTS AND OUR EVALUATIONS

DOD did not comment on the information we presented in our report concerning the inability of the Army, Navy, and Marine Corps to develop enlisted personnel career management systems. DOD did provide additional information on the progress being made by the Army, Navy, and Marine Corps in developing long-range enlisted personnel management systems. DOD said that the Army, Navy, and Marine Corps had (1) given priority to completing their long-range enlisted personnel management plans, (2) made considerable progress in accomplishing the plans, and (3) submitted interim plans for approval. DOD anticipates that, with the exception of the Marine Corps, approved retention requirements will be available for developing fiscal year 1976 retention incentive programs. (See app. V.)

We believe that the progress being made has not been timely because:

- The development of these plans has been an OSD objective since December 1968 and only the Air Force has an approved program.
- The interim plans the Army, Navy, and Marine Corps submitted have not been adequately addressing retention objectives based upon the optimum career profile

of each career management field. The Marine Corps' latest plan, its fourth submission, did not address this area. The development of these objectives is the first step toward being able to properly apply retention incentives.

- The Marine Corps staffing priorities and resource availability require that long-range planning be made simultaneously with ongoing Marine Corps manpower management programs and associated staff functions. The Army began preparing for the development of a long-range enlisted personnel management plan in 1968, but had to defer completing the plan because of higher priority actions related to the phasedown of and disengagement from the Vietnam war. It was not until March 1973 that the Army, by organizing a task force, again emphasized developing such a plan, and then only after OSD directed it to do so in February 1973.
- Completion date estimates for approved plans have slipped considerably. In October 1973 OSD estimated the Army and Navy would have approved plans by the end of 1973 and the Marine Corps by the summer of 1974. OSD now estimates that the Navy will have an approved plan by June 30, 1974; the Army will have a partially approved plan by the fall of 1974 that can be used to approve retention incentives for some skills in fiscal year 1976; and the Marine Corps will not begin analyzing occupational fields to determine retention objectives until March 1975. Therefore the earliest date the Marine Corps can apply retention incentives based upon approved retention requirements will be fiscal year 1977.

We believe that the management of retention programs has to be improved. We recognize that there may be many reasons why the Army, Navy, and Marine Corps have not been able to develop long-range requirements planning in their enlisted force personnel systems. We encourage OSD to continue to press for acceptable management plans at the earliest possible date.

With respect to our finding on the need to improve bonus administration criteria, DOD said (see app. V) it agreed (1) the criteria being used for specifying bonus applications were not optimum and (2) refinement of the Army, Navy, and

Marine Corps enlisted career management efforts to predict reliably skill by skill retention requirements by years of service would enhance considerably its ability to publish realistic guidelines for bonus application, adjustment, and termination. DOD said that substantive reworking of these criteria had been materially hampered by the leadtime required by the services to develop and establish viable enlisted career management systems. DOD told us that more definitive guidance and firmer criteria could not, however, totally supplement the role of the decisionmaker.

The decisionmaker must have guidelines for making judgments. OSD should not wait until the Army, Navy, and Marine Corps have acceptable enlisted management systems before developing optimum criteria. The services which have not yet developed long-range enlisted career management systems will need criteria other than the optimum to follow when making VRB management decisions based on career-manning levels. For this reason, OSD should improve the present criteria.

CHAPTER 5

PROBLEMS OCCURRING AFTER PAYMENT OF BONUSES

Many Army and Marine Corps personnel who had received VRBs for reenlisting in critical skills are no longer assigned to those skills. Misassignment was not a problem in the Air Force and Navy. This chapter discusses the problem of misassignment in the Army and Marine Corps as well as the problem of the unsuccessful recoupment of unearned bonus payments from recipients in all services failing to complete the bonus reenlistment period.

IMPROPER ASSIGNMENT OF RECIPIENTS

DOD instructions state that VRB recipients are to continue to serve in the skills which qualified them for the VRBs unless a service secretary determines that waivers of this restriction are necessary in the interest of the service concerned. Army's implementing regulations state that recipients are to be used in the skills on which the bonuses are based unless otherwise directed by the Secretary of the Army. Commanders of recipients may waive this restriction when the assignments are in combat areas. Marine Corps regulations requiring bonus recipients to serve in the skills for which they received VRBs were not issued until February 28, 1974.

These regulations contemplate payment of VRB only to a member who possesses a skill in critically short supply as an inducement for him to reenlist so that his service retains the use of such skill. As expressed in a decision of the Comptroller General (47 Comp. Gen. 414), such instructions reflect precisely the intent of the Congress in authorizing VRB. The Comptroller General stated that the legislative history showed that the only purpose in authorizing the bonus was to induce first-term enlisted members possessing critically needed skills to reenlist so that such skills would not be lost to the service and the training of replacements would not be required.

Army

An internal Army review team visited Fort Benning, Georgia, in March 1972 and January 1973. During its first visit, the

team identified personnel who (1) had never been assigned in their VRB skills since reenlisting, (2) were not qualified to perform duties in their VRB skills at the time of reenlistment and therefore had to revert to skills for which they qualified within a relatively short time after reenlistment, and (3) were assigned to Fort Benning in skills other than their VRB skills to fill existing vacancies. The second visit revealed that many recipients continued to serve in skills other than those for which they had received VRBs.

The Army Audit Agency issued the results of another Fort Benning manpower-use study in December 1972. This study revealed that, as of the end of September 1972, 9 of 36 recipients sampled were not working in their skills. Fort Benning officials agreed that misassignment of recipients was a problem and indicated that corrective actions would be taken. Our followup review in May 1973 disclosed that this problem continued to exist.

Internal Army reviews at other installations also revealed the problem of misassignment. The Army Audit Agency visited four installations and reported that 49 of 260 VRB recipients identified were not being used in their VRB skills. The Army had spent over \$250,000 in VRBs for these 49 personnel. The Agency concluded that this indicated similar conditions existed Army-wide. An Army review team at Fort Sill, Oklahoma, found 61 of 147 individuals sampled not serving in their VRB skills. Similar misassignments were found at Fort Polk, Louisiana; Fort Gordon, Georgia; and Fort Dix, New Jersey.

