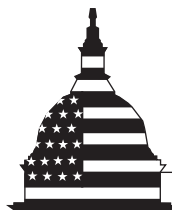


June 2011

MILITARY CASH INCENTIVES

DOD Should Coordinate and Monitor Its Efforts to Achieve Cost- Effective Bonuses and Special Pays



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Why GAO Did This Study

The Senate report to accompany the 2011 Defense authorization bill directed GAO to assess the Department of Defense's (DOD) use of cash incentives to recruit and retain highly qualified individuals for service in the armed forces. This report (1) identifies recent trends in DOD's use of enlistment and reenlistment bonuses, (2) assesses the extent to which the services have processes to determine which occupational specialties require bonuses and whether bonus amounts are optimally set, and (3) determines how much flexibility DOD has in managing selected special and incentive pays for officer and enlisted personnel. GAO analyzed service data on bonuses and special and incentive pays, reviewed relevant guidance and other documentation from DOD and the services, interviewed DOD and service officials, and observed two working groups that were determining bonus amounts.

What GAO Recommends

GAO recommends that DOD (1) coordinate with the services to facilitate discussions on conducting research, as appropriate, to determine optimal bonus amounts and (2) monitor the implementation of its consolidation of special and incentive pays to determine whether it is resulting in greater flexibility and what impact the consolidation is having on DOD's budget. In commenting on a draft of this report, DOD concurred with both recommendations.

MILITARY CASH INCENTIVES

DOD Should Coordinate and Monitor Its Efforts to Achieve Cost-Effective Bonuses and Special Pays

What GAO Found

DOD engaged in enlistment and reenlistment contracts for bonuses to servicemembers that totaled \$1.2 billion in fiscal year 2010, down 58 percent from fiscal year 2008. Contracted amounts peaked in the Army and the Navy in fiscal year 2008 and declined thereafter; amounts peaked for the Marine Corps and the Air Force in fiscal year 2009 and then declined. From fiscal years 2006 through 2010, the services contracted a total of \$11 billion for bonuses, with the Army accounting for 52 percent, the Navy, 24 percent, the Marine Corps, 16 percent, and the Air Force, 9 percent. About \$4.5 billion of the \$11 billion was contracted for enlistment bonuses and \$6.6 billion for reenlistment bonuses. With the exception of the Army, the amounts the services contracted were higher for reenlistment than enlistment bonuses during this time period. For example, the Army's average enlistment bonus was higher than that of the other services in fiscal years 2006 through 2008, while the Navy's was highest in fiscal years 2009 and 2010. On the other hand, the Army's average reenlistment bonus was smaller than those of the other services during this period.

The services have processes that include the analysis of data on how difficult it is to recruit and retain particular occupations and use these processes to adjust bonuses, but they do not know whether they are paying more than they need to for these purposes. DOD guidance allows the departments to offer a bonus to any occupation that they have difficulty recruiting or retaining, thereby allowing them to adjust their policies to changing market conditions. However, though much research has been conducted on bonuses' effects on enlistment and retention, DOD does not know whether the bonus amounts the services offer are optimal. Efforts to develop ways to assess the cost-effectiveness of bonuses have been made by some research organizations and have generated interest at the individual service level, but there has been no coordinated DOD-wide work to facilitate information-sharing among the services on this issue. Without such information-sharing, the services may not be able to fully take advantage of existing and emerging methodologies for assessing whether they are getting the best return on their bonus investments.

DOD has begun to increase its flexibility in managing special and incentive pays while consolidating them into eight categories. GAO reviewed 15 of DOD's more than 60 special and incentive pays and found that during fiscal years 2006 through 2010, it spent \$13.6 billion on those pays and that for about 30 percent of that amount, DOD was unable to adjust numbers of recipients or amounts based on market conditions because they had not yet been consolidated and were established in legislation. DOD's consolidation of special and incentive pays will allow the services more flexibility in managing them. However, at present, DOD has not established metrics that will enable it to determine whether this consolidation is resulting in greater flexibility as it transitions to the new categories by fiscal year 2014. As a result, DOD may not be positioned to measure future progress in meeting the intended goal of the consolidation, which is to give the services more flexibility.

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Abbreviations

AFQT	Armed Forces Qualification Test
AAF	Army Advantage Fund
ACIP	Aviation Career Incentive Pay
ACP	Aviation Continuation Pay
DOD	Department of Defense
OSD	Office of the Secretary of Defense
SRB	Selective Reenlistment Bonus

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United States Government Accountability Office
Washington, DC 20548

June 21, 2011

Congressional Committees

The Department of Defense (DOD) spent about \$5.6 billion in fiscal year 2010 on special and incentive pays and bonuses for active-duty servicemembers.¹ Of that amount, about \$1.2 billion was contracted for enlistment and reenlistment bonuses. DOD uses these incentives and bonuses as tools in its compensation system to help ensure that military pay is sufficient to field a high-quality, all-volunteer force, including those in hard-to-fill or critical specialties. Special pays and bonuses comprise about 5 percent of DOD's budget for cash compensation and less than 1 percent of its overall budget. In addition to cash compensation, which includes bonuses and basic pay, the department provides active-duty personnel with a comprehensive compensation package that includes noncash benefits, such as health care, and deferred compensation, such as retirement pensions.²

In 2005, we recommended that DOD assess its compensation system's effectiveness, including an analysis of the reasonableness and appropriateness of its allocation of cash and benefits.³ DOD agreed with our recommendation, stating that it was already engaged in multiple efforts to assess its compensation strategy. Subsequently, the Senate report to accompany a bill for the National Defense Authorization Act for Fiscal Year 2011 (S. 3454)⁴ directed GAO to assess DOD's and the services' use of cash incentives to recruit and retain highly qualified individuals for service in the armed forces to fill hard-to-fill or critical wartime specialties and review the extent to which the services have an effective process for designating an occupation as critical or hard-to-fill. Effective management

¹ DOD has over 60 special and incentive pays across the services that provide compensation for skill sets, such as foreign language proficiency, as well as occupations, such as aviation and medical professions. In addition, DOD also offers bonuses specifically for recruitment and retention.

² For more information on servicemembers' compensation, see GAO, *Military Personnel: Military and Civilian Pay Comparisons Present Challenges and Are One of Many Tools in Assessing Compensation*, [GAO-10-561R](#) (Washington, D.C.: Apr. 1, 2010).

³ GAO, *Military Personnel: DOD Needs to Improve the Transparency and Reassess the Reasonableness, Appropriateness, Affordability, and Sustainability of Its Military Compensation System*, [GAO-05-798](#) (Washington, D.C.: July 19, 2005).

⁴ S. Rep. No. 111-201, at 145 (2010).

of cash incentives is particularly important, given the current budgetary environment and the Secretary of Defense's initiatives to instill a culture of savings and cost accountability across DOD.⁵ Moreover, the Secretary of Defense has acknowledged and expressed concern about growing personnel costs crowding out DOD's ability to spend on its other needs. Accordingly, this report (1) identifies recent trends in the services' use of enlistment and reenlistment bonuses, (2) assesses the extent to which the services have processes that enable them to determine which occupational specialties should be offered bonuses and whether bonus amounts are optimally set, and (3) determines how much flexibility DOD has in managing selected special and incentive pays for officer and enlisted personnel.

To determine the recent trends in the use of enlistment and reenlistment bonuses, we analyzed service data on contracted enlistment and reenlistment bonuses for fiscal years 2006 through 2010. To evaluate the extent to which the services have processes to designate occupations that should be offered bonuses and whether bonus amounts are optimally set, we reviewed DOD and service regulations pertaining to their processes for designating bonus-eligible occupations. We also interviewed relevant DOD and service officials with responsibilities for designating occupations as bonus eligible and obtained information on analytical tools such as statistical models used by the services to identify bonus-eligible occupations. To determine how much flexibility DOD has in managing selected special and incentive pays, we analyzed data on 15 special and incentive pays across the services for fiscal years 2006 through 2010, which represented the top five expenditures for special and incentive pays each year for each service. We focused on pays that were available to most servicemembers. For this reason, we excluded medical pays. We conducted this performance audit from September 2010 through June 2011 in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our research objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. (See app. I for further details on our scope and methodology.)

⁵ The Secretary of Defense Memorandum, *Track Four Efficiency Initiative Decisions* (Mar. 14, 2011) emphasizes areas of efficiency that reduce duplication, overhead, and excess.

Background

DOD is one of the nation's largest employers, with more than 1.4 million active-duty personnel (as of March 2011). To fulfill its mission of maintaining national security, DOD must meet its human capital needs by recruiting, retaining, and motivating a large number of qualified individuals, though the requirement for new recruits has declined in the last couple of years (see table 1 for the numbers of accessions and reenlistments from fiscal years 2006 through 2010). The Office of the Secretary of Defense for Personnel and Readiness is principally responsible for establishing active-duty compensation policy.

In 1962, the Gorham Commission adopted the term "regular military compensation" to be used to compare military and civilian-sector pay. Regular military compensation is defined as the sum of basic pay, allowances for housing and subsistence, and federal tax advantage. In addition to regular military compensation, DOD also uses over 60 authorized special and incentive pays, including various enlistment and selective reenlistment bonuses, to offer incentives to undertake or continue service in a particular specialty or type of duty assignment. According to DOD, special pays are used to selectively address specific force management needs, such as staffing shortfalls in particular occupational areas, hazardous or otherwise less desirable duty assignments, and attainment and retention of valuable skills. In addition, in certain occupational categories, such as technical and professional fields, special pays are used to help ensure pay comparability with civilian sector salaries. OSD believes that these pays offer flexibility to the compensation system not otherwise available through the basic pay table.⁶

⁶ Office of the Under Secretary of Defense, Department of Defense, *Report of the Tenth Quadrennial Review of Military Compensation, Volume I: Cash Compensation* (Washington, D.C.: February 2008).

