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U.S. GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C.

FOR RELEASE ON DELIVERY
Expected at 10:00 a.m.
Wednesday, May 19, 1982

STATEMENT OF
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BEFORE THE
SUBCOMMITTEE ON DEFENSE
SENATE COMMITTEE ON APPROPRIATIONS

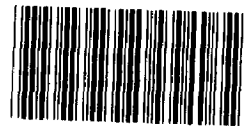
ON

NAVY AND MARINE CORPS' USE OF THE
AVIATION OFFICER CONTINUATION BONUS PROGRAM

Mr. Chairman and Members of the Subcommittee:

It is a pleasure to appear before you today to discuss a most important topic; the implementation of the Aviation Officer Continuation Bonus Program. As you are well aware, the judicious use of this bonus authority by the Navy and Marine Corps has been of deep concern to many Members, both within the House of Representatives and the Senate, particularly as both bodies look for ways to reduce Defense spending through management improvement initiatives.

Our analysis of this bonus program--initially undertaken at the request of your colleague, Senator Exon--shows that many millions of dollars have been, and will continue to be, unnecessarily spent unless the Congress takes action to require that



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the Navy and Marine Corps use the bonus authority as the Congress intended that it be used. The legislative history of this bonus authority is quite clear; the bonus was to be used as a retention incentive, selectively applied where shortages of officers in critical aviation specialties exist, and targeted to critical career points where a bonus could be expected to influence retention behavior. Despite this very explicit congressional guidance, the Navy and the Marine Corps have not judiciously managed the bonus program. Both services continue to pay bonuses, averaging over \$18,000 per recipient and ranging as high as \$39,000, to aviators who are not in aviation specialties where there are critical shortages or who are beyond the point in their career where retention historically has been a problem.

WHAT ARE THE NAVY AND MARINE
CORPS AVIATOR SHORTAGE PROBLEMS

The purpose for paying pilots and Naval flight officers (NFOs) something in addition to their Regular Military Compensation is to enable the services to retain for a full career the number and quality of such aviators they need for both flying and nonflying positions. Prior to 1981, the only such added payment was the Aviation Career Incentive Pay (ACIP), commonly called "flight pay." In 1981, however, the services requested, and the Congress approved, the Aviation Officer Continuation Bonus. Because the Air Force did not choose to participate in the bonus program, and was subsequently barred from doing so by Public Law 97-60, my statement focuses on Navy and Marine Corps program implementation.

The rationale advanced by the services for the bonus program was the growing shortage of pilots brought about by the difficulty they were having retaining them through their prime flying years. The services also had small shortages of NFOs, but these shortages were not cited.

As I just mentioned, the legislative intent on how the program should be managed is very explicit, and the Defense Department (DOD) echoed this intent in their implementing policy directive. It states that:

"The continuation bonus shall be used selectively where shortage of officers qualified in critical aviation specialties exist, or are projected, and shall be limited to critical retention points where the bonus can be expected to affect retention behavior."

Despite the congressional intent and DOD's guidance, however, neither the Navy nor the Marine Corps applied the bonus selectively or only at the critical retention points. Instead, they have treated it much like a long-term career pay, designating the entire aviation community--which includes several pilot and NFO specialties--a critical shortage area and making all those within the community with more than 6 and less than 16 years of aviation service, who meet the other legislative criteria, eligible to receive a bonus. Generally, aviators who fall within the 6 to 16 year window of eligibility are in grades O-3 to O-5. Within this window, the services established a declining bonus payment schedule, with the highest amounts going to those in their 6th to 8th year of aviation service who commit for 4 years, and lower amounts going to those with more years of aviation service and those signing up for less than 4 years. The maximum bonus payment is computed by

multiplying the aviator's basic pay by 16--4 months of basic pay for each obligated year. Bonuses are paid in four equal annual installments.

Based on these bonus implementing procedures, the Navy and Marine Corps, during fiscal year 1981, entered into agreements with 5,864 aviators. The total cost of these agreements will be \$102.9 million, to be paid out over a 4-year period. The length of commitments made ranged from 1 to 4 years, with about 3 years being the average. Summary fiscal year 1981 bonus activity data for each service is in appendix I to this statement.

Similar new commitments are being made this fiscal year to be paid out through fiscal year 1985; however, because this fiscal year is still in progress, we did not obtain current year bonus activity data.