Our visits to the 1st Armored Division, Ansbach, Germany, and to the 2d Armored Division, Fort Hood, Texas, disclosed that 16 of 80 VRB recipients sampled were not assigned to their VRB skills.

All commands we visited had controls to insure that the individuals awarded VRBs were qualified at the time of reenlistment. Except for the 2d Armored Division, no commands had procedures to insure that recipients continued to serve in their VRB skills.

Army officials told us that management of personnel, by skill, had been a secondary consideration during the Vietnam conflict. These officials said that the Army was

initiating several programs to insure better manpower assignments. These are:

- Project MECCA (Management of Enlisted Careerists Centrally Administered), implemented in January 1973, under which each enlisted personnel's career development would be managed by a management team at the Army headquarters responsible for all the personnel in a particular career management field. This greater attention by a small team should insure the proper assignment of career personnel.
- A program authorizing installation and unit commanders to request personnel, by specialty, directly from the Army headquarters. This program is being implemented and should be more responsive to commanders' needs and should improve distribution and use of people.
- A program establishing installation assistance teams that will inspect, among other things, proper use of VRB recipients at various installations each year. Army headquarters, once notified, will insure proper skill assignments.
- Request the assignment of VRB recipients as a major item of interest for Inspector General reviews in fiscal year 1974.

Marine Corps

Of 448 VRB recipients reviewed, 117 were not working in their VRB skills. They received, or were scheduled to receive, over \$500,000 in bonuses. A marine working as a mail clerk received a \$4,000 VRB for reenlisting as an infantryman. He continued to work as a mail clerk after reenlisting.

Officials told us that the Marine Corps used a VRB recipient in other than his VRB skill if the assignment was in (1) a position for which a career field did not exist in the Marine Corps (known as a B billet skill), (2) a skill with a higher VRB multiple, or (3) any skill if the original VRB

skill became ineligible for VRB.¹ This policy, however, is not consistent with the DOD requirement that a VRB recipient work in the skill for which he was paid a VRB unless the secretary of the service concerned waives the restriction. Marine Corps officials did not know if a waiver had been granted.

UNEARNED BONUSES

A bonus recipient who voluntarily or because of misconduct does not complete the term of reenlistment, extension, or anniversary year for which he received his bonus is required (under 37 U.S.C. 308) to refund any unearned portion of such bonus upon separation. If the disbursing officers cannot collect the unearned bonus, the case is referred to the responsible military finance center for collection in accordance with the Federal Claims Collection Act of 1966. If the indebtedness is still not collected, the service can either declare it uncollectible or refer it to GAO for further collection action.

A review of 443 unearned regular bonus and VRB collection cases where recoupment was required revealed only limited collection success by military finance centers during fiscal years 1971-73. The following table shows, by service, the number of cases reviewed and the collection status at the time of our review in March, April, and May 1973.

	Cases (note a)	Unearned amounts at discharge	Uncollected	Percent uncollected
Army	99	\$ 94,800	\$ 93,800	98.9
Navy	94	174,500	169,400	97.1
Marine Corps	151	400,700	365,100	91.1
Air Force	<u>99</u>	<u>64,100</u>	<u>58,500</u>	91.3
Total	<u>443</u>	<u>\$734,100</u>	<u>\$686,800</u>	93.6

^aOf these, 272 were VRBs totaling \$430,000. Four cases totaling \$2,600 had been collected in full. Partial collections totaled \$20,700.

¹Revised guidance dated February 28, 1974, stipulated that marines must continue to serve in skills for which they received VRBs unless an exception was granted by the Commandant of the Marine Corps. The policy concerning B billet assignment remained in effect.

The collection status of the combined unearned regular bonus and VRB is shown below.

<u>Category</u>	<u>Cases</u>	<u>Amount</u>
Under active collection by finance centers	133	\$213,100
Indebtedness waived or terminated as uncollectible by finance centers	198	252,900
No action taken by finance centers	90	220,800
Collected in full by finance centers	22	7,400
Partially collected by finance centers	(a)	<u>39,900</u>
Total	<u>443</u>	<u>\$734,100</u>

^aThese cases are included in the first two categories.

We analyzed the type of discharges of personnel awarded lump-sum VRBs when recoupment action was required. Of the 22 Army discharges reviewed, 19 were less than honorable for such reasons as unsuitability, bad conduct, unfitness, and good of the service. The three honorable discharges were for unsuitability, good of the service, and sole surviving son. Of 134 Marine Corps recipients, 76 received less-than-honorable discharges.

The extent or cause of the problems with recoupment of unearned bonuses was not a priority review objective. We believe a more thorough review is warranted, in view of the limited success of the finance centers in recouping unearned bonuses and the types of discharges being given to many individuals previously awarded reenlistment bonuses.

AGENCY COMMENTS

DOD, in commenting on our finding concerning the misuse of bonus recipients, said that this problem was a carryover from the Vietnam era which continued to plague both the Army and the Marine Corps. DOD told us that substantial gains were being made in this area because of increased emphasis on compliance with the stated policy of proper employment of bonus recipients and improvement of monitoring procedures by the services. (See app. V.)

CHAPTER 6

CONCLUSIONS AND RECOMMENDATIONS FOR IMPROVING

REENLISTMENT BONUS PROGRAM

Over the past 20 years, monetary reenlistment incentives requested by DOD and approved by the Congress have not solved retention problems of first-term personnel. Therefore many skills continue to suffer. DOD has concluded however, that a reenlistment bonus system is still the most effective way to solve the present retention problems. It has sought legislation to implement a new bonus system providing for higher bonuses and more flexibility in applying bonuses at problem reenlistment points. This legislation was approved May 10, 1974.