Table 1: Number of Accessions and Reenlistments by Service for Fiscal Years 2006-2010

Accessions					
Fiscal Year	Army	Navy	Marine Corps	Air Force	Total
2006	80,635	36,679	32,337	30,889	180,540
2007	80,407	37,361	35,603	27,800	181,171
2008	80,517	38,485	37,991	27,848	184,841
2009	70,044	35,519	31,407	31,983	168,953
2010	74,577	34,180	28,040	28,637	165,434
Reenlistments					
Fiscal Year	Army	Navy	Marine Corps	Air Force	Total
2006	67,307	25,970	13,255	36,235	142,767
2007	69,777	25,539	17,695	35,073	148,084
2008	73,913	26,510	16,696	20,650	137,769
2009	68,387	30,895	16,001	35,598	150,881
2010	68,105	35,525	14,265	35,501	153,396

Source: DOD.

To provide guidance to the services on managing their enlistment and reenlistment bonus programs, the Office of the Secretary of Defense (OSD) issued DOD Directive 1304.21.⁷ Under this directive, the Principal Deputy Under Secretary of Defense for Personnel and Readiness is assigned responsibilities including monitoring certain bonus programs carried out by the services. Specifically, the Principal Deputy Under Secretary of Defense for Personnel and Readiness is responsible for establishing (1) criteria for designating military specialties that qualify for these bonuses, (2) criteria for individual members' eligibility for these bonuses, and (3) reporting and data requirements for the periodic review and evaluation of these bonus programs. The Principal Deputy Under Secretary of Defense for Personnel and Readiness is also responsible for recommending to the Secretary of Defense measures required to attain the most efficient use of resources devoted to these programs.

As required by 37 U.S.C. § 1008, at least once every 4 years, the President directs a review of the principles and concepts of the military compensation system. These regular studies are called the Quadrennial

⁷ DOD Directive 1304.21, *Policy on Enlistment Bonuses, Accession Bonuses for New Officers in Critical Skills, Selective Reenlistment Bonuses, and Critical Skills Retention Bonuses for Active Members* (Jan. 31, 2005).

Reviews of Military Compensation and typically focus on issues such as achieving flexibility and promoting fairness in compensation. The most recent Quadrennial Review was completed in 2008 and offered a number of recommendations, including simplifying the structure of special and incentive pays.

We have completed a body of work on military compensation and enlistment and reenlistment bonuses. For example, in April 2010, we reported on the comparison of military to civilian pay.⁸ In a 2009 report, we evaluated the Army's use of bonuses and determined that the Army did not know whether it was paying more than it needed to pay to get a cost-effective return on investment.⁹ In that report, we recommended that the Army build on available analyses to set cost-effective enlistment and reenlistment bonuses in order to avoid making excessive payments. As a result of our report, the Army significantly reduced its enlistment and reenlistment bonus program; however, the reductions were not based on specific analysis that determined the cost-effective bonus amount.

DOD's Contracted Bonus Amounts Were 58 Percent Less in 2010 than in 2008, Its Peak Year

DOD contracted \$1.2 billion in fiscal year 2010 for enlistment and reenlistment bonuses, an amount that was 58 percent less than the \$2.8 billion contracted in fiscal year 2008, its peak year.¹⁰ For the services, total contracted bonus amounts peaked in fiscal years 2008 or 2009 and then decreased. (See fig. 1.) Specifically, for fiscal years 2006 through 2009, total contracted amounts for bonuses rose for the Air Force and the Marine Corps and declined thereafter by 16 percent and 64 percent, respectively. For the Army and the Navy, contracted amounts increased through fiscal year 2008 and then declined by 78 percent and 40 percent, respectively. Though the Air Force contracted the least of all the services for bonuses from fiscal years 2006 to 2009, the total contracted amount

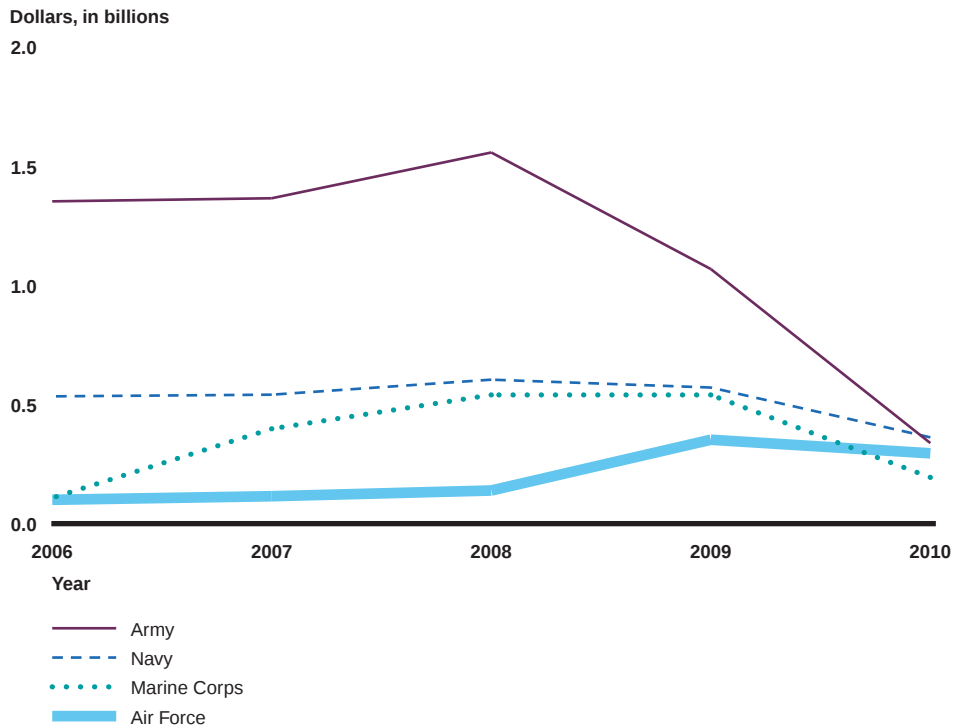
⁸ GAO, *Military Personnel: Military and Civilian Pay Comparisons Present Challenges and Are One of Many Tools in Assessing Compensation*, [GAO-10-561R](#) (Washington, D.C.: Apr. 1, 2010).

⁹ GAO, *Military Personnel: Army Needs to Focus on Cost-Effective Use of Financial Incentives and Quality Standards in Managing Growth*, [GAO-09-256](#) (Washington, D.C.: May 4, 2009).

¹⁰ These figures reflect the total amounts of contracts signed by enlistees or reenlistees. Persons who reenlist may receive their bonuses shortly after signing their contracts, but new enlistees must complete training in the assigned occupation or meet other qualifications listed in the contract before they receive their bonuses. As such, the "contracted amounts" may not reflect actual amounts paid in that fiscal year.

increased by 254 percent during that period, from \$100 million to \$352 million. The Air Force attributes this increase, in part, to the reenlistment bonus program being underfunded in fiscal year 2006. In addition, the Air Force believes that the increase was necessary to ensure that its hard-to-fill occupational specialties, such as battlefield airmen, were filled and to accommodate the high operations tempo necessary for the war in Iraq and Afghanistan. During the same time, the Marine Corps increased the amounts contracted by 398 percent, from \$108 million to \$540 million. The Marine Corps attributes this increase to the 2007 presidential Grow-the-Force initiative, which required the Marine Corps to increase its number of active-duty personnel by 27,000. The Army also increased as part of the Grow-the-Force initiative; its total contracted amounts increased by 15 percent from fiscal years 2006 to 2008. When growing the force, the Army stated that it was not targeting bonuses to hard-to-fill or critical specialties but rather was focused on meeting its overall recruiting mission. As a result, once the Army met 99 percent of its growth in fiscal year 2008, it began to pay fewer bonuses and target them to personnel with specific critical skill sets, such as divers and satellite communication systems operators/maintainers. Between fiscal years 2006 to 2008, the Navy increased its total bonus funds by 13 percent. Navy officials attribute this increase, in part, to the low unemployment rates for years 2007 and 2008 and the need to provide incentives to retain sailors with more options for postmilitary employment.

Figure 1: Trends in Bonuses Contracted by Service, Fiscal Years 2006 through 2010, in Constant Fiscal Year 2010 Dollars

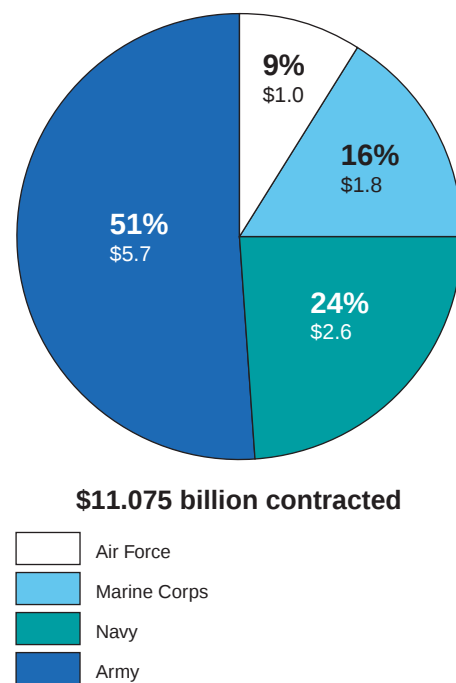


Source: GAO analysis of service data.

From fiscal years 2006 through 2010, DOD contracted \$11 billion for enlistment and reenlistment bonuses (in constant fiscal year 2010 dollars). Of this total, the Army accounted for approximately half, and the Air Force for the least amount, at 9 percent (see fig. 2). During this time, DOD reported that the active components of all four services met or exceeded their numeric goals for enlisted accessions and, with the exception of the Army in fiscal years 2006 through 2008, the active components of the

services also met their benchmarks for recruit quality.¹¹ For retention, the services generally met their goals but not in all years.¹²

Figure 2: Percentage of \$11 Billion Contracted for Enlistment and Selective Reenlistment Bonuses by Each Military Service, Fiscal Years 2006 through 2010



Source: GAO analysis of service data.

With the exception of the Army, the services contracted more on their reenlistment bonus programs than on their enlistment bonus programs. Of the \$11 billion in contracted bonuses by all the services, \$4.5 billion, or 40 percent, was for enlistment bonuses, and \$6.6 billion, or 60 percent, was for reenlistment bonuses. Army officials said they were paying high

¹¹ Historically, DOD has used two primary measures to identify quality recruits: possession of a high-school diploma and a score in the upper half on the Armed Forces Qualification Test (AFQT). DOD's goals for the services are that at least 90 percent of recruits each year have a high-school diploma, at least 60 percent score in the upper half on the AFQT, and no more than 4 percent score in the bottom 30 percent on the AFQT.