Navy and Marine Corps
NFO shortages

Neither the Navy nor the Marine Corps have experienced, or anticipate experiencing, serious shortages of NFOs. Furthermore, our analysis of the NFO specialties showed that retention of NFOs has not been a problem and that year-to-year continuation rates have been near or above 90 percent, even in the vulnerable 6 to 8 years-of-service period where high losses usually occur. (See appendix II.) Since we could find no critical shortage of NFOs and since retention of officers in these specialties left very little room for a bonus to influence retention behavior, we concluded that paying bonuses to officers in the NFO specialties is inconsistent with legislative intent and good management

practice and that the entire \$32.9 million committed by the Navy and Marine Corps in fiscal year 1981 for NFO bonus payments has been, and is being, spent unnecessarily.

Navy and Marine Corps pilot shortages

Both the Navy and Marine Corps, however, have, and will continue to have, overall pilot shortages, although the Marine Corps shortage has not been as severe as the Navy's, and is concentrated in the O-1 and O-2 levels. (See appendix III.) To see more precisely where the pilot shortages were occurring, we obtained data by grade on fiscal year 1981 pilot requirements and inventory. This is shown in tables 1 and 2.

Table 1

Fiscal Year 1981 Navy Pilot Requirements and Inventory

<u>Grade</u>	<u>Requirements</u>	<u>Beginning Inventory</u>	<u>Shortage (Overage)</u>	<u>Ending Inventory</u>	<u>Shortage (Overage)</u>
O-3	4,695	2,895	1,800	3,030	1,665
O-4	2,798	2,544	254	2,566	232
O-5	<u>1,851</u>	<u>1,376</u>	<u>475</u>	<u>1,416</u>	<u>435</u>
Total	<u>9,344</u>	<u>6,815</u>	<u>2,529</u>	<u>7,012</u>	<u>2,332</u>

Table 2

Fiscal Year 1981 Marine Corps Pilot Requirements and Inventory

<u>Grade</u>	<u>Requirements</u>	<u>Beginning Inventory</u>	<u>Shortage (Overage)</u>	<u>Ending Inventory</u>	<u>Shortage (Overage)</u>
O-3	1,104	1,212	(108)	1,194	(90)
O-4	780	918	(138)	921	(141)
O-5	<u>388</u>	<u>411</u>	<u>(23)</u>	<u>424</u>	<u>(36)</u>
Total	<u>2,272</u>	<u>2,541</u>	<u>(269)</u>	<u>2,539</u>	<u>(267)</u>

As this data illustrates, the Navy has had consistent pilot shortages in the officer grades O-3 to O-5. However, the picture in the Marine Corps is considerably different. For at least the last 2 years, the Marine Corps has had a surplus of pilots, as compared to requirements, in grades O-3 to O-5.

Marine Corps officials acknowledged that insufficient pilot training rates, and not shortages of pilots in grades O-3 to O-5, have caused their overall shortage problem and that this is a problem of recruiting which cannot be addressed by the bonus program. They contend, however, that paying bonuses to pilots in grades O-3 to O-5 has helped them keep some pilots who would have otherwise left the service, and they contend that retaining any additional pilots, regardless of whether they are at grade levels where surpluses exist, has improved readiness.

We do not debate the Marine Corps' argument that readiness has been improved by retaining additional pilots at the O-3 to O-5 grade level. However, we believe that paying bonuses to officers at grade levels where surpluses already exist is a very inefficient way to solve a pilot shortage problem caused by inadequate recruiting and training rates. Furthermore, as our analysis showed that Marine Corps pilot year-to-year continuation rates have historically been quite high, particularly at the O-4 to O-5 grade levels, it is doubtful that the bonus prompted many additional Marine Corps pilots to remain. As the continuation rates for these pilots were already near or over 90 percent, there was little room for gain.

For these reasons, then, we have concluded that most of the \$20.8 million committed by the Marine Corps in fiscal year 1981 for pilot bonuses has been, and is being, spent unnecessarily.

In contrast to the Marine Corps, the Navy has had a pilot shortage at grade levels O-3 to O-5. Accordingly, to more precisely pinpoint where the retention problems exist and where the payment of a bonus could be expected to influence retention behavior, we analyzed their current and historic year-to-year continuation rates. These continuation rates are shown in table 3.