Our questionnaire results showed that money was not the principal consideration in reenlistment decisions. VRB was the single best inducement in the positive reenlistment decision of only 13 percent of the critical-skill personnel sampled. Job satisfaction, job security, and educational opportunities ranked higher. An unspecified reenlistment period also emerged as a strong potential reenlistment improvement incentive. The most frequently cited deterrents to reenlistment were (1) family separation problems, (2) lack of personal freedom, (3) poor supervision and leadership, (4) work details, and (5) living conditions.

Although larger VRBs may, on the average, attract more reenlistments, our analysis showed that:

- The number of increased reenlistments, by skill, cannot be predicted.
- The bonus has had only a marginal impact on attaining the required career manning in a large number of skills during a past 4-year period.
- On the average, a long period is required solely for a VRB application to overcome a career-manning deficit.

The role of monetary incentives could be improved if the program were administered more effectively. One way to do so would be for the Army, Navy, and Marine Corps to develop long-range enlisted personnel management systems

that provide better data on first-term reenlistments required, by skill, to enter the career force each year. Definitive criteria are needed to more objectively and uniformly assess bonus applications, adjustments, and removals. Stronger program accountability is needed to insure that (1) recipients are working in the skills which qualified them for bonuses, (2) effective action is taken to recoup unearned bonuses, and (3) lump-sum bonuses are paid in meritorious cases only.

RECOMMENDATIONS TO THE SECRETARY OF DEFENSE

Because individuals place major importance on factors other than money in deciding whether to reenlist, we recommend that the Secretary impress upon the services their need to insure that individuals:

- Do not have their personal freedom restrained during off-duty hours.
- Receive the highest quality supervision and leadership.
- Are effectively used in the skills for which they are trained.

The Secretary should also consider recommending legislation which would allow enlisted personnel to reenlist for unspecified periods.

We recommend also that, to insure more effective program administration, the Secretary develop optimum bonus administration criteria. We recognize that the Army, Navy, and Marine Corps will need bonus administration criteria other than the optimum to follow until they are able to reliably predict skill retention requirements by years of service. Therefore the present criteria should be improved so it more clearly delineates the circumstances under which a bonus should be applied, adjusted, and removed.

We further recommend that the Secretary insure that (1) the services follow section V of DOD Instruction 1304.15 requiring VRB recipients to serve in the skills which qualified them for VRBs, unless the secretary of the service determines that waivers are necessary in the interest of the concerned service and (2) misassigned VRB recipients are identified and properly assigned.

RECOMMENDATIONS TO THE SECRETARIES
AND COMMANDANT OF THE SERVICES

We recommend that, to improve program administration, the Secretaries of the Army and Navy and the Commandant of the Marine Corps establish priorities for developing long-range requirements planning in their enlisted personnel career management system as conceived by the House Armed Services Committee and the Secretary of Defense.

The Secretaries and Commandant should review how well the individuals awarded reenlistment bonuses are screened and the adequacy of the system for recouping unearned bonuses.

MATTERS FOR CONSIDERATION BY THE CONGRESS

We believe the services should be required to develop, as soon as possible, enlisted personnel management systems which would be responsive to the 1968 recommendation of the House Armed Services Committee. Since the advantages of such systems are fully accepted, the Appropriations and Armed Services Committees may want to (1) inquire why the Army, Navy, and Marine Corps are taking so long to develop systems meeting Office of the Secretary of Defense guidelines and (2) consider restricting the funds available for enlisted retention incentives in the Army, Navy, and Marine Corps if enlisted personnel management systems are not developed and approved by a date specified by the Congress.

We gave an advance copy of this report to the House Armed Services Committee before its hearings on DOD's proposed selective reenlistment bonus legislation. The Committee, as a result of the information we brought to its attention concerning misuse of VRB recipients and unsuccessful bonus recoupment action, directed DOD to report semiannually on (1) the number and skills of personnel receiving reenlistment bonuses, (2) the number and skills of personnel serving outside the skills for which bonuses were paid, and (3) the number and skills of personnel not completing reenlistments for which bonuses were paid and for which recoupment actions were required, including the uncollected bonus amounts and the types of discharges involved. Accordingly, we deleted our recommendation that the Congress require such action from this report.

CHAPTER 7

SCOPE OF REVIEW

We evaluated VRB effectiveness in attaining and sustaining career-manning levels and DOD's administration of this incentive program. Also we assessed the status of both the regular bonus and the SSPP but limited our evaluation of their effectiveness because DOD studies have previously shown these programs to be cost ineffective and because DOD had proposed legislation to eliminate these incentives.

Our VRB effectiveness evaluation included (1) analyzing statistics, (2) using questionnaires to interview enlisted personnel, which provided information on factors influencing reenlistment decisions, and (3) determining career-manning levels in VRB-designated skills, influences of bonus applications on career-manning levels, and predictability of bonus applications on reenlistment rates. We did not compare first-term reenlistment objectives by skill with actual reenlistments because the Army, Navy, and Marine Corps do not have systems capable of determining the number of first-term personnel actually needed, by skill, to enter the career force each year.

To determine whether administration of the retention incentive programs was effective, we assessed the:

- Clarity and adequacy of policy guidance and instructions.
- Extent to which reenlistment objectives were defined and considered.
- Adequacy of personnel management systems to regulate first-term retention and skill-manning balances.
- Procedure for designating skills for bonuses.
- Procedures for reviewing and evaluating program results.

We did our work from October 1972 through August 1973 at the Office of the Secretary of Defense, the headquarters of each military service, and the locations shown in appendix III. We examined pertinent records, analyses, and files kept by

officials at these locations and held discussions with career counselors, reenlistment officers, and installation and headquarters officials responsible for reenlistment programs and related personnel management activities. We also:

- Determined, on a selective basis, whether individuals awarded bonuses were working in the proper skills.
- Evaluated the services' ability to recoup unearned bonuses from recipients who voluntarily or involuntarily separated from the service.