¹² The Navy met 96 percent of its goal in fiscal year 2006. The Air Force met 97 percent of its goal in fiscal year 2007, 72 percent in fiscal year 2008, and 98 percent in fiscal year 2010. The Marine Corps met 95 percent of its goal in fiscal year 2008.

enlistment bonuses to achieve very high accession rates beginning in 2005 because of the negative publicity surrounding the wars in Iraq and Afghanistan, coupled with a strong economy and high employment rates from 2005 to 2008. In addition, the Army was to increase its end strength, consistent with the “Grow-the-Force” plan, from approximately 480,000 to approximately 547,000. To meet this goal, the Army also had to retain greater numbers of personnel.

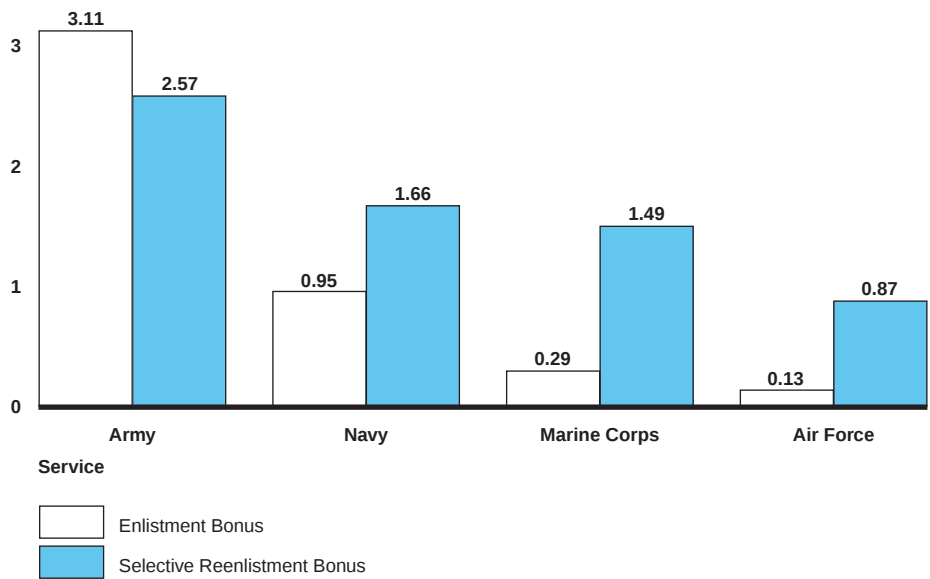
Unlike the Army, the Navy, Air Force, and Marine Corps contracted a greater portion of their overall bonus amounts on reenlistment, rather than enlistment, bonuses (see fig. 3). According to the Navy, more is spent on reenlistment bonuses because the cost to replace trained sailors is significant due to long training programs, high attrition rates, and a high demand for the occupations they are trained for in the civilian sector such as those trained in nuclear occupations. Similarly, the Air Force attributed its greater spending on reenlistment bonuses to the competition with the private sector for trained and experienced airmen. The Air Force also stated that the eligible population for reenlistment bonuses is much larger than for enlistment bonuses and the Air Force has a training investment in these experienced servicemembers. According to the Marine Corps, its focus has also been on retaining proven combat leaders, and it has therefore been targeting the majority of its discretionary funding¹³ on retention rather than accessions. In addition, the Marine Corps stated that the Marine Corps “sells itself” to potential applicants and therefore needs to offer enlistment bonuses only for certain hard-to-fill occupations.

¹³ Sections 308 and 309 of Title 37 of the U.S. Code provide that enlistment or reenlistment bonuses may be paid to eligible individuals. These enlistment bonuses and reenlistment bonuses are discretionary pays in that they are not required by law to be paid to every eligible individual.

Figure 3: Total Amounts Contracted by Each Service for Enlistment and Reenlistment Bonuses, Fiscal Years 2006 through 2010, in Constant Fiscal Year 2010 Dollars

Dollars, in billions

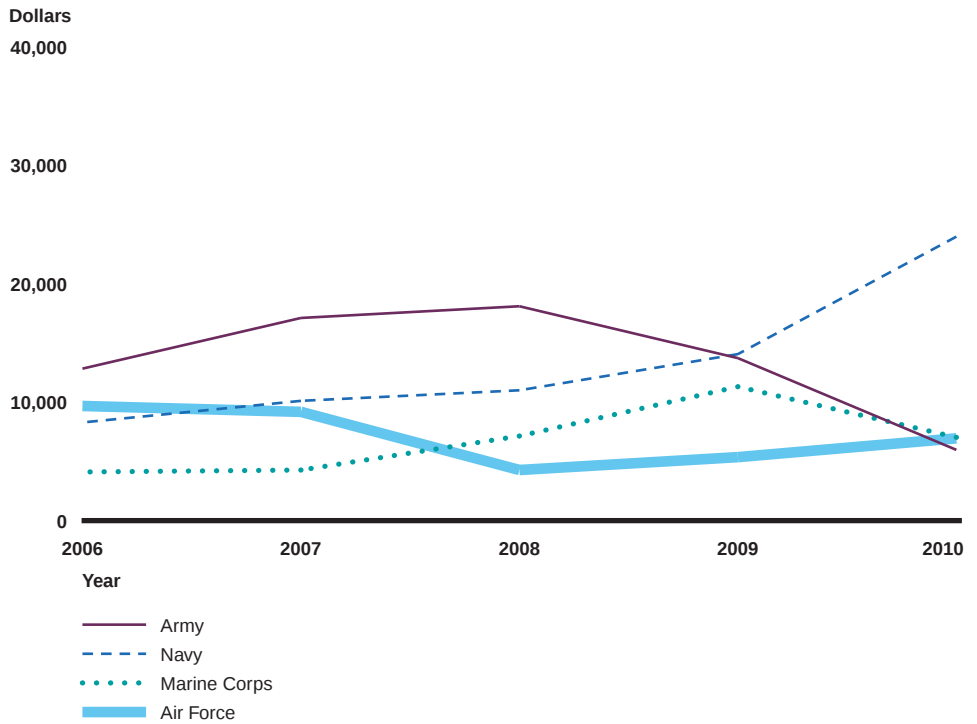
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Source: GAO analysis of service data.

The services also varied in the average amounts of bonuses. From fiscal years 2006 through 2008, the Army's average per-person enlistment bonuses were higher than those of the other services (see fig. 4). For example, in fiscal year 2008, the Army's average enlistment bonus was \$18,085, while the Air Force's was only \$4,271. However, in fiscal years 2009 and 2010, the Navy's average per-person enlistment bonus amounts were higher than those of all the other services. For example, in fiscal year 2010, the Navy's average enlistment bonus was \$23,957, while the Army's was \$5,969. Navy officials stated that, during this period, it began to give bonuses to fewer personnel, but those personnel were given higher bonuses, thus driving the average up.

Figure 4: Average Amounts of Enlistment Bonuses, Fiscal Years 2006 through 2010, in Constant Fiscal Year 2010 Dollars

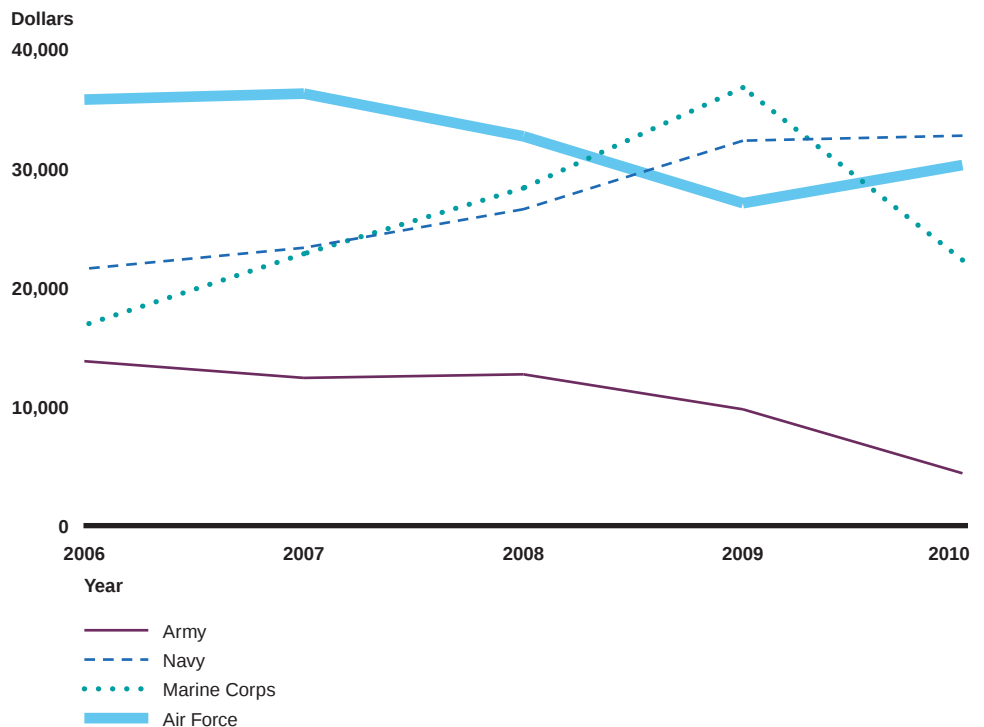


Source: GAO analysis of service data.

With respect to reenlistment bonuses, the Air Force's average per-person bonus amount was higher than those of the other services from fiscal years 2006 through 2008. The Army's average per-person bonus amount was smaller than those of the other services from fiscal years 2006 through 2010, ranging from \$13,796 to \$4,392 (see fig. 5). In contrast, for fiscal years 2006 through 2008, the Air Force's average per-person reenlistment bonus amounts were higher than the other services', ranging from \$32,667 to \$36,247. The Marine Corps' average was highest of all the services' in fiscal year 2009, at \$36,753; and the Navy's average was highest in fiscal year 2010, at \$32,719. According to Navy officials, the Navy needs to retain highly skilled sailors who have undergone extensive training for skills that are marketable in private industry and require arduous missions. For example, officials commented that the SEALs are the first in line when infiltrating military targets in dangerous environments, and their skills have been sought by private contractors; as a result, their bonuses tend to be higher. Navy officials also said that the length and cost of training

nuclear personnel makes the opportunity cost for retraining a new sailor greater than the bonus.