Table 3

Navy Pilot Year-to-Year Continuation Rates

Years of Commissioned Service	Fiscal Years						
	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
	-----Percentage continuing-----						
5	87	88	82	88	90	88	98
6	89	88	77	73	70	79	81
7	92	86	78	72	71	78	80
8	94	91	86	76	79	86	96
9	87	96	91	85	86	90	99
10 <u>a/</u>	86	78	79	79	80	87	99
11	97	96	96	91	87	92	99
12	97	97	96	96	94	96	98
13	99	97	97	96	98	97	98
14	99	98	97	95	95	98	99
15	99	98	96	95	95	97	99
16	99	99	99	98	95	97	99
17	98	98	99	99	94	97	98

a/Lower continuation rates in the 10th year reflect a high turnover of O-3s who were resigning or being released because they had not been promoted.

This analysis shows that, historically, the continuation rates for Navy pilots dropped off substantially to the low 70-percent range during the 6th year of service--the year the pilots' initial service obligation was completed--and remained quite low

through the 8th year of service. In the 9th year, however, continuation rates began to increase dramatically to the point where they exceeded 95 percent from the 11th year forward. This means that a bonus paid during the 6th to 8th year period, and possibly in the 9th year, could reasonably be expected to influence retention behavior. In fact, the continuation rates experienced in fiscal year 1981 indicate that the bonus may indeed have improved retention in these year groups. However, the analysis also shows that beyond the 9th year, continuation rates are already very high, leaving little room for the bonus to improve retention. Simply put, if 95 out of 100 pilots remained in the Navy without a bonus, and 98 or 99 stay if a bonus is paid, the Navy paid bonuses to all 99 pilots just to gain an additional 4. When continuation rates are already in the 97 and 98 percentage range, as they were in the 14th and 15th years of service, the marginal pilot gain by paying a bonus is even smaller.

Our analysis of the Navy pilot shortage led us to conclude that (1) the potential for improving pilot retention is greatest at the 6th through 8th year of service and (2) beyond the 9th year there is very little room for bonus payments to influence retention behavior. In our opinion, therefore, much of the \$27.9 million committed in fiscal year 1981 to pay Navy pilots in the 9th year of service and above has been, and is being, unnecessarily spent.

An even more refined analysis is needed to identify the specific pilot specialties--jet, propeller, and helicopter--which are critically short, which are having serious retention problems

and whether the payment of bonuses is the most cost-effective solution to the problems identified. The time frame for our work did not allow us to make this analysis. However, we noted that in a recent interview published in the Navy Times, Secretary Lehman stated that retention of helicopter pilots is even higher than the retention of NFOs. Navy officials said that they could not provide us with the source of the data cited by Secretary Lehman. Also, we noted that the Navy consistently uses many aviators to fill nonaviator positions--the so-called general services positions--and that if these nonaviator positions were subtracted from the Navy's aviator requirement numbers, there would be no overall shortage of aviators. (See appendix VI.) It would seem that in looking for the most cost-effective ways to solve an essentially short-term shortage problem, management actions could be taken in this area to reduce the aviation community's requirement to fill their "fair share" of the general service positions.

NAVY EXAGGERATED ITS PILOT AND NFO GAINS

The Navy claims to have kept an additional 489 pilots and 110 NFOs as a direct result of the Aviation Officer Continuation Bonus Program. While we agree that some pilots and NFOs remained because of the bonus program, we believe that the numbers claimed are exaggerated. Basically, the Navy computed its gains by applying 1979 year-to-year continuation rates to 1981 inventory numbers. It also assumed that all gains were attributable to the bonus program.

We disagree with the way the Navy determined its 1981 gains, and we also disagree with attributing these gains solely to the

bonus program. First, 1979 was the Navy's poorest retention year over the past 7 years. In our opinion, using 1979 as the base year rather than using average continuation rates distorts the "gain." Second, in 1979, commercial airlines hired just over 4,000 new pilots, but hired less than 1,000 new pilots in 1980. This airline hiring trend can be seen in appendix IV. Third, substantial improvements were made in compensation benefits between 1979 and 1981--a large pay raise in October 1980, a 25-percent increase in ACIP, and the authorization of a new variable housing allowance. And fourth, Air Force continuation rate patterns were nearly identical to the Navy's--poor continuation rates for the 6th to 8th years of service groups in 1978 and 1979, with improvements being made in 1980 and even greater improvements in 1981. The key difference is that the Air Force improvements occurred without the use of bonuses.

In order to get a more realistic picture of the Navy's 1981 pilot and NFO gains that might reasonably be credited to the bonus program, we applied average 1975 through 1980 continuation rates to the 1981 inventory numbers. This comparison shows that the Navy might reasonably claim to have kept an additional 204 pilots and 72 NFOs because of the bonus program, rather than their claim of 489 pilots and 110 NFOs. We think, however, our comparison probably also overstates the gain because, like the Navy, we did not quantify the affect of the steep drop in airline hirings, other pay adjustments which the military believes brought them up to a level of pay comparability with the private sector, or the generally poor economic condition during 1981.