COSTS OF RETENTION INCENTIVE PROGRAMS BY FISCAL YEAR

	<u>Actual</u>		<u>Estimated</u>	<u>Programed</u>	
	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	
				<u>1975</u>	
	<hr style="border-top: 1px solid black; border-bottom: 1px solid black; height: 3px;"/>				
	(millions)				
VRB	\$197	\$185	\$183	\$179	\$160
Regular bonus	171	150	157	152	162
SSPP (active)	115	108	63	40	32
SSPP (terminated) (note a)	<u>16</u>	<u>18</u>	<u>39</u>	<u>34</u>	<u>20</u>
Total	<u>\$499</u>	<u>\$461</u>	<u>\$442</u>	<u>\$405</u>	<u>\$374</u>

^a SSPP is terminated when it is no longer considered necessary as a retention incentive for a particular skill. New careerists entering the skill do not receive SSPP. In the past, personnel already in the skill continued to receive SSPP until it was incrementally reduced to zero over a period up to 3 years. In conjunction with fiscal year 1975 and future fiscal years, personnel already in the skill will receive one-half of the award level limited to a 1-year period after the effective date of termination.

APPENDIX II

MILITARY SKILLS AUTHORIZED TO RECEIVE VRBs AND SSPP

	VRB				SSPP			
	July 1, 1971	July 1, 1972	July 1, 1973	July 1, 1974	July 1, 1971	July 1, 1972	July 1, 1973	July 1, 1974
Department of Defense (note a):								
Number of skills	642	606	552	532	433	375	329	233
Percent of total	56	53	48	46	23	19	17	11
Army:								
Number of skills	243	212	194	188	146	91	76	54
Percent of total	53	46	42	42	32	20	16	12
Navy (note a):								
Number of skills	52	51	62	62	163	151	145	81
Percent of total	51	51	62	61	20	16	15	8
Marine Corps:								
Number of skills	252	253	221	204	99	114	106	96
Percent of total	74	74	65	58	29	34	31	27
Air Force:								
Number of skills	95	90	75	78	25	19	2	2
Percent of total	39	37	31	31	10	8	1	1

^aVRB is awarded by Navy rating. SSPP is awarded by Navy rating and enlisted classification. There are about 100 ratings; within these ratings there are over 950 enlisted classifications which identify aptitudes and qualifications not discernible from the ratings alone. Therefore the bases used to calculate the Navy and DOD percentages are different for the two incentives.

LOCATIONS AND SHIPS VISITED

ARMY:

1st Armored Division, Ansbach, Germany
2d Armored Division, Fort Hood, Texas
Army Infantry Center, Fort Benning, Georgia
Army Finance Support Agency, Indianapolis, Indiana

NAVY:

U.S.S. Ticonderoga
Naval Air Station, North Island, California
Naval Air Station, Barbers Point, Hawaii
Fleet Tactical Support Squadron Twenty-One, Hawaii
Destroyer Flotilla Five:
 U.S.S. Berry
 U.S.S. Davidson
 U.S.S. Edwards
 U.S.S. Jones
 U.S.S. Morris
 U.S.S. Stroddent
Navy Finance Center, Cleveland, Ohio

MARINE CORPS:

1st Marine Division, Camp Pendleton, California
3d Marine Aircraft Wing, El Toro, California
1st Marine Aircraft Wing, Southeast Asia
3d Marine Division, Okinawa, Japan
Marine Corps Finance Center, Kansas City, Missouri

AIR FORCE:

Military Personnel Center, Randolph Air Force Base,
 Texas
Eglin Air Force Base, Florida
Bitburg Air Base, Germany
Wiesbaden Air Base, Germany
Upper Heyford Air Base, England
Air Force Accounting and Finance Center, Denver, Colorado

STATISTICAL ANALYSIS OF VRB EFFECTIVENESS

REGRESSION ANALYSIS FOR ESTIMATING
REENLISTMENT RATIOS

The dependent variable in this analysis was the reenlistment rate ratio (first-term reenlistment rates for fiscal year 1972 divided by the rates for fiscal year 1971) and the independent variable was the VRB change in the skill.

The results of this linear regression were:

	<u>Number of observa- tions</u>	<u>Depend- ent vari- able</u>	<u>Con- stant</u>	<u>VRB change</u>	<u>R²</u>	<u>F sta- tistic</u>
Army	68	Y _{Army} =	74.591	0.00518	0.138	^a 10.59
Navy	20	Y _{Navy} =	140.045	0.01578	0.307	^a 7.986
Air Force	38	Y _{A.F.} =	185.867	0.02321	0.467	^a 31.55
Marine Corps	50	Y _{M.C.} =	191.747	0.01406	0.043	2.17

^aDenotes statistical significance at the 95-percent level.

SAMPLE CONFIDENCE INTERVAL CALCULATIONS

Confidence intervals at the 95-percent significance level were calculated around each estimated reenlistment ratio generated by the regression models for the Army, Navy, and Air Force. The calculation of one of these intervals for a bonus change in the Air Force follows.

<u>VRB per first- term reenlistee</u>		<u>VRB change</u>	<u>Estimated reenlistment</u>
<u>Year 1</u>	<u>Year 2</u>		
-	\$6,229	\$6,229	330.5%

The equation used to calculate the variance of this estimate is:

$$V(\hat{Y}_k) = S_{xy}^2 \left\{ 1/n + \frac{(X_k - \bar{X})^2}{\sum_{i=1}^n (X_i - \bar{X})^2} \right\}^1$$

Where:

- n = total observations in the sample.
 \bar{X} = the mean of the VRB change.
 X_k = the VRB change k for which the variance is being calculated.
 $\sum_{i=1}^n (X_i - \bar{X})^2$ = the corrected sum of squares.
 S_{xy} = the standard deviation of the estimate at the mean.