Figure 5: Average Amounts of Selective Reenlistment Bonuses, Fiscal Years 2006 through 2010, in Constant Fiscal Year 2010 Dollars



Source: GAO analysis of service data.

The Services Have Processes for Identifying Occupations That Are Hard to Fill but Not for Identifying the Most Cost-Effective Bonus Amounts

The services have processes in place that include the analysis of data on how difficult it is to retain and recruit particular occupations and the subjective judgment of personnel who are involved in managing these occupations. DOD guidance allows the military departments the flexibility to offer a bonus to any occupation that meets certain criteria, such as being hard to fill or retain, and they may adjust bonuses as market conditions change. However, although much research has been conducted on bonuses' effects on enlistment and retention, DOD does not know whether the services have been paying more than necessary to meet their recruiting and retention goals. Identifying optimal bonus amounts is challenging because such studies must control for the numerous, changing factors that affect individuals' recruiting and retention decisions, such as

the unemployment rate, the deployment rate resulting from overseas operations, and the changing public perceptions of the war.

The Services Have Processes for Determining Bonus-Eligible Occupations

The services' processes for determining which occupations should be offered enlistment or reenlistment bonuses include the use of models.¹⁴ While the services use different models, they generally incorporate factors such as data on occupations that have historically received bonuses, attrition and retention rates for these occupations, and the current population for each occupation. Models for determining eligibility for enlistment bonuses include data on occupational fill rates and available training slots for particular occupations. Models for determining reenlistment bonuses include data on the retention rates of and projected future shortages in particular occupations.

In addition to using models, the services seek stakeholder input on their bonus program plans. Stakeholders include personnel managers who have experience with the occupations being discussed and can contribute information that cannot be provided by the models, such as whether servicemembers in a particular occupation are experiencing unusual difficulties. Stakeholder input is provided differently across the services but is consistently used to make adjustments to data provided by the models. For example, the Army and the Navy consider stakeholder input through formal meetings. Specifically, the Army formally holds Enlisted Incentives Review Boards each quarter that include personnel from the Army Recruiting Command and the Army Human Resources Command. During these board meetings, stakeholders discuss which occupations should receive a bonus, whether these bonuses are appropriately set, and come to a consensus on how much each bonus should be during the next quarter. The Navy, in addition to a monthly review of the bonus program, formally convenes a working group three to four times per year for reenlistment bonuses where personnel managers responsible for monitoring and managing the retention health of occupations present

¹⁴ We did not independently assess the validity of the models used by the services. In July 2010, we reported on the services' processes, including their models, for determining requirements for medical personnel to staff military treatment facilities. We stated that the services' processes were not, in all cases, validated and verifiable, as DOD policy requires. We recommended that the services take actions to improve their medical requirements determination processes. DOD generally concurred with our recommendations and cited actions it planned to take in response. See GAO, *Military Personnel: Enhanced Collaboration and Process Improvements Needed for Determining Military Treatment Facility Medical Personnel Requirements*, [GAO-10-696](#) (Washington, D.C.: July 29, 2010).

opinions and analysis as to whether the recommendations for bonus amounts are set appropriately or need adjustments. In contrast, the Marine Corps and Air Force utilize a less formal approach to stakeholder input. For example, to obtain input on their projected enlistment bonus award plans, Marine Corps and Air Force bonus program managers seek input from their recruiting and human resources personnel, who provide their perspectives on projected future shortages. As part of the process, all services stressed that regardless of whether bonus levels are produced by models or stakeholder input, in the end, bonus amounts must be adjusted to fit into the services' fiscal budgets.

OSD guidance allows the military departments flexibility to offer bonuses to occupations that they are having difficulty filling. OSD guidance to the services on administering their bonus programs states that the intent of bonuses is to influence personnel inventories in situations in which less costly methods have proven inadequate or impractical.¹⁵ The guidance also states that the military skills selected for the award of bonuses must be essential to the accomplishment of defense missions. Additionally, the guidance sets forth some general criteria to use when identifying bonus-eligible occupations. For enlistment bonuses, the Secretaries of the military departments are to consider, among other things, the attainment of total accession objectives, priority of the skill, year group and pay grade shortages, and length and cost of training. For reenlistment bonuses, the Secretaries of the military department concerned are to consider, among other things, critical personnel shortages, retention in relation to objectives, high training cost, and arduousness or unattractiveness of the occupation. These general criteria provided by OSD allow each Secretary of a military department to determine what occupations should be considered essential and therefore eligible for bonuses. Because the criteria OSD lists in its guidance are broadly defined and because the Secretaries of the military departments are purposely given the flexibility to adjust which occupations they believe need to be offered bonuses as conditions change, the departments are given the authority to award bonuses to any occupation under certain conditions. That is, all service occupations could be considered essential to the accomplishment of

¹⁵ Department of Defense Directive 1304.21, *Policy on Enlistment Bonuses, Accession Bonuses for New Officers in Critical Skills, Selective Reenlistment Bonuses, and Critical Skills Retention Bonuses for Active Members* (Jan. 31, 2005) and Department of Defense Instruction 1304.29, *Administration of Enlistment Bonuses, Accession Bonuses for New Officers in Critical Skills, Selective Reenlistment Bonuses, and Critical Skills Retention Bonuses for Active Members* (Dec. 15, 2004).

defense missions if the department is experiencing difficulty filling them. Service officials told us that this flexibility allows the departments to adjust bonuses quickly as market conditions change. An Army official explained that, for example, in some cases an occupation such as cook may need a bonus because personnel do not want to be assigned to it.

The Services Monitor the Performance of Their Bonus Programs but Lack Information on the Most Cost-Effective Bonus Amounts

All services regularly monitor the performance of their enlistment and reenlistment bonus programs. With respect to measuring the performance of their enlistment bonus programs, all services said that they continuously monitor their progress in meeting recruiting goals. For example, Army officials told us that they use the quarterly recruiting numbers within each occupational specialty as indicators of the effectiveness of the Army's enlistment bonus program. If they notice that an occupation is lagging behind or that recruiters have been particularly successful in meeting goals for an occupation, the quarterly Enlisted Incentives Review Board provides an opportunity for the Army to move that occupation to a level associated with a higher or lower bonus amount.¹⁶ The Army then continues to monitor its recruiting numbers to gauge whether this change has worked. With respect to measuring the performance of the retention bonus programs, all services monitor their progress in meeting their retention goals. For example, Navy officials said they review the percentage of reenlistment goals achieved for each occupational specialty and use that information to increase or decrease bonus amounts.

With both enlistment and reenlistment bonuses, the services take a certain amount of risk when changing bonus amounts, but officials told us that continuous monitoring of the recruiting and retention data allows them to make necessary adjustments. Moreover, officials also told us that they are not willing to take too much of a risk with some critical occupations. For example, Navy officials said that, given the length and cost of training nuclear personnel, the high qualifications that these personnel must have,

¹⁶ When making enlistment bonus decisions, the Army places occupations into specific categories, or levels. Currently, the Army has five levels that qualify for an incentive. Enlistees entering occupations in levels 1 through 4 receive a cash bonus of varying amounts, depending on length of enlistment. Enlistees entering level 5 occupations are eligible for educational loan repayment but not a cash bonus. The dollar amounts associated with each level are adjusted periodically, but Army officials interviewed said that these adjustments are not made frequently. Participants in the quarterly Enlisted Incentives Review Boards do not offer input into specific bonus amounts; they instead focus on assigning occupational specialties to one of these levels.

and the high marketability of their skills in the private sector, the Navy sees bonuses for these occupations as essential. The services have been relying on the analyses of recruiting and retention data to determine whether their bonus programs have produced intended results, but these data alone are not sufficient to help ensure that bonus levels are set at the most cost-effective amounts. Just as for any government program, resources available for bonuses are finite, and increasing bonuses for some groups or occupations must come at the expense of incentives for other groups or occupations. Service officials agreed that their existing approach of monitoring the performance of bonus programs by looking at recruiting and retention data does not tell them what specific bonus amounts are most cost-effective and whether their goals could be achieved with a smaller bonus amount or a different, and possibly less costly, combination of incentives.

OSD guidance indicates that officials must exercise bonus authorities in a cost-effective manner. According to DOD Directive 1304.21 and DOD Instruction 1304.29,¹⁷ bonuses are intended for specific situations in which less costly methods have proven inadequate or impractical. DOD Directive 1304.21 also states that it is wasteful to use financial incentives when less costly but equally effective actions are available. Further, in its 2006 report, the Defense Advisory Committee on Military Compensation set forth principles for guiding the military compensation system, one of which called on the military compensation system to meet force management objectives in the least costly manner.¹⁸

There is an extensive body of research on bonus effectiveness, but much of it does not assess the cost-effectiveness of specific bonus amounts. Over the years, the services and other organizations have conducted extensive research on the use of cash incentives, some of it dating back to the 1960s and 1970s. This research has generally shown that bonuses have a positive effect on the recruitment and retention of military personnel, even after controlling for a variety of demographic, economic, and other

¹⁷ DOD Directive 1304.21, *Policy on Enlistment Bonuses, Accession Bonuses for New Officers in Critical Skills, Selective Reenlistment Bonuses, and Critical Skills Retention Bonuses for Active Members* (Jan. 31, 2005). Department of Defense Instruction 1304.29, *Administration of Enlistment Bonuses, Accession Bonuses for New Officers in Critical Skills, Selective Reenlistment Bonuses, and Critical Skills Retention Bonuses for Active Members* (Dec. 15, 2004).