AWARDING BONUSES ON "YEARS OF AVIATION SERVICE" RATHER THAN ON "YEARS OF ACTIVE DUTY SERVICE"

In performing our analysis, we noted that many pilots and NFOs were being paid large bonuses even though they appeared to be beyond the "window of eligibility" and also beyond the point where a bonus could influence their decision to remain in the service. We noted that people with long years of active duty service, who would almost certainly remain for a full 20-year career, were receiving large "retention" bonuses. For example, at the extreme, we noted that 2 individuals--both NFOs--one with 15 and the other with 16 years of active duty service were awarded bonuses of \$24,633 and \$38,990, respectively, as an "incentive" to remain in the service for another 4 or 5 years. In our opinion, a reasonable argument cannot be made that paying bonuses to these two individuals, and many others like them, greatly influenced their decision to remain in the service until retirement.

The Navy and Marine Corps records show that bonuses have been awarded to 412 senior pilots and NFOs who had 16 or more years of active duty service.

Navy officials said that the reason these situations occurred was that the authorizing legislation (Public Law 96-342) states that bonus payments depend on "years of aviation service." As a result, since many officers do not become aviators until after they have accumulated several years of active duty service, either as an enlisted member or as an officer, many of those receiving bonuses are only a few years away from retirement.

The Navy is correct that the wording of the current authorizing legislation permits situations like this to occur. However, the law does not preclude the Secretary of the Navy from exercising good management judgment in developing and approving the bonus implementation instructions. We believe that good management would dictate that the payment of retention bonuses to officers nearing retirement is an unnecessary expenditure of funds.

I should emphasize that if the aviation bonus program were managed as the Congress initially intended--that is, that it be used as a retention tool, selectively applied where shortages exist, and targeted to critical retention points--the dollar impact of paying bonuses to aviators near to retirement would be substantially less. However, to preclude unnecessary payments in the future, we are recommending that, if the bonus program is reauthorized, the language which defines the "window of eligibility" be amended.

The Navy agreed that bonus payments to people with many years of service does not look good, and they agreed that the law probably should be changed. However, they said that in their opinion the "window of eligibility" should be governed by "years of commissioned service" rather than "years of active duty service," so as to not "penalize" officers who had served as enlisted members for several years.

We disagree with the Navy on this point. The Navy's position fails to recognize the bonus for what it is--a retention incentive. Rather, it views the bonus as part of an aviator's career pay entitlement, which it is not. All years of active duty

service, regardless of whether they are served in enlisted ranks or as an officer, count towards retirement eligibility. Data from all the services show that once an aviator--either pilot or NFO--has passed the 10th year of service, the military's generous retirement system is a very strong pull to at least a full 20 years of service. Therefore, in our opinion, if both the retirement system and bonuses essentially serve the same purpose--that is, they each serve as a retention tool--it does not seem reasonable to disregard the affect of one management tool when determining whether to apply an additional tool.

SUMMARY

In summary, Mr. Chairman, we believe that the Navy and Marine Corps are not judiciously managing the aviation continuation bonus program. They are paying bonuses to all aviators with 6 but not more than 16 years of aviation service, regardless of whether (1) these aviators are in aviation specialties which have critical shortages or (2) there is a reasonable opportunity for the bonus to influence retention behavior. We believe that as a result of the Navy and Marine Corps' "across-the-board" approach to managing this program, as much as \$81.6 million of the \$102.9 million committed during fiscal year 1981 alone has been, and is being, unnecessarily spent. If the Navy and Marine Corps are allowed to continue paying bonuses to aviators in specialties where there are virtually no shortages and/or at career points where there is very little opportunity to influence or improve retention, many more millions of dollars will be unnecessarily spent.

We think that the aviation bonus authority should be extended beyond September 30, 1982, when it will now expire, because the Navy has serious pilot shortages. However, we firmly believe that any extension of the authority should be contingent on the Navy and Marine Corps developing new implementing instructions which would (1) pay bonuses only on verification of need, (2) be targeted to the specific aviation specialties where critical shortages of aviators exist, and (3) selectively applied at the critical retention points, early enough in the aviator's career so that the payment of a bonus could reasonably be expected to influence retention behavior. Verifying need, targeting to specific aviation specialties, and applying the bonus to critical retention points would require the Navy and Marine Corps to specifically analyze each of the several aviation specialties in order to determine whether the critical shortages exist, and, if so, at which career points retention has been and is a problem. The services should also determine whether the same bonus amounts are needed for each shortage and retention problem identified or whether separate payment schedules would be more cost effective.