For this example, these variables equal:

$$\begin{aligned} n &= 38 & \sum_{i=1}^n (X_i - \bar{X})^2 &= 409,869,842.5 \\ \bar{X} &= -1083.66 \\ X_k &= 6,229 & S_{xy} &= 83.68 \end{aligned}$$

The calculation of the variance of this estimate is:

$$\begin{aligned} V(\hat{Y}_k) &= (83.68)^2 \left\{ 1/38 + \frac{(6229 - (-1083.66))^2}{409,869,842.5} \right\} \\ &= 1097.84 \end{aligned}$$

¹Norman Draper and Harry Smith, Applied Regression Analysis (New York: John Wiley and Sons, Inc., 1966), p. 22.

APPENDIX IV

The standard deviation of the estimate is:

$$\sqrt{1097.84} = 33.13$$

The 95-percent confidence interval around the estimate is:

$$330.5 \pm [t(37, .95)] [33.13]$$

$$330.5 \pm t(67.14)$$

$$= (263.3, 397.6)$$

CALCULATION OF AN ADJUSTED REGRESSION EQUATION

The regression models calculated estimated the change in the reenlistment ratio due to two types of factors. The controllable factor was the VRB changes; the uncontrollable factors were the influence of factors other than the bonus on the reenlistment decisions of eligible first-term personnel. These other factors must be controlled in the analysis.

The regression equation used to estimate the reenlistment rate ratios for the Army is:

$$\hat{Y} = b_0 + .00518b_1$$

Where: b_0 = the constant in the equation that shows the expected reenlistment ratio if no bonus is applied to a skill.

b_1 = the bonus change in a skill.

This equation shows that other factors reduced the estimated reenlistment rate in fiscal year 1972 to 74.6 percent of the fiscal year 1971 reenlistment rate. Therefore we adjusted the regression equations as follows.

$$Y = 74.591 + .00518 b_1$$

Dividing both sides of the equation by the constant yields:

$$\frac{Y}{74.591} = \frac{74.591 + .00518b_1}{74.591}$$

$$\frac{Y}{74.591} = 1.00 + .0069b_1$$

$$Y' - 1.00 = .0069b_1$$

Where:

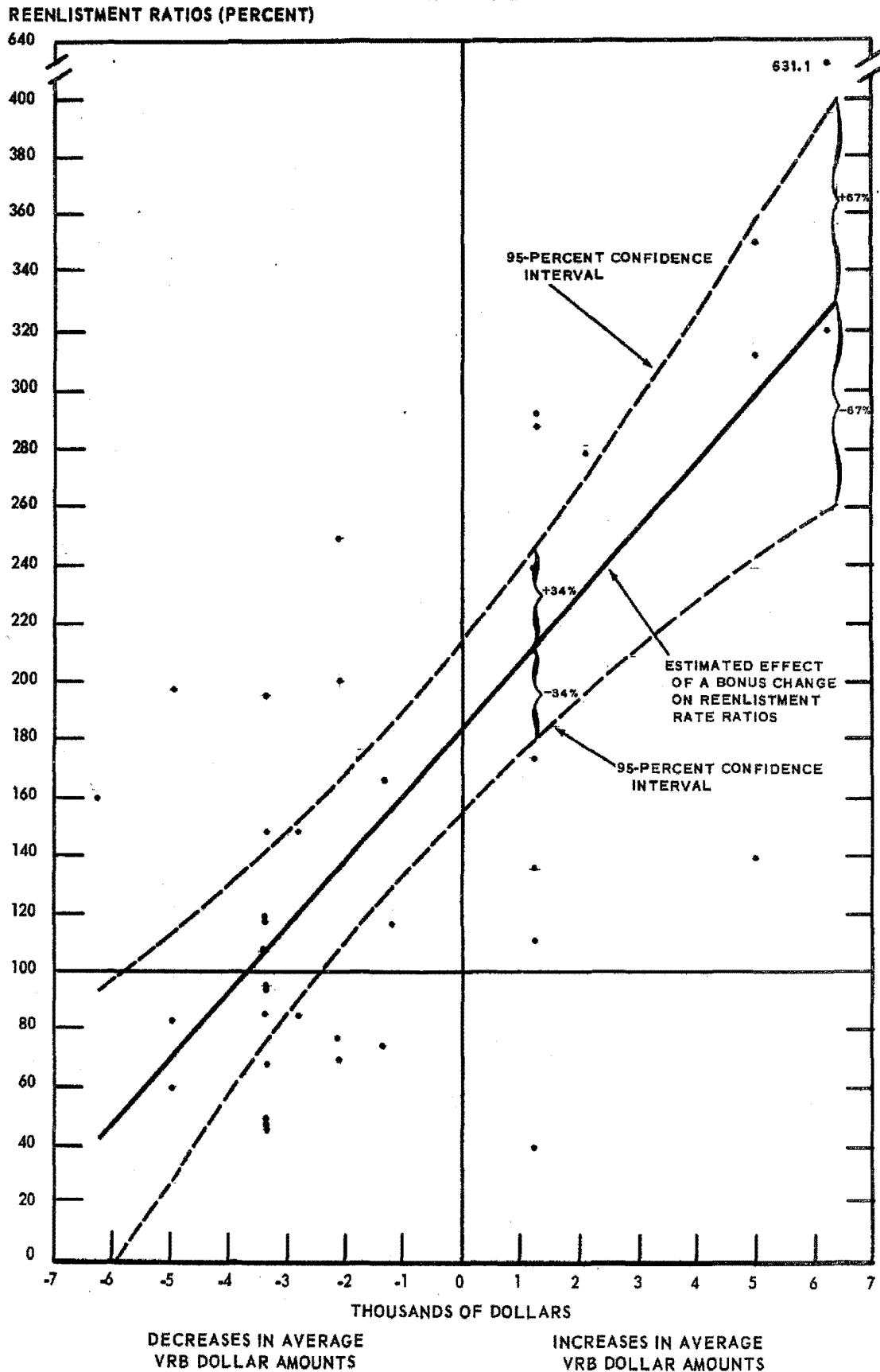
Y' = the adjusted reenlistment ratio.