¹⁸ *The Military Compensation System: Completing the Transition to an All-Volunteer Force* (Arlington, Va: Apr. 28, 2006).

factors. Additionally, a study issued by RAND in 1986 specifically considered the cost-effectiveness of bonuses. RAND analyzed the results of a nationwide experiment to assess the effects of varying enlistment bonus amounts, showing that cash bonuses were extremely effective at channeling high-quality individuals into the traditionally hard-to-fill occupations. Furthermore, RAND found that increased bonuses had the effect of both bringing more people into the service and lengthening the terms of their commitment.¹⁹ However, according to DOD and the researchers interviewed, there is no recent work focused on the cost-effectiveness of specific bonus amounts.²⁰

We cited some of this research in a 1988 report on the advantages and disadvantages of a draft versus an all-volunteer force²¹ and, more recently, in a 2009 report on the Army's use of incentives to increase its end strength.²² In the 2009 report, which focused on the Army, we determined that the Army did not know whether it was paying more than it needed to pay to get a cost-effective return on investment, and we recommended that the Army build on available analyses to set cost-effective enlistment and reenlistment bonuses in order to avoid making excessive payments. DOD concurred with our recommendation and commissioned RAND to conduct a study to implement it. The study, released in June 2010, found that bonuses were an important and flexible tool in meeting recruiting and retention objectives, particularly for the Army, but did not assess whether

¹⁹ RAND, *The Enlistment Bonus Experiment* (1986).

²⁰ DOD reported that it is in the process of analyzing the effectiveness of special and incentive pays for Special Operations Forces and the efficiencies in the incentive pays approval process. DOD is also developing a model for analyzing the effectiveness of special and incentive pays for officers and is in the process of identifying a contractor for this work. According to DOD, these studies focus on the effectiveness and efficiency of special and incentive pays generally for specific groups of military personnel.

²¹ GAO, *Military Draft: Potential Impacts and Other Issues*, [GAO/NSIAD-88-102](#) (Washington, D.C.: Mar. 10, 1988).

²² GAO, *Military Personnel: Army Needs to Focus on Cost-Effective Use of Financial Incentives and Quality Standards in Managing Force Growth*, [GAO-09-256](#) (Washington, D.C.: May 4, 2009).

bonuses were set too high.²³ According to DOD, a detailed study for bonus amounts was beyond the scope of the RAND study. DOD wanted that study to determine whether bonuses in general were an efficient and effective use of resources for recruiting and retention and how these bonuses compared with other incentives. DOD believes that determining what bonus amounts are optimal is significant and complex enough to warrant its own study and plans to pursue that line of effort when sufficient resources are available. At present, however, it has no immediate plans to do so.

We recognize that identifying optimal bonus amounts is challenging because such studies must control for the numerous, changing factors that affect individuals' recruiting and retention decisions, such as the unemployment rate, the deployment rate resulting from overseas operations, and the changing public perceptions of the war. Despite these challenges, research organizations and some of the services have been considering various approaches that could be used for that purpose. Several research organizations have developed specific methodologies for conducting studies on the cost-effectiveness of bonuses.²⁴ For example, one research organization submitted a proposal to DOD and the Army to develop an econometric model²⁵ for determining the most cost-effective bonus amounts for different occupations. Another research organization is considering the use of an experiment,²⁶ in combination with an econometric model, for determining the minimal amounts of bonuses needed to fill different occupations and had informally shared its ideas with DOD. The researchers interviewed considered the costs of such

²³ RAND, *Cash Incentives and Military Enlistment, Attrition, and Reenlistment* (2010). RAND found that the increase in enlistment bonuses that occurred in the Army from October 2004 to September 2008 increased high-quality enlistments and that, in the absence of this increase, the Army would not have been able to meet its recruiting goals during that time period. RAND also found that eliminating the Selective Reenlistment Bonus program would have reduced the rate of reenlistment in the Army and the Marine Corps, although the effects for the Navy and the Air Force were more modest.

²⁴ We did not independently review these methodologies and did not assess the extent to which they will be effective in providing DOD and the services with information on the most cost-effective bonus amounts.

²⁵ An econometric study involves the statistical analysis of historical data to assess the independent effect of bonuses on recruiting and retention while controlling for, or holding constant, other external factors that may affect recruiting and retention.

²⁶ An experiment would involve the random assignment of individuals to groups receiving different amounts of bonuses and following their recruiting and retention outcomes, while also controlling for other factors that may affect these outcomes.

research to be modest and expected the benefits of any potential improvements to the services' bonus programs resulting from such research to outweigh the costs, particularly given the billions of dollars that the services have spent on bonuses over the years.

According to DOD, service officials are interested in this type of research, which would provide them with information needed to more effectively manage limited resources in their bonus programs. In fact, some services have already taken steps toward obtaining this information. For example, the Army has funded an econometric model developed by a research organization to predict the likelihood of applicants' choosing particular occupational specialties as a function of various factors, including bonuses offered. According to an Army official, this model would allow the Army to evaluate alternative cash incentive packages needed to fill specific occupations, thus optimizing its recruiting resources. The Navy uses an econometric model developed 10 years ago by a research organization, which Navy officials told us allows them to predict the extent to which a mix of recruiting resources, including varying bonus amounts, would enable them to meet recruiting goals. Although Navy officials said that this model does not provide information on recruiting outcomes within specific occupations, it helps them determine which bonus amounts would be needed to meet the overall recruiting mission.

While efforts to develop ways to assess the cost-effectiveness of bonuses have been made by some research organizations and have generated interest at the individual service level, OSD has not coordinated research in this area. The Principal Deputy Under Secretary of Defense for Personnel and Readiness is responsible for monitoring the bonus programs of the military services and recommending to the Secretary of Defense measures required to attain the most efficient use of resources devoted to the programs. The Office of the Under Secretary of Defense for Personnel and Readiness therefore has a role in monitoring individual service efforts to assess the cost-effectiveness of bonuses, which could be facilitated by information-sharing among the services on this issue. OSD recognizes the importance of having information on the cost-effectiveness of bonuses and using that information to guide the services' management of their bonus programs. OSD officials stated that they are in constant contact with the services regarding their use of bonuses and facilitate conferences, working groups, and other meetings that allow the services to discuss their incentive programs. Moreover, the development of statistical models for assessing bonus effectiveness is one of the fiscal year 2012 research priorities for the Accessions Policy office within the Office of the Under Secretary of Defense for Personnel and Readiness.

However, to date, OSD has not facilitated the exchange of information among the services on how best to conduct research on the cost-effectiveness of bonuses, what efficiencies could be gained from such efforts, and whether to jointly undertake them. Without such information-sharing, the services may not be able to fully take advantage of existing and emerging methodologies for assessing cost-effectiveness, share lessons learned, and ultimately obtain critical information needed to know whether they are getting the best return on their bonus investments.

DOD Is in the Process of Increasing Its Flexibility in Managing Special and Incentive Pays but Lacks Baseline Measures to Assess Outcomes

DOD has begun to increase its flexibility in managing special and incentive pays, as authorized by the National Defense Authorization Act for Fiscal Year 2008.²⁷ According to DOD, special and incentive pays are intended to provide the services with flexible compensation dollars that can be used to address specific staffing needs and other force management issues that cannot be efficiently addressed through basic pay increases. However, while DOD has discretionary authority to determine the amount and the recipients of enlistment and reenlistment bonuses based on personnel needs, it did not previously have similar discretion to adjust pays where the amounts and eligibility criteria are specified by law. According to DOD, a significant number of special and incentive pays paid to military personnel have been statutorily prescribed. In our review of 15 special and incentive pays, 6 are currently entitlement pays and accounted for \$3.9 billion, or 29 percent, of the \$13.6 billion expended on the 15 special and incentive pays from fiscal years 2006 through 2010.²⁸ Of the 15 pays we reviewed, DOD has not yet exercised its authority to consolidate all of them and thereby increase its flexibility in managing who receives these pays and how much recipients are paid. Specifically, DOD has not yet consolidated pays in the following categories: Aviation Career Incentive Pay; Career Sea Pay; Submarine Duty Incentive Pay; Hazardous Duty

²⁷ Pub. L. No. 110-181, §§ 661 and 662.

²⁸ For our review, we included 15 special and incentive pays that represented the top five categories for each service (excluding medical pays, enlistment, selective reenlistment, and critical skills retention bonuses) during fiscal years 2006 through 2010. They are the following: Assignment Incentive Pay, Aviation Continuation Pay, Aviation Career Incentive Pay, Career Enlisted Flyer Incentive Pay, Career Sea Pay, Critical Skills Retention Bonus, Foreign Language Proficiency Bonus, Hardship Duty Pay, Hostile Fire/Imminent Danger Pay, Judge Advocate Continuation Pay, Nuclear Officer Incentive Pay, Special Duty Assignment Pay, Submarine Duty Incentive Pay, Crew Member Flying Duty Pay, and Parachute Duty Pay (the previous two pays are a subset of Hazardous Duty Pay).

Incentive Pay, which includes Crew Member Flying Duty Pay; and Parachute Duty Pay.

The differences in flexibility DOD has in managing entitlement pays that are currently required by statute compared with discretionary pays are illustrated by the two special and incentive pays that the services give to aviation officers: Aviation Career Incentive Pay (ACIP) and Aviation Continuation Pay (ACP). The services have specific statutory guidelines that require certain levels of payment and define the personnel who receive ACIP until this pay is consolidated with other flight pays. If a servicemember meets the aviation criteria outlined in 37 U.S.C. § 301a, he or she is entitled to this special pay on a graded scale that depends on years of flying experience. The payments range from \$125 to \$840 a month. Officer aviators who meet the statutory criteria are entitled by law to this monthly supplement regardless of individual assignments.²⁹ In other words, payment does not vary according to type of aircraft, training required, or any other measure services might use to differentiate aviator assignments. By comparison, ACP is a special pay authority that is used as a retention bonus for officers who have completed their active-duty service obligations to incentivize them to remain on active duty. Unlike the restrictions currently applicable to administering ACIP, DOD and the services have the discretion to decide who should get ACP and how much to pay—up to the statutory maximum of \$25,000 per year.

The flexibility the services currently have in administering ACP allows them to use the pay differently from year to year according to their needs. For example, over the 5-year period we reviewed, the Marine Corps offered the lowest amounts of ACP, ranging from a minimum of \$2,000 to a maximum of \$20,000. The Air Force and the Army offered the highest levels of ACP, ranging from \$12,000 to \$25,000; however, despite having the same range, the two services differ on the average bonus amounts awarded, with averages of \$20,000 and \$15,000 respectively.³⁰ Each service also determines which of its aviators should receive the highest amounts of bonus based on its determination of an aviation specialty as critical and

²⁹ An officer who is entitled to basic pay, holds an aeronautical rating or designation, and is qualified for aviation service under regulations prescribed by the Secretary of Defense, among other requirements, is entitled to continuous monthly incentive pay.