We recognize that the reauthorization of the aviation bonus program is not the responsibility of this committee. Nevertheless, there are options open to this committee to encourage the Navy and the Marine Corps to more judiciously manage this program and to require more thorough management oversight by the Office of the Secretary of Defense. These options include placing restrictive language in appropriation bills which would prohibit the use of funds for the payment of bonuses beyond the 8th or 9th year of

active duty service and to aviators in specific pilot and NFO specialties where shortage and retention problems have not been demonstrated. This committee could also require that the Assistant Secretary of Defense for Manpower, Reserve Affairs, and Logistics, annually certify that (1) the shortages claimed by the services in each pay grade are critical to the services' ability to carry out their mission and (2) no other more cost-effective solution to the problem can be found.

Mr. Chairman, this concludes my formal statement. My colleagues and I would be happy to respond to any questions you may have.

Aviation Bonus Activity Summary
Fiscal Year 1981

	<u>Navy</u>	<u>Marine Corps</u>
Number of bonus recipients	4,590	1,274
Average bonus amount	\$16,972	\$19,623
Average years committed	3.0	3.3
<u>Fiscal Year 1981 Program Cost:</u>	<u>Millions</u>	<u>Millions</u>
Appropriated and spent in 1981	\$26.4	\$ 7.6
Anniversary payments of 1981 commitments	<u>51.5</u>	<u>17.4</u>
Total cost of 1981 commitments	<u>\$77.9</u>	<u>\$25.0</u>

Distribution of Recipients
By Years of Aviation Service

<u>Years</u> <u>Committed</u>	<u>Navy</u>					
	<u>Years of Aviation Service</u>					
	<u>6-8</u>	<u>9-12</u>	<u>13</u>	<u>14</u>	<u>15</u>	<u>Total</u>
1	292	234	40	37	398	1,001
2	59	84	15	360	-	518
3	19	88	337	-	-	444
4	<u>1,202</u>	<u>1,425</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,627</u>
Total	<u>1,572</u>	<u>1,831</u>	<u>392</u>	<u>397</u>	<u>398</u>	<u>4,590</u>

<u>Years</u> <u>Committed</u>	<u>Marine Corps</u>					
	<u>Years of Aviation Service</u>					
	<u>6-8</u>	<u>9-12</u>	<u>13</u>	<u>14</u>	<u>15</u>	<u>Total</u>
1	26	22	4	10	85	147
2	13	18	6	119	-	156
3	4	10	130	-	-	144
4	<u>410</u>	<u>417</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>827</u>
Total	<u>453</u>	<u>467</u>	<u>140</u>	<u>129</u>	<u>85</u>	<u>1,274</u>

	<u>NFO Shortages</u>						
	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
<u>Navy</u>							
Required	3,372	3,482	3,416	3,445	3,488	3,588	3,743
Inventory	<u>2,906</u>	<u>3,067</u>	<u>3,165</u>	<u>3,300</u>	<u>3,470</u>	<u>3,517</u>	<u>3,714</u>
Shortage	<u>466</u>	<u>415</u>	<u>251</u>	<u>145</u>	<u>18</u>	<u>71</u>	<u>29</u>
<u>Marine Corps</u>							
Required	744	807	863	716	823	795	706
Inventory	<u>669</u>	<u>655</u>	<u>690</u>	<u>699</u>	<u>700</u>	<u>673</u>	<u>649</u>
Shortage	<u>75</u>	<u>152</u>	<u>173</u>	<u>17</u>	<u>123</u>	<u>122</u>	<u>57</u>

Note: Navy shortages are based on requirements for grades 0-3 through 0-5, whereas Marine Corps shortages are based on requirements for all grades 0-1 through 0-5 who have completed flight training. Inventory figures for 1982 and 1983 are based on the services' projections with a bonus.