$Y' - 1.00$ = the estimated change in the reenlistment rate over a 2-year period due to a bonus change.

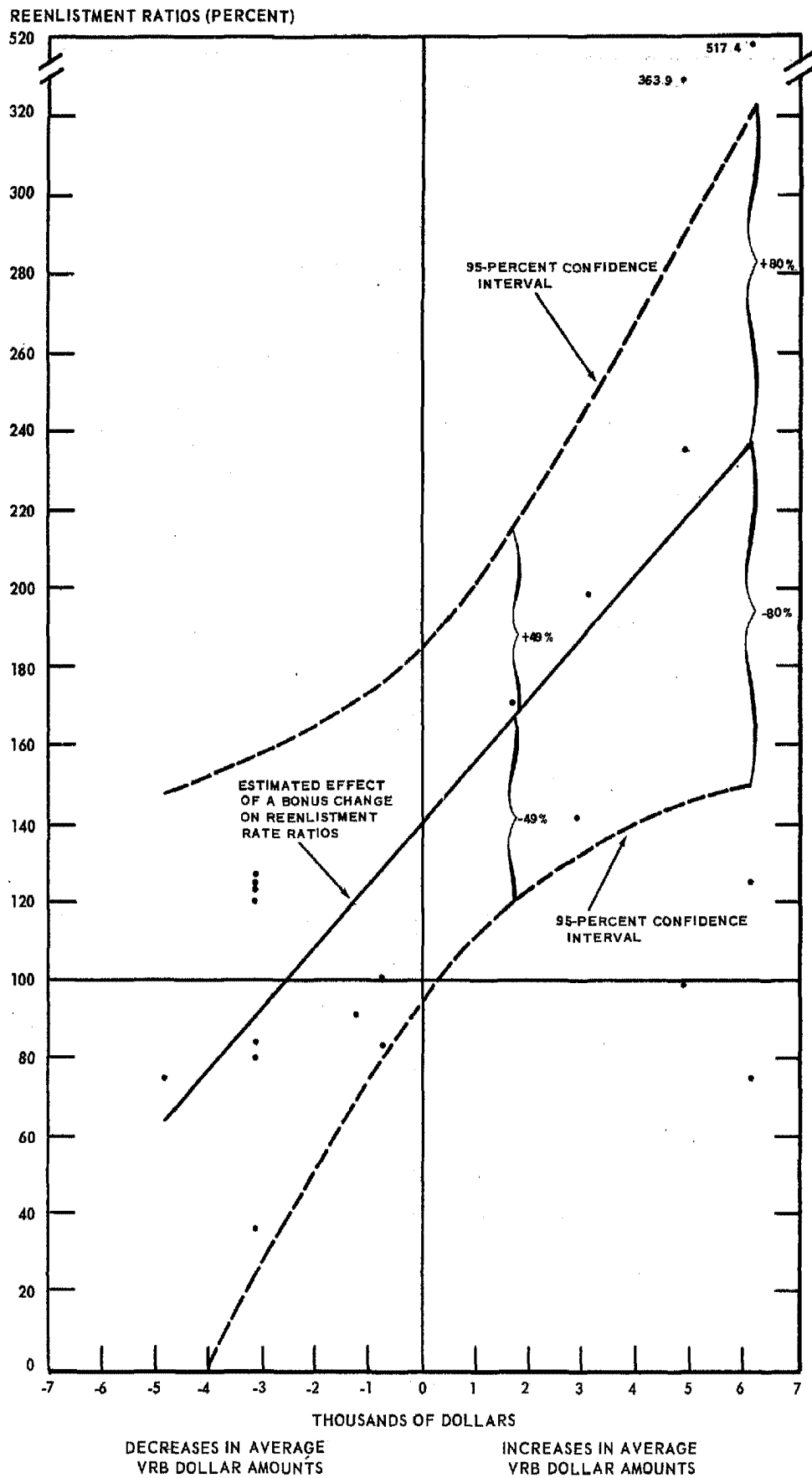
NAVY, AIR FORCE, AND MARINE CORPS
REENLISTMENT RATIOS PLOTTED AGAINST VRB CHANGES

The analysis indicated significant positive correlations between bonus changes and reenlistment rate changes in the Navy and Air Force. The Marine Corps analysis did not show any significant relationships.