³⁰ The Army data reported are based on fiscal years 2006, 2007, and 2010 because these were the only years in which ACP expenditures made the selected top five special and incentive pay list.

requiring a bonus. For example, as DOD reported in its 2010 report to Congress on Aviation Continuation Pay,³¹ in the Air Force’s fiscal year 2010 program, the highest amount—\$25,000 per year—was offered to pilots who had just completed their undergraduate flying training service commitments and who signed a 5-year agreement. Uncommitted pilots and combat systems officers operating remotely piloted aircraft were offered \$15,000 a year for 3-, 4-, or 5-year contracts; air battle managers were offered the same amount for 5-year contracts. By comparison, the Army offered \$25,000 per year to Special Operations Aviation Regiment pilots and \$12,000 per year to pilots who were Tactical Operations Officers. Each of the services, with the exception of the Army, has decreased the number of servicemembers receiving ACP from fiscal years 2006 to 2010 (see table 2). All services decreased their ACP programs in fiscal year 2010, but each service justified the program as necessary. For example, the Army reported that shortages remained in critical military occupational specialties and incentives were necessary to increase pilot inventories, support present readiness, and enable future transformation. The Air Force stated that the demand for pilots continued to exceed supply. Specifically, it required a large eligibility pool of pilots for remotely piloted aircraft, special operations forces pilots, and air operations center and air liaison officer pilots.

Table 2: Numbers of Servicemembers Who Received Aviation Continuation Pay in Fiscal Years 2006 and 2010			
	FY 2006	FY 2010	Percentage change
Army	795	1,208	+34%
Navy	3,127	2,939	-6%
Marine Corps	1,358	1,166	-16%
Air Force	8,562	5,411	-58%

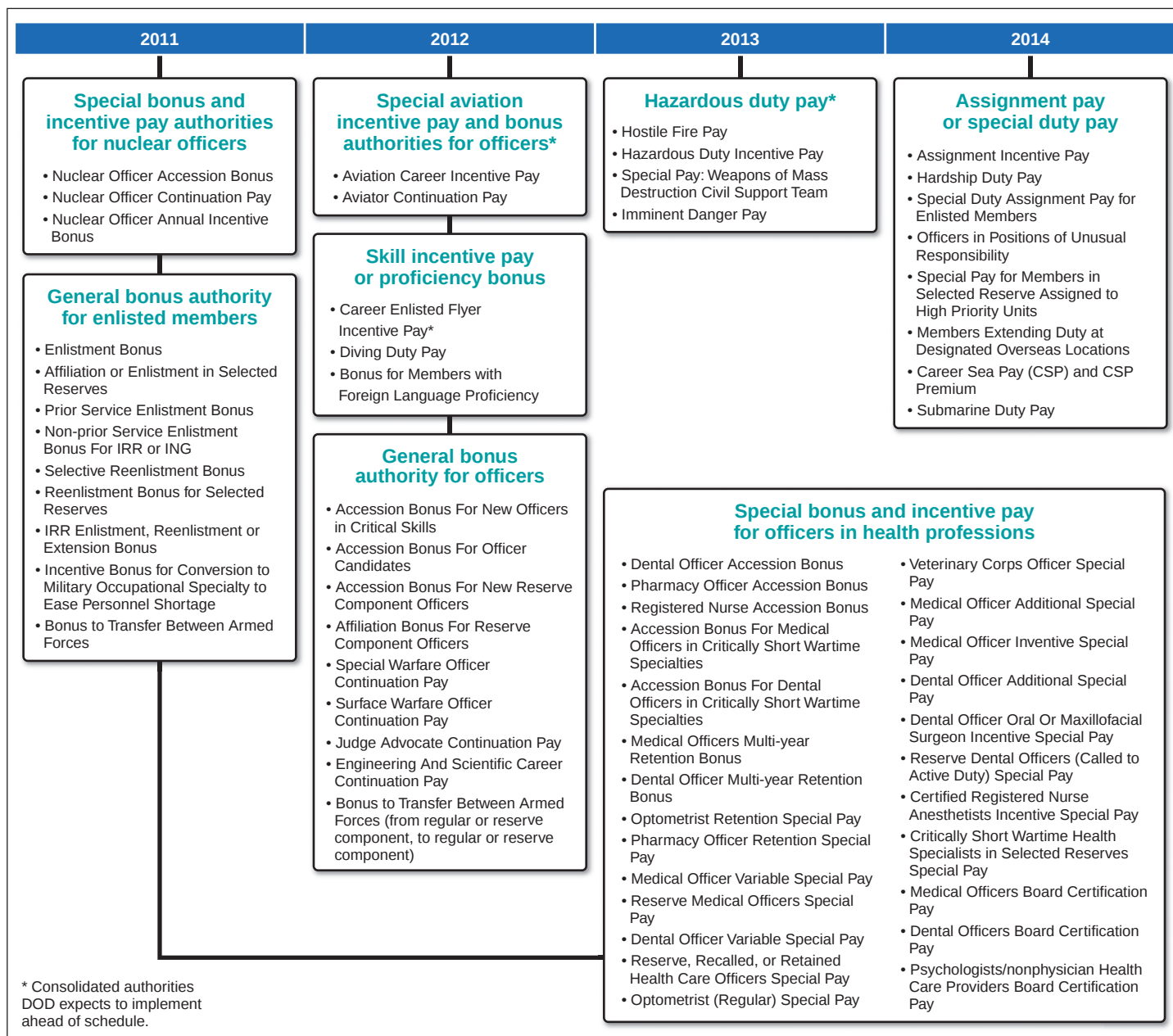
Source: GAO analysis of service data.

In *The Tenth Quadrennial Review of Military Compensation*, DOD identified limited flexibility in managing its special pays as a key weakness in its compensation system. DOD further stated that some statutory pays were rarely reviewed, updated, or discontinued, even when the staffing

³¹ DOD, Report to Congress, *Aviation Continuation Pay (ACP) Programs for Fiscal Year 2010* (March 2011). This annual report is required by U.S. Code, title 37, § 301b(i) and is to be submitted to the Senate and House Committees on Armed Services.

concerns they were designed to address had abated. In order to prevent special and incentive pays from becoming permanent entitlements paid to servicemembers because of statutory requirements, DOD recommended in this review that the more than 60 special and incentive pays be replaced with 8 broad discretionary special and incentive pay authorities that will allow DOD and the services discretion to determine recipients and amounts. This authority was provided in the National Defense Authorization Act for Fiscal Year 2008 and requires DOD to transition to a consolidated structure over a 10-year period. According to DOD's consolidation plan, the transition will be complete in fiscal year 2014 (see fig. 6). However, OSD officials stated that some pays will be transitioned sooner. For example, OSD is currently preparing a draft policy for transitioning ACP and ACIP, which is expected to be approved this fiscal year by the Secretary of Defense, 1 year ahead of the originally planned date.

Figure 6: DOD's Plan for Consolidating Special and Incentive Pays Into Eight Categories



Source: January 2009 Report to Congress on Implementation Plan for Consolidated Special and Incentive Pay Authorities by the Office of the Under Secretary of Defense for Personnel and Readiness.

The Tenth Quadrennial Review identified three benefits of consolidating the statutory authorities for DOD's special and incentive pays. These benefits include (1) increasing the ability of the services to better target resources to high priority staffing needs and respond to changing circumstances; (2) decreasing the number of pays and therefore reducing the administrative burden of managing over 60 different pays with different sets of rules and budgets; and (3) increasing performance incentives, by allowing the services to link some special and incentive pay grades to high performance by motivating and rewarding effort and achievement. Under the consolidation, for example, aviator pays will be combined into a single pay authority entitled "Special Aviation Incentive Pay and Bonus Authorities for Officers," allowing the services to make payments to aviators depending on staffing needs and other force management issues specific to each service. This consolidation could result in many differences in the ways the services administer these pays. For example, certain aviator occupations may no longer receive an incentive, or incentives could vary by specific occupation or years of service.

DOD has identified perceived benefits of consolidating special and incentive pays, but it does not have baseline metrics in place to measure the effects of its consolidation effort. As we previously reported, organizations should establish baseline measures to assess progress in reaching stated objectives.³² DOD's January 2009 report on the consolidation effort, the latest such report available, stated that it had only converted a limited number of pays to the new consolidated pay authority, but this report did not outline how effectiveness will be measured for implementing these pays. OSD officials told us that they plan to revise the relevant DOD instructions giving the services guidelines on how to administer the new programs but they did not say these guidelines would include any performance metrics for measuring the effects of the consolidation effort. As a result, DOD may not be positioned to monitor the implementation of this consolidation to determine whether it is in fact resulting in greater flexibility and more precise targeting of resources and what impact the consolidation is having on DOD's budget.

³² GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999) and *Executive Guide: Effectively Implementing the Government Performance and Results Act*, [GAO/GGD-96-118](#) (Washington, D.C.: June 1996).

Conclusions

From fiscal years 2006 through 2010, the Army's contracted amounts for bonuses rose more dramatically than the other services', as the Army increased its force size and deployed vast numbers of servicemembers to Iraq and Afghanistan. Conversely, the Army was able to more dramatically decrease its bonus contract amounts as the economy declined, the unemployment rate rose, and the Army was not trying to grow its overall force. The Army, and the other services to some extent, demonstrated that they can use bonuses flexibly in response to changing market conditions, but they still do not know whether they are paying more than they need to pay to attract and retain enlisted personnel. Also, at present, DOD has no formal method of facilitating discussions among the services on efficiencies to be gained from assessing the cost-effectiveness of their incentive programs. Although determining optimal bonus amounts is challenging, coordination of research efforts to determine the return on investment of DOD's various programs will become increasingly important as constraints on fiscal resources increase. Moreover, determining optimal bonus amounts will help DOD adjust the amounts for occupations due to changing market conditions. Also, DOD has not yet fully implemented its consolidation authorities, which would give it more flexibility to target its special and incentive pays to those servicemembers it needs most to retain and to discontinue paying some servicemembers these pays when it is no longer necessary to retain them. The statutory requirement to consolidate DOD's more than 60 pays should move DOD toward more flexibility in managing its incentive programs, but it will be critical for DOD to continually monitor its progress toward this goal as it completes the consolidation of its special and incentive pays over the next several years.