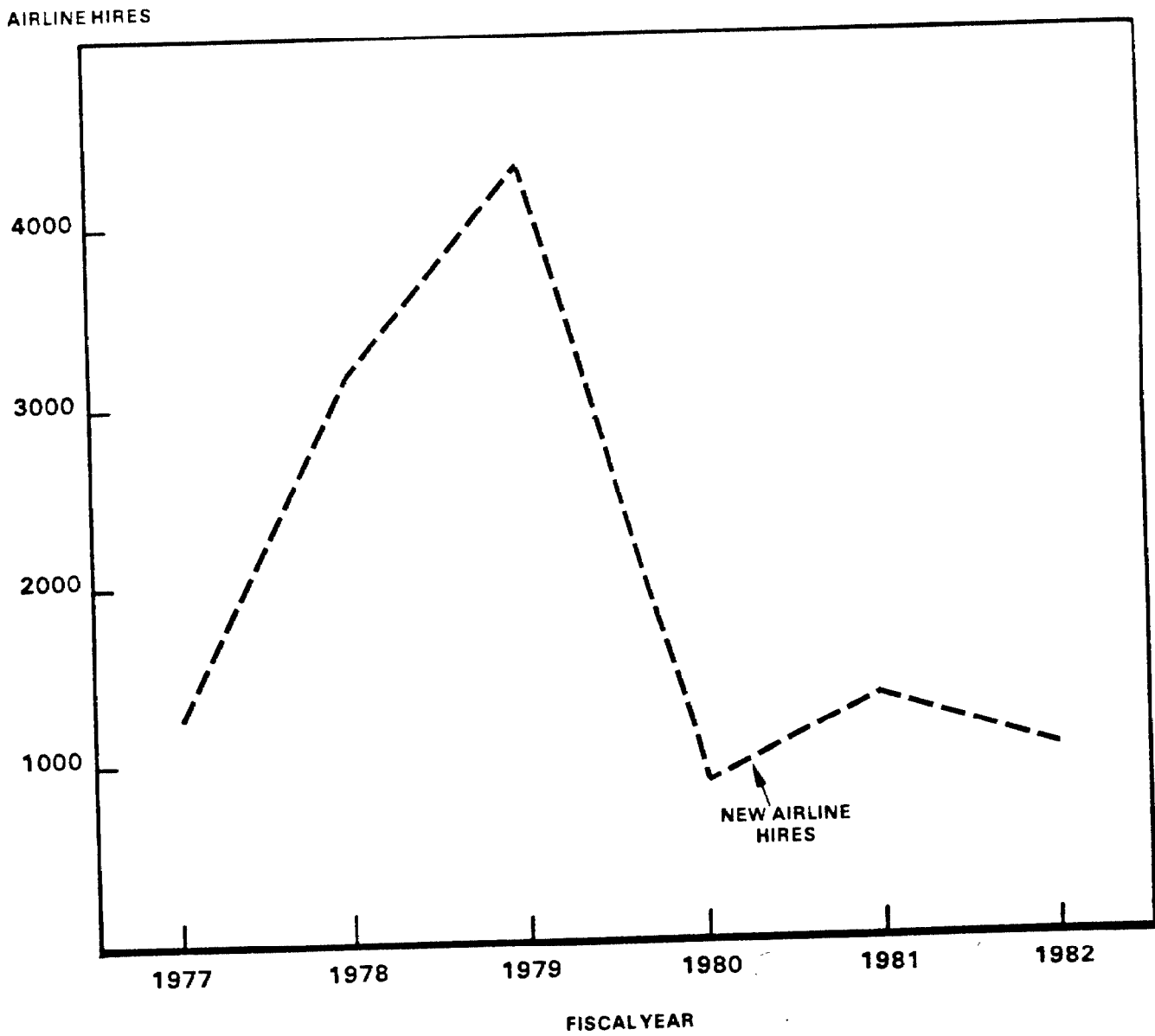
Navy NFO Year-to-Year Continuation Rates

<u>Years of Commissioned Service</u>	<u>Fiscal Years</u>						
	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
	-----Percentage continuing-----						
5	85	84	88	88	87	89	90
6	91	87	85	88	88	91	94
7	90	87	89	87	87	89	88
8	95	93	90	92	92	91	91
9	82	95	95	96	96	96	97
10 <u>a/</u>	83	79	76	86	89	92	99
11	92	96	95	89	88	89	96
12	99	96	96	96	92	93	96
13	97	98	98	94	97	96	94
14	98	96	96	97	98	97	99
15	98	98	97	97	98	99	98
16	99	99	96	99	99	96	99
17	96	97	97	96	96	96	98