AIR FORCE

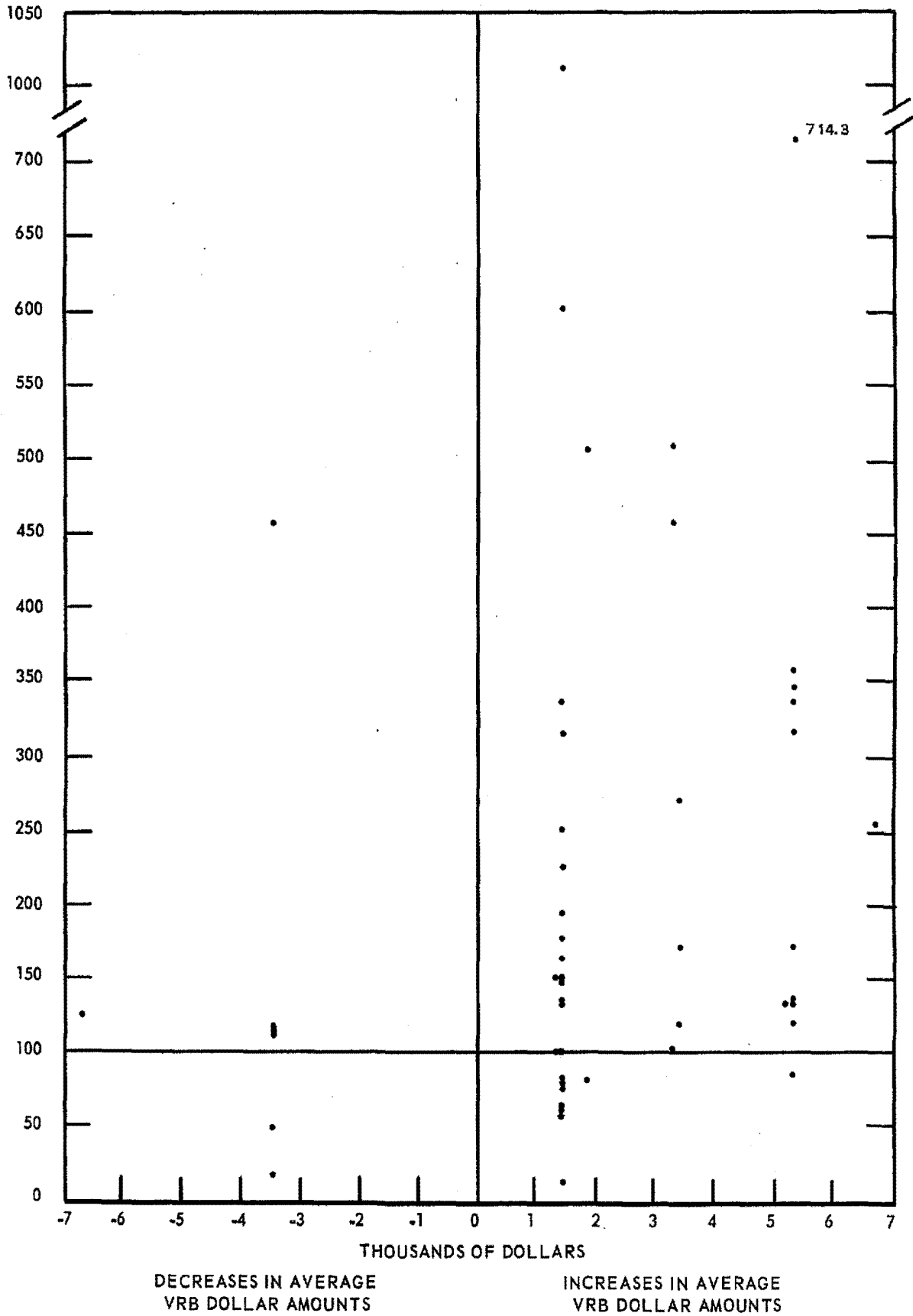


NAVY



MARINE CORPS

REENLISTMENT RATIOS (PERCENT)





ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D. C. 20301

MANPOWER AND
RESERVE AFFAIRS

28 MAR 1974

Mr. Forrest R. Browne
Director, Federal Personnel
and Compensation Division
U.S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Browne:

This is in reply to your letter of January 29, 1974, and provides comments relative to your draft report to the Congress entitled, "Military Retention Incentives: Effectiveness and Administration." (OSD Case #3770)

The Department of Defense considers the draft report to be a thought provoking analysis of the retention incentives program, and is in general agreement with many of the findings and recommendations. The Department concurs in the finding that it is difficult to quantify the effectiveness of the Variable Reenlistment Bonus (VRB) in attracting additional reenlistments particularly on an individual skill basis.

(See GAO note, p. 60.)

(See GAO note, p. 60.)

three other general areas of retention incentive management described in the draft report require comment. These are concerned with development of enlisted personnel management plans, criteria for specifying bonus applications, time necessary for VRB to eliminate a manning deficit and utilization of bonus recipients. Each is discussed below:

Enlisted Personnel Management Plans. Since the data collection phase of the GAO Report, considerable progress has been made by the Services in accomplishing long-range enlisted personnel management plans. Army, Navy and Marine Corps have each submitted interim plans for approval. The following is a brief summary of the development status of the Service efforts:

Army. Total force objectives have been developed for grade structure, procurement, retention, prior service enlistments, promotion, training and general management. The next step in the development process is to determine retention requirements by years of service for each specialty, expanded reenlistment controls and develop cost/benefit data.

Navy. An "ideal" force along the dimensions of rating, pay grade and length of service has been specified through the use of a steady-state force model. These "ideal" specifications are provisional in that they were developed on the basis of assumptions relative to petty officer grade structure and continuance rates. This "ideal" force will lead to the completion of certain optimization models which are aimed at the derivation of the most cost/effective distribution of pay grades and length of service.

Marine Corps. The latest Marine Corps report addresses certain features of the total force such as grade structure, long-range procurement and retention objectives, and a visible career progression system. The Marine Corps has not yet extended their analysis to each occupational field.

Each of the Services has placed priority attention on the completion of their long-range enlisted personnel management plans. It is anticipated that, with the exception of the Marine Corps, approved retention requirements will be available for the development of the fiscal year 1976 retention incentives programs.

Need for Definitive Guidance for Specifying Bonus Applications. DoD has recognized for quite some time that the criteria for specifying bonus applications now being used are not the optimum. However, substantive reworking of these criteria has been materially hampered by the lead time required by the Services to develop and to establish viable enlisted career management systems. In the absence of the more definitive data anticipated from the Services, the criteria encompassing the elements of training investment, career manning levels and retention experience has been established,

published and is being utilized. Refinement of the Army, Navy and Marine Corps enlisted career management efforts to predict reliably skill by skill retention requirements by years of service (See GAO note, p. 60.)

will enhance considerably the ability to publish realistic guidelines for bonus application, adjustment and termination. It must be acknowledged, however, that more definitive guidance and firmer criteria will not elevate bonus management to a precise technique. Each service and each skill within each service is a separate entity. Consequently, no one absolute set of criteria can accurately depict the variety of circumstances under which bonus requirements for all Services and skills can be automatically determined. The role of the decision maker can be largely supplemented but not totally supplanted by the best of criteria, guidelines and systems.