Recommendations for Executive Action

We recommend that the Secretary of Defense direct the Under Secretary of Defense for Personnel and Readiness to take the following two actions:

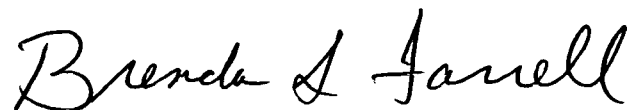
- Coordinate with the services on conducting research, as appropriate, to determine optimal bonus amounts.
- As the consolidation of the special and incentive pay programs is completed over the next 7 years and the instructions directing the services on how to administer the new programs are revised, monitor the implementation of this consolidation to determine whether it is in fact resulting in greater flexibility and more precise targeting of resources and what impact the consolidation is having on DOD's budget.

Agency Comments

In written comments on a draft of this report, DOD concurred with both our recommendations. DOD stated that it would find the line of research we discuss in our first recommendation to be beneficial and has discussed this issue on a number of occasions. DOD also said that it will consider this a priority research project and begin it when funds are available. DOD stated that it also agrees, as we discussed in our second recommendation, with the appropriateness of monitoring the implementation of the consolidated authorities to help ensure that they do result in greater flexibility and more precise targeting of resources. However, it stated that, while the department believes that the new authorities will result in more precise targeting of resources, it pointed out that the cost of special and incentive pays could increase or decrease based on market conditions, such as the economy. (DOD's comments appear in their entirety in app. II.)

We will send copies of this report to the appropriate congressional committees. We will also send copies to the Secretary of Defense; the Under Secretary of Defense for Personnel and Readiness; the Secretaries of the Army, the Navy, and the Air Force; and the Commandant of the Marine Corps. The report will be available at no charge on GAO's Web site at <http://www.gao.gov>.

If you or your staff have any questions on this report, please contact me at (202) 512-3604 or farrellb@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix III.



Brenda S. Farrell
Director, Defense Capabilities and Management

List of Committees

The Honorable Carl Levin
Chairman
The Honorable John McCain
Ranking Member
Committee on Armed Services
United States Senate

The Honorable Daniel K. Inouye
Chairman
The Honorable Thad Cochran
Ranking Member
Subcommittee on Defense
Committee on Appropriations
United States Senate

The Honorable Howard P. “Buck” McKeon
Chairman
The Honorable Adam Smith
Ranking Member
Committee on Armed Services
House of Representatives

The Honorable C.W. Bill Young
Chairman
The Honorable Norman D. Dicks
Ranking Member
Subcommittee on Defense
Committee on Appropriations
House of Representatives

Appendix I: Scope and Methodology

This review included an analysis of enlistment and reenlistment bonuses for enlisted personnel, as well as special pays for officers and enlisted personnel in the active components of the Army, the Navy, the Marine Corps, and the Air Force. We analyzed data on 15 special and incentive pays across the services for fiscal years 2006 through 2010, which represented the top five expenditures for special and incentive pays each year for each service. We focused on pays that were available to most servicemembers. For this reason, we excluded medical pays.

To conduct our work, we analyzed service data on enlistment and reenlistment bonuses, reviewed Department of Defense (DOD) and service regulations related to the use of bonuses and special and incentive pays; interviewed DOD and service officials on the processes and methodological tools in place to identify occupations eligible for bonuses and steps taken to assess the effectiveness of their bonus programs; observed two services’ meetings that are convened to determine which occupations should be eligible for bonuses; interviewed researchers knowledgeable about literature on bonus effectiveness; and reviewed selected studies on this subject. We interviewed DOD officials in the Washington, D.C., metropolitan area and conducted a site visit to Millington, Tennessee, to observe the Navy’s Working Group convened to determine which occupations should be eligible for bonuses. In the course of our work, we contacted or visited the organizations and offices listed in table 3.

Table 3: Organizations and Offices Contacted	
Name of organization or office	
Army	
Office of the Deputy Chief of Staff, Military Personnel Management Directorate	
U.S. Army Human Resources Command	
U.S. Army Recruiting Command	
Navy	
Enlisted Personnel Plans and Policy	
Economic Analysis and Modeling Division	
Community Management	
Navy Pay and Compensation	
Navy Recruiting Command	
Marine Corps	
Office of the Deputy Chief of Staff for Manpower and Reserve Affairs	

Name of organization or office

Air Force

Enlisted Accessions Policy

Enlistment Force Management

Support and Analysis Branch

Office of the Secretary of Defense

Office of the Under Secretary of Defense for Personnel and Readiness

Office of the Under Secretary of Defense (Comptroller)

Research Organizations

Army Research Institute

Institute for Defense Analyses

Center for Naval Analyses

The Lewin Group

The RAND Corporation

Source: GAO.

To determine trends in the use of enlistment and reenlistment bonuses, we requested and analyzed service data on enlistment and reenlistment bonuses contracted from fiscal year 2006 through fiscal year 2010. For enlistment bonuses, the services provided data on the amounts contracted for various types of enlistment bonuses that they used for the purpose of attracting individuals into the service, such as bonuses awarded for entering specific occupational specialties, having certain qualifications, or leaving for basic training within a specific amount of time. Some of the bonuses, such as those paid through the Army's Advantage Fund,¹ were only available in some of the years for which the data were requested. In conducting our analyses of enlistment bonuses, we combined the amounts that the services contracted for all enlistment bonuses in a given fiscal year.

¹ The Army Advantage Fund (AAF) was created under the authority provided by section 681 of the National Defense Authorization Act for Fiscal Year 2006 (Pub. L. No. 109-163 (2006)) to encourage potential candidates to join the Army by giving them money toward a down payment or mortgage on a home or the development of a small business. The AAF Pilot Program was an incentive intended to give the Army a competitive advantage in attracting eligible high-quality individuals who otherwise would not have considered the Army as a career. The AAF was suspended in February 2009 due to favorable changes in recruiting conditions and requirements that no longer necessitated the use of the AAF for market expansion.

For reenlistment bonuses, all services provided data on the amounts contracted in the Selective Reenlistment Bonus (SRB) program, which offers monetary incentives to qualified personnel who reenlist in certain occupations. We assessed the reliability of each service's enlistment and reenlistment bonus data by obtaining information from the services on their systems' ability to record, track, and report on these data, as well as the quality control measures in place to ensure that the data are reliable for reporting purposes. We found enlistment and reenlistment data reported by the services to be sufficiently reliable to demonstrate trends in the services' use of these incentives. In order to observe the trends in the use of enlistment and reenlistment bonuses over time, we adjusted the data provided by the services for inflation by using the Consumer Price Index.

To evaluate the extent to which the services have processes to designate occupations that require bonuses and whether bonus amounts are optimally set, we reviewed DOD and service regulations pertaining to their processes for designating bonus-eligible occupations. We also interviewed relevant officials from the Office of the Secretary of Defense (OSD) and the services with responsibilities for designating occupations as bonus-eligible on the processes in place to determine which occupations should receive bonuses, including the analytical tools such as statistical models used for this purpose. Additionally, we discussed with them how the effectiveness of their bonus programs is measured, requesting any available data to demonstrate the effectiveness of their bonus programs. We also observed two services' meetings that are convened to determine which occupations should be eligible for bonuses.²

To determine whether bonus amounts are optimally set, we requested and reviewed the data used by the services to gauge their bonus programs' effectiveness. All the services indicated that they use accession and retention data for that purpose, and we obtained these data for all the services for fiscal years 2006 through 2010 from OSD. In addition, we contacted officials from the Army Research Institute, the Center for Naval Analyses, the Institute for Defense Analyses, RAND, and the Lewin Group to discuss their past and proposed work on bonus effectiveness. We also reviewed selected studies on bonus effectiveness.

² We observed the Army's Enlisted Incentives Review Board in December 2010 and a portion of the Navy's Working Group in February 2011.

To determine how much flexibility DOD has in managing selected special and incentive pays, we requested and analyzed service data on the top five special pays (according to overall expended dollar amount by service) for officer and enlisted active-duty personnel from fiscal year 2006 through fiscal year 2010. The list of the top five pays in each of these years varied by service, as shown in table 4.

Table 4: Selected Top Five Pays for Officer and Enlisted Personnel for Fiscal Years 2006-2010, by Service

		Army	Navy	Marine Corps	Air Force
			Enlisted		
2006	1	Hostile Fire/Imminent Danger Pay	Career Sea Pay	Hostile Fire/Imminent Danger Pay	Hostile Fire/Imminent Danger Pay
	2	Hardship Duty Pay	Special Duty Assignment Pay	Special Duty Assignment Pay	Special Duty Assignment Pay
	3	Special Duty Assignment Pay	Hostile Fire/Imminent Danger Pay	Hardship Duty Pay	Hardship Duty Pay
	4	Parachute Duty Pay	Submarine Duty Incentive Pay	Career Sea Pay	Career Enlisted Flyer Incentive Pay
	5	Foreign Language Proficiency Bonus	Assignment Incentive Pay	Crew Member Flying Duty Pay	Foreign Language Proficiency Bonus
2007	1	Hostile Fire/Imminent Danger Pay	Career Sea Pay	Assignment Incentive Pay	Hostile Fire/Imminent Danger Pay
	2	Hardship Duty Pay	Hostile Fire/Imminent Danger Pay	Hostile Fire/Imminent Danger Pay	Hardship Duty Pay
	3	Parachute Duty Pay	Special Duty Assignment Pay	Special Duty Assignment Pay	Special Duty Assignment Pay
	4	Special Duty Assignment Pay	Submarine Duty Incentive Pay	Hardship Duty Pay	Career Enlisted Flyer Incentive Pay
	5	Foreign Language Proficiency Bonus	Assignment Incentive Pay	Foreign Language Proficiency Bonus	Foreign Language Proficiency Bonus
2008	1	Hostile Fire/Imminent Danger Pay	Career Sea Pay	Hostile Fire/Imminent Danger Pay	Hostile Fire/Imminent Danger Pay
	2	Hardship Duty Pay	Special Duty Assignment Pay	Special Duty Assignment Pay	Special Duty Assignment Pay
	3	Parachute Duty Pay	Hostile Fire/Imminent Danger Pay	Hardship Duty Pay	Hardship Duty Pay
	4	Special Duty Assignment Pay	Submarine Duty Incentive Pay	Assignment Incentive Pay	Career Enlisted Flyer Incentive Pay
	5	Foreign Language Proficiency Bonus	Assignment Incentive Pay	Foreign Language Proficiency Bonus	Foreign Language Proficiency Bonus