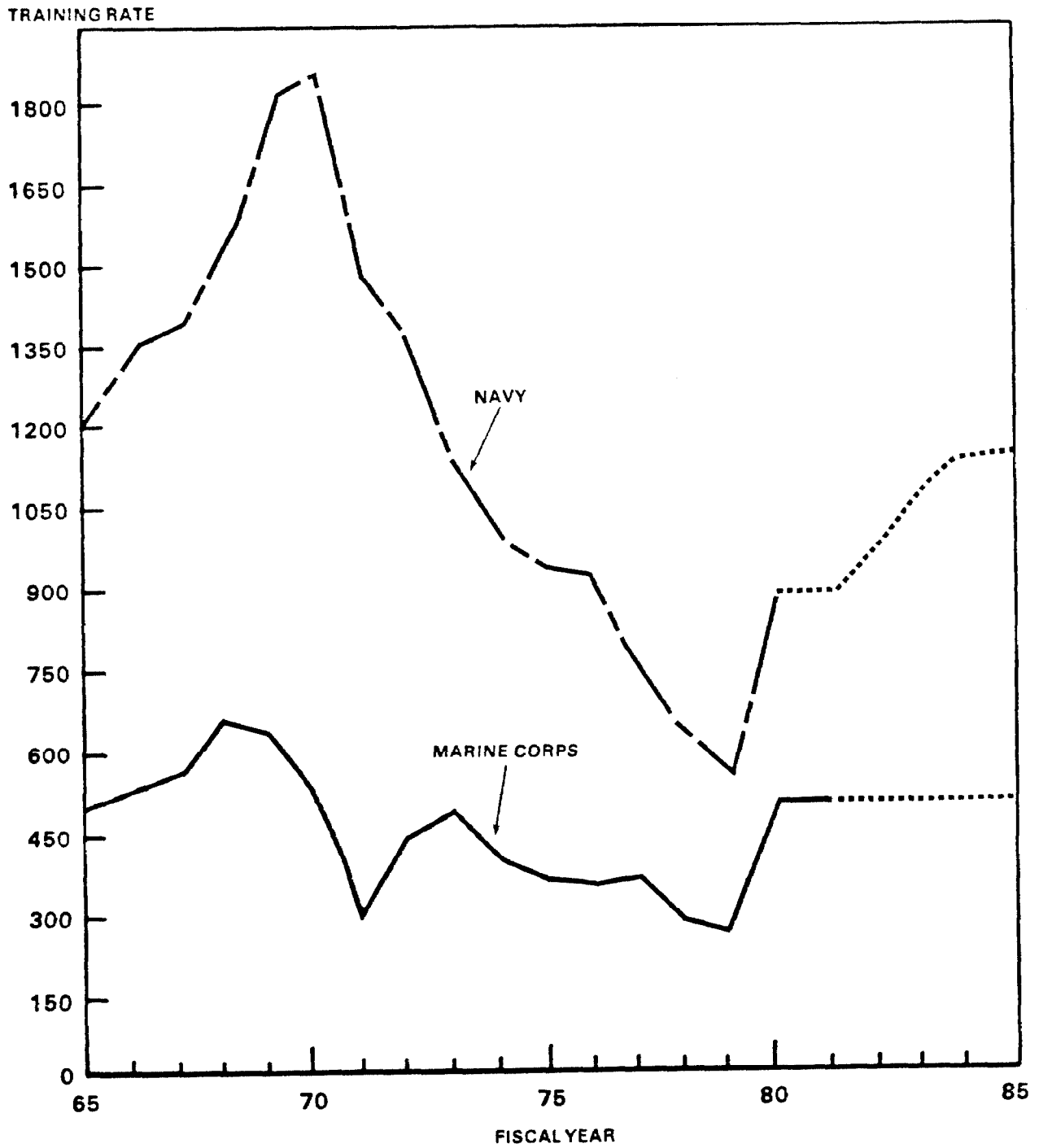
a/Lower continuation rates in the 10th year reflect a high turnover of 0-3s who were resigning or being released because they had not been promoted.

	<u>Pilot Shortages</u>						
	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
<u>Navy</u>							
Required	9,216	8,953	9,005	9,174	9,344	8,176	8,632
Inventory	<u>8,268</u>	<u>7,604</u>	<u>6,993</u>	<u>6,815</u>	<u>7,012</u>	<u>7,021</u>	<u>7,048</u>
Shortage	<u>948</u>	<u>1,349</u>	<u>2,012</u>	<u>2,359</u>	<u>2,332</u>	<u>1,155</u>	<u>1,584</u>
<u>Marine Corps</u>							
Required	4,019	3,844	3,744	3,796	3,867	3,852	3,884
Inventory	<u>3,644</u>	<u>3,429</u>	<u>3,219</u>	<u>3,286</u>	<u>3,543</u>	<u>3,658</u>	<u>3,760</u>
Shortage	<u>375</u>	<u>415</u>	<u>525</u>	<u>510</u>	<u>324</u>	<u>194</u>	<u>124</u>