Time Necessary for VRB to Eliminate a Manning Deficit.

(See GAO note, p. 60.)

Improper Assignment of Recipients. The problem of proper utilization of bonus recipients, as well as the more general problem of skill imbalances, is a carry-over from the Vietnam era which continues to plague both the Army and Marine Corps. Admittedly, neither Service is able, at this time, to identify the exact numbers of personnel who have or are receiving retention incentives, and who are not working in the skill for which the incentives were awarded. However, due to increased DoD emphasis on compliance with the stated policy regarding proper employment of bonus recipients, and improved monitoring procedures being implemented by the Services, substantial gains are being made in this area.

(See GAO note, p. 60.)

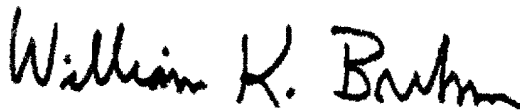
Following is a summary of the more significant actions being taken by the Services:

Army. Intensive enlisted personnel management elements have been recently established at Headquarters, Department of the Army and the U.S. Army Military Personnel Center. Centralized tracking data is being developed which will constitute the basis of a semi-annual by name inquiry of all major commands to ensure maximum utilization of personnel. At present, Department of the Army Management Teams, prior to departure on inspection visits to field installations, are provided with a roster of VRB recipients assigned to those installations. The inspection includes a check to ensure proper utilization. On-the-spot corrective action, as appropriate, is taken when malutilization is encountered. A requirement has been instituted for VRB eligibility to be annotated on individual orders with a follow-on requirement for personnel records review during unit inprocessing. However, despite concerted effort in this area, it must be recognized that some malutilization will remain in the Army because of MOS space imbalance created by the geographical dispersion of units for overseas missions.

Marine Corps. The policies on assignment of bonus recipients were changed during fiscal year 1972. Policies since that time preclude payment of a VRB and the lateral movement of a VRB recipient to another MOS even if the MOS has a higher VRB multiple. Further emphasis is placed on the need to assign a VRB recipient in his primary MOS on a continuing basis as a means to solve the Marine Corps manning problems in critical skills. Exceptions to these assignment policies are made only on a case-by-case basis to fill certain undermanned skills and noncareer billets when the individual concerned possesses the required skills and the needs of the Marine Corps dictate such an assignment.

Each of the military Services and other interested parties have had an opportunity to review the draft report. Their general comments have been included above or in the attachments.

Sincerely,



William K. Brehm

Attachments

GAO note: Certain comments were deleted because they were based on speculation, implied that certain procedures were in existence that were not, and because of changes in the final report making the comment no longer appropriate. Comments and suggested wording changes in the attachments were considered and incorporated in the final report where appropriate.

PRINCIPAL OFFICIALS RESPONSIBLE
FOR THE ADMINISTRATION OF ACTIVITIES DISCUSSED
IN THIS REPORT

	Tenure of office	
	From	To
<u>DEPARTMENT OF DEFENSE</u>		
SECRETARY OF DEFENSE:		
James R. Schlesinger	July 1973	Present
William P. Clements (acting)	May 1973	July 1973
Elliot L. Richardson	Jan. 1973	Apr. 1973
Melvin R. Laird	Jan. 1969	Jan. 1973
DEPUTY SECRETARY OF DEFENSE:		
William P. Clements	Jan. 1973	Present
Kenneth Rush	Feb. 1972	Jan. 1973
ASSISTANT SECRETARY OF DEFENSE (MANPOWER AND RESERVE AFFAIRS):		
William K. Brehm	Sept. 1973	Present
Carl W. Clewlow (acting)	June 1973	Aug. 1973
Roger T. Kelley	Mar. 1969	May 1973
<u>DEPARTMENT OF THE ARMY</u>		
SECRETARY OF THE ARMY:		
Howard H. Callaway	May 1973	Present
Robert F. Froehlke	July 1971	May 1973
ASSISTANT SECRETARY OF THE ARMY (MANPOWER AND RESERVE AFFAIRS):		
Paul D. Phillips	Feb. 1974	Present
Carl S. Wallace	Mar. 1973	Jan. 1974
Hadlai A. Hull	May 1971	Mar. 1973
CHIEF OF STAFF:		
Gen. Creighton W. Abrams	Oct. 1972	Present
Gen. Bruce Palmer, Jr. (act- ing)	June 1972	Oct. 1972

APPENDIX VI

Tenure of officeFrom ToDEPARTMENT OF THE NAVY

SECRETARY OF THE NAVY:

J. William Middendorf II (acting)	Apr. 1974	Present
John W. Warner	May 1972	Apr. 1974
John H. Chafee	Jan. 1969	May 1972

ASSISTANT SECRETARY OF THE NAVY
(MANPOWER AND RESERVE AFFAIRS):

Joseph T. McCullen, Jr.	Sept. 1973	Present
James E. Johnson	June 1971	Sept. 1973

CHIEF OF NAVAL OPERATIONS:

Adm. Elmo R. Zumwalt, Jr.	July 1970	Present
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COMMANDANT OF THE MARINE CORPS:

Gen. Robert E. Cushman, Jr.	Jan. 1972	Present
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DEPARTMENT OF THE AIR FORCE

SECRETARY OF THE AIR FORCE:

John L. McLucas	July 1973	Present
John L. McLucas (acting)	May 1973	July 1973
Robert C. Seamans, Jr.	Feb. 1969	May 1973

ASSISTANT SECRETARY OF THE AIR
FORCE (MANPOWER AND RESERVE
AFFAIRS):

James P. Goode (acting)	June 1973	Present
Richard J. Borda	Oct. 1970	June 1973

CHIEF OF STAFF:

Gen. George S. Brown	Aug. 1973	Present
Gen. John D. Ryan	Aug. 1969	July 1973

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