Appendix I: Scope and Methodology

		Army	Navy	Marine Corps	Air Force
2009	1	Hostile Fire/Imminent Danger Pay	Career Sea Pay	Hostile Fire/Imminent Danger Pay	Hostile Fire/Imminent Danger Pay
	2	Hardship Duty Pay	Special Duty Assignment Pay	Special Duty Assignment Pay	Special Duty Assignment Pay
	3	Special Duty Assignment Pay	Hostile Fire/Imminent Danger Pay	Hardship Duty Pay	Hardship Duty Pay
	4	Parachute Duty Pay	Submarine Duty Incentive Pay	Foreign Language Proficiency Bonus	Career Enlisted Flyer Incentive Pay
	5	Foreign Language Proficiency Bonus	Assignment Incentive Pay	Assignment Incentive Pay	Foreign Language Proficiency Bonus
2010	1	Hostile Fire/Imminent Danger Pay	Career Sea Pay	Hostile Fire/Imminent Danger Pay	Hostile Fire/Imminent Danger Pay
	2	Hardship Duty Pay	Special Duty Assignment Pay	Special Duty Assignment Pay	Hardship Duty Pay
	3	Special Duty Assignment Pay	Hostile Fire/Imminent Danger Pay	Hardship Duty Pay	Special Duty Assignment Pay
	4	Parachute Duty Pay	Submarine Duty Incentive Pay	Foreign Language Proficiency Bonus	Career Enlisted Flyer Incentive Pay
	5	Foreign Language Proficiency Bonus	Assignment Incentive Pay	Career Sea Pay	Assignment Incentive Pay
Officer					
		Army	Navy	Marine Corps	Air Force
2006	1	Hostile Fire/Imminent Danger Pay	Aviation Career Incentive Pay	Aviation Career Incentive Pay	Aviation Continuation Pay
	2	Aviation Career Incentive Pay	Submarine Duty Incentive Pay	Aviation Continuation Pay	Aviation Career Incentive Pay
	3	Hardship Duty Pay	Aviation Continuation Pay	Hostile Fire/Imminent Danger Pay	Critical Skills Retention Bonus
	4	Parachute Duty Pay	Nuclear Officer Incentive Pay	Hardship Duty Pay	Hostile Fire/Imminent Danger Pay
	5	Aviation Continuation Pay	Career Sea Pay	Career Sea Pay	Hardship Duty Pay
2007	1	Aviation Career Incentive Pay	Aviation Career Incentive Pay	Aviation Career Incentive Pay	Aviation Continuation Pay
	2	Hostile Fire/Imminent Danger Pay	Nuclear Officer Incentive Pay	Aviation Continuation Pay	Aviation Career Incentive Pay
	3	Hardship Duty Pay	Aviation Continuation Pay	Hostile Fire/Imminent Danger Pay	Hostile Fire/Imminent Danger Pay
	4	Aviation Continuation Pay	Submarine Duty Incentive Pay	Hardship Duty Pay	Foreign Language Proficiency Bonus
	5	Parachute Duty Pay	Career Sea Pay	Foreign Language Proficiency Bonus	Hardship Duty Pay

		Army	Navy	Marine Corps	Air Force
2008	1	Critical Skills Retention Bonus	Aviation Career Incentive Pay	Aviation Career Incentive Pay	Aviation Continuation Pay
	2	Hostile Fire/Imminent Danger Pay	Aviation Continuation Pay	Aviation Continuation Pay	Aviation Career Incentive Pay
	3	Aviation Career Incentive Pay	Nuclear Officer Incentive Pay	Hostile Fire/Imminent Danger Pay	Hostile Fire/Imminent Danger Pay
	4	Hardship Duty Pay	Submarine Duty Incentive Pay	Hardship Duty Pay	Hardship Duty Pay
	5	Critical Skills Retention Bonus	Career Sea Pay	Foreign Language Proficiency Bonus	Foreign Language Proficiency Bonus
2009	1	Hostile Fire/Imminent Danger Pay	Aviation Career Incentive Pay	Aviation Career Incentive Pay	Aviation Career Incentive Pay
	2	Aviation Career Incentive Pay	Nuclear Officer Incentive Pay	Aviation Continuation Pay	Aviation Continuation Pay
	3	Hardship Duty Pay	Aviation Continuation Pay	Hostile Fire/Imminent Danger Pay	Hostile Fire/Imminent Danger Pay
	4	Critical Skills Retention Bonus	Submarine Duty Incentive Pay	Critical Skills Retention Bonus	Critical Skills Retention Bonus
	5	Crew Member Flying Duty Pay	Career Sea Pay	Hardship Duty Pay	Hardship Duty Pay
2010	1	Hostile Fire/Imminent Danger Pay	Aviation Career Incentive Pay	Aviation Career Incentive Pay	Aviation Career Incentive Pay
	2	Aviation Career Incentive Pay	Nuclear Officer Incentive Pay	Aviation Continuation Pay	Aviation Continuation Pay
	3	Hardship Duty Pay	Aviation Continuation Pay	Hostile Fire/Imminent Danger Pay	Hostile Fire/Imminent Danger Pay
	4	Aviation Continuation Pay	Submarine Duty Incentive Pay	Hardship Duty Pay	Hardship Duty Pay
	5	Judge Advocate Continuation Pay	Career Sea Pay	Foreign Language Proficiency Bonus	Foreign Language Proficiency Bonus

Source: GAO analysis of service data.

For the purposes of this objective, we excluded enlistment and selective reenlistment bonuses because we addressed them in detail in previous objectives. We also excluded the Critical Skills Retention Bonus for enlisted personnel. In addition, we excluded medical pays for enlisted personnel and officers because we focused on pays that were available to most servicemembers.

We assessed the reliability of each service's special pays data by obtaining information from the services on their systems' ability to record, track, and report on these data, as well as the quality control measures in place to ensure that the data are reliable for reporting purposes. We found the

special pays data reported by the services to be sufficiently reliable for demonstrating trends in the services' use of these incentives over time.

In addition, we interviewed DOD officials on their role in managing special pay programs, the amount of flexibility they have over them, and their ongoing efforts to consolidate these pays. We also requested and reviewed DOD reports and other documents pertaining to special pays and the consolidation effort, such as the 2010 report to Congress on Aviation Continuation Pay and the 2009 report to Congress on the implementation plan for the consolidation of special pays.

We conducted this performance audit from September 2010 through June 2011 in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our research objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Comments from the Department of Defense



PERSONNEL AND
READINESS

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

JUN 18 2011

Ms. Brenda S. Farrell
Director, Defense Capabilities and Management
U.S. Government Accountability Office
441 G. Street, N.W.
Washington, DC 20548

Dear Ms. Farrell:

This is the Department of Defense (DOD) response to the GAO draft report, *MILITARY CASH INCENTIVES: DOD Should Coordinate and Monitor Its Efforts to Achieve Cost-Effective Bonuses and Special Pays*, (GAO-11-631, GAO code 351548, dated May 19, 2011.)

The Department concurs with both of the report's recommendations. Special and incentive pays are vital to mission success and demand a significant investment in resources. The Department plans to closely monitor these bonuses and special pays to identify possible areas for efficiency and effectiveness improvement. We appreciate your Department's review of this issue and will work closely with the appropriate offices as we move forward in response to your recommendations.

The enclosure contains the detailed Departmental comments on both of the recommendations identified by the GAO. The Department appreciates the opportunity to comment on the draft report.

Sincerely,


Virginia S. Penrod
Deputy Assistant Secretary
(Military Personnel Policy)

Enclosure:
As stated

**GAO DRAFT REPORT DATED MAY 19, 2011
GAO-11-631 (GAO CODE 351548)**

**“MILITARY CASH INCENTIVES: DOD SHOULD COORDINATE AND
MONITOR ITS EFFORTS TO ACHIEVE COST-EFFECTIVE BONUSES AND
SPECIAL PAYS”**

**DEPARTMENT OF DEFENSE COMMENTS
TO THE GAO RECOMMENDATIONS**

RECOMMENDATION 1: The GAO recommends that the Secretary of Defense direct the Under Secretary of Defense for Personnel and Readiness to coordinate with the services on conducting research, as appropriate, to determine optimal bonus amounts.

DoD RESPONSE: Concur.

The Department and the Services would find this line of research beneficial. In fact, the Department has met with researchers and discussed this issue on a number of occasions. This will not be a simple project and, because of its complexity, will require significant funding. We will continue to make this a priority research project and will begin when funds are available. Once the project begins, we will work closely with the Services and the contractor to that ensure a useful approach to evaluate bonus amounts is established.

RECOMMENDATION 2: The GAO recommends that the Secretary of Defense direct the Under Secretary of Defense for Personnel and Readiness to take the following action: As the consolidation of the special and incentive pay programs is completed over the next 7 years and the instructions directing the services on how to administer the new programs are revised, monitor the implementation of this consolidation to determine whether it is in fact resulting in greater flexibility and more precise targeting of resources and what impact the consolidation is having on DOD's budget.

DoD RESPONSE: Concur

The Department agrees with the appropriateness of monitoring the implementation of the consolidated authorities. We recognize the need to balance our oversight responsibilities against the Services need for greater flexibility. Ultimately, we believe these new authorities will result in greater flexibility and more precise targeting of resources. However, it is important to note that the need for special and incentive pays is often affected by many factors outside the control of the Department, such as the economy, national unemployment, and private sector demand for specific occupational specialties. Therefore, it is possible that, although administered more efficiently, and with greater flexibility, the costs for special and incentive pays could increase or decrease based on market conditions. These results could prove misleading if the expectation is a decrease in the amount of resources required.

Enclosure
Page 1 of 1

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

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Acknowledgments

In addition to the contact above, Lori Atkinson, Assistant Director; Natalya Barden; Darreisha Bates; Timothy Carr; Grace Coleman; K. Nicole Harms; Charles Perdue; Terry Richardson; Beverly Schladt; Amie Steele; Michael Willems; and Jade Winfree made key contributions to this report.

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