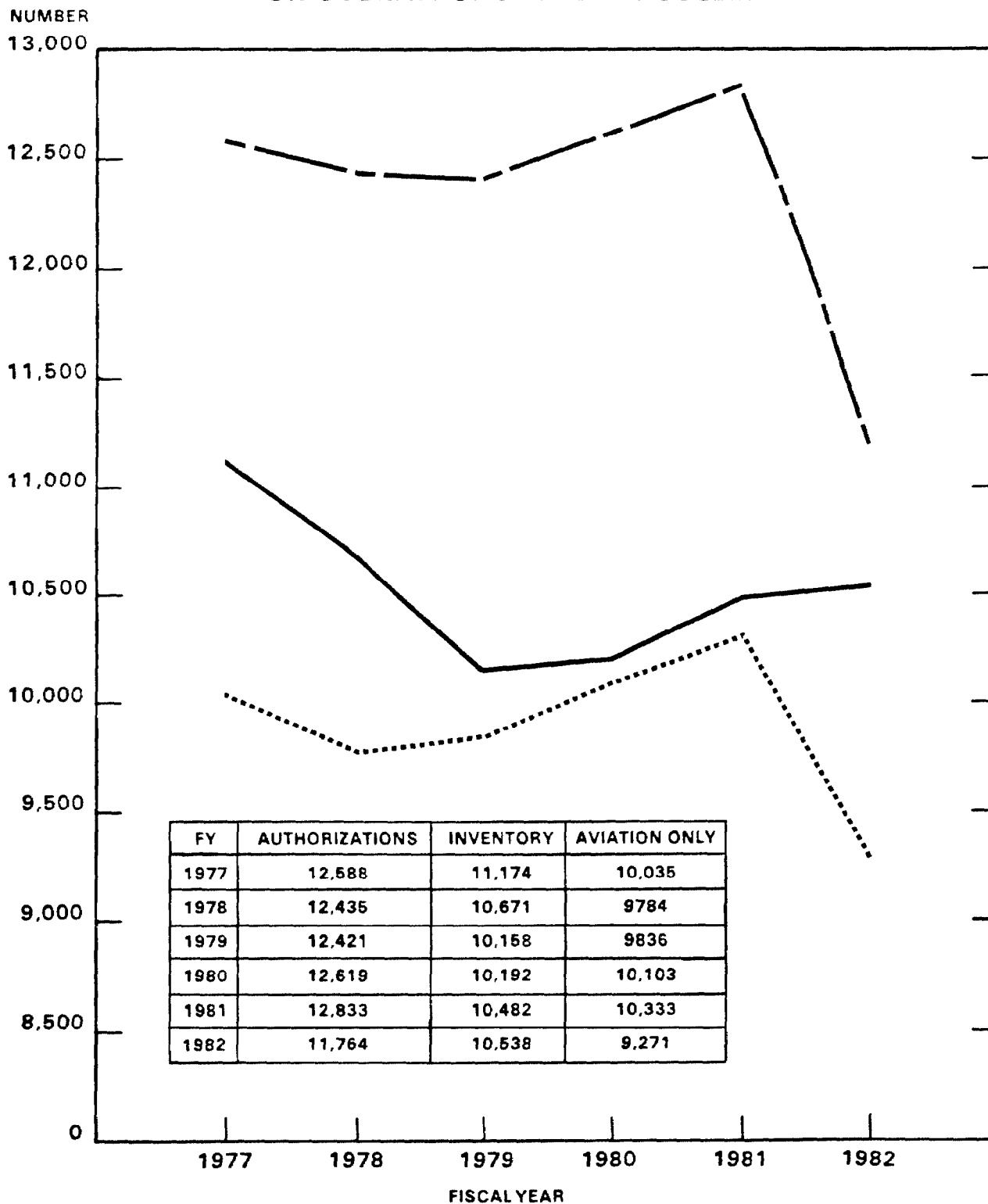
AIRLINE PILOT HIRING



NAVAL AIR TRAINING COMMAND PILOT PRODUCTION



**PILOT AND NFO INVENTORY VS. AUTHORIZATION
SHOWING IMPACT OF NON-AVIATOR POSITIONS
ON OVERALL SHORTAGE PROBLEM**



- - - - - Authorizations
 _____ Inventory
 Authorization less Non-Aviator positions filled by aviators