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STATEMENT OF

DR. KENNETH J. COFFEY
ASSOCIATE DIRECTOR (MILITARY)
FEDERAL PERSONNEL AND COMPENSATION DIVISION

BEFORE THE

SUBCOMMITTEE ON MANPOWER AND PERSONNEL
SENATE COMMITTEE ON ARMED SERVICES ,

ON

MILITARY PAY RAISE AND ENLISTED AND
AVIATION OFFICER BONUS PROGRAMS

Mr. Chairman and Members of the Subcommittee:

It is a pleasure to appear before you today to discuss the proposed (1) fiscal year 1983 military pay raise--whether it should be targeted or applied across-the-board, (2) the 5-year extension of the selective enlistment and reenlistment bonus programs, and (3) the extension of the aviation officer continuation bonus program.

These topics focus on the issue of how best to use monetary incentives to attract and keep sufficient numbers of quality people to man the Armed Forces. We believe that in addressing this issue the three questions that need to be asked are: What are the most reasonable cost-effective means of achieving the military manpower objective? Do military



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managers have the necessary tools to achieve this overriding goal? And, are military managers judiciously using the tools they have at their disposal?

Let me restate what we have said before; we do not see any component of the compensation system, whether it be basic pay and allowances, bonuses, specialty pays, or educational benefits as individual issues in and of themselves to be looked at in isolation. Rather, the total compensation package should be looked at as a set of management tools to be used to achieve specific mission-related goals and requirements. We believe that fundamental changes are needed to make the total compensation system more cost effective and mission supportive and that until some basic military management concepts change and reforms are instituted in the compensation and retirement systems, the Congress will be bound to dealing with the pay issue--including basic pay, allowances, special pays and bonuses, educational benefits, and all other monetary incentives--on a piecemeal basis. Changes in an area such as this do not come easily, but the efforts of this committee have moved them forward.

OVERVIEW OF THE MANPOWER PROBLEM

Before discussing the questions concerning across-the-board pay raises versus targeting, and the management and use of bonuses--both the enlisted bonus programs and the aviation officer continuation bonus program, I believe it would be appropriate to briefly review the nature of the services' manpower

situation. I know this committee is well aware of the overall recruiting and retention problems the services have faced, and that this past year has been exceptionally successful in both areas. Nevertheless, I believe an overview would help place the pay issues being considered today into perspective.

Since switching to the All-Volunteer Force (AVF) the supply of military manpower has become almost entirely dependent upon conditions of the labor market. To react to these conditions and still satisfy the military's manpower requirements, the continuing challenge has been, and will be, how to adjust compensation and other benefit policies to attract and keep the needed number, quality, and mix of people at the lowest possible cost.

Despite commonly held perceptions, since 1974 the Active Force has never been more than 1.5 percent below their total funded authorized strength levels. In fact, for at least the last 3 fiscal years, the Active Force has essentially stood at its authorized strength, and today the Army reports that more quality people want in than it has room for. Also, the active career force--generally considered to be those with more than 4 years of service--has remained relatively stable for each of the services and during this past year the services have reported higher than usual reenlistment rates. Serious manning level shortfalls have been experienced in the Reserves, but in the Active Force, the problems do not seem to be in recruiting and retaining the right number of people in aggregate. Rather, the problems have been, and still are in recruiting and retaining

quality people with the right mix of skills and experience to man the force; that is, to obtain and maintain the correct balance of skills, occupations, and experience. It is in this area where the services have fallen short and where their manpower problems lie.

The skill imbalance problems vary from service to service, from grade to grade, and from occupation to occupation, but they can generally be categorized as

- shortages in occupations that are highly marketable in the civilian economy, such as electronics technicians and aircraft mechanics;
- shortages in occupations that are not marketable, but which are generally thought of as being unattractive, such as combat skills and Navy boiler technicians; and
- overages in occupations which are relatively easy to fill, such as many administrative and clerical-type occupations.

These conditions create vastly different types of manpower supply problems, both in recruiting and retention. A solution which fits one problem does not necessarily fit others. In fact, a solution to one problem--for example, one of recruiting a sufficient number of high-quality people--could, if applied across-the-board, exacerbate other problems--for example, one of retaining highly trained technicians.

I would also like to emphasize that the manpower staffing problems are very dynamic and fluid. As has been rather vividly

shown over the past year, a problem today may not be a problem next month or next year. Both the supply of the right kind of people and the demand for them changes constantly as a result of changing internal and external conditions.

Given the nature of the services' manpower problems, then, what might be the ideal ingredients for a management system to deal with the problems? What tools would a manager in any large organization need to overcome his manpower staffing problems in the most cost-effective and efficient manner possible? It would seem to us that there are basically five key ingredients.

1. Managers should have adequate resources at their disposal to deal with the problem.

2. Managers should have the authority to apply the resources in a timely manner and an early warning system to know when problems are developing.

3. The problem-solving solutions should be flexible so that managers can make adjustments to them--add to, subtract from, or apply differently--as conditions change.

4. Managers should have the authority to apply resources to manpower problems in the most cost-effective manner; in other words, to target the money to the problem.

5. Managers should have an adequate feedback and evaluation system so that they can determine whether the solutions are working or when more or less resources are needed.

This is somewhat of an ideal environment in which all managers would no doubt like to function, and we recognize

that it may not be totally achievable, either for business or Government. There are limits to available resources and constraints on management authority. Nevertheless, within the realm of judicious oversight and control by the Congress, we believe that the tools provided to Defense managers should strive to include the elements I have just described.

In the context of the services' manpower problems, which I have just briefly reviewed, and the criteria I have just laid out as to the management tools needed to respond to the problems in a timely and cost-effective manner, I will now discuss the pay and bonus issues which are of concern to this committee today.

ACROSS-THE-BOARD VERSUS TARGETED PAY RAISES

Probably the most obvious and important attraction and retention incentive currently available to the services is basic pay, which all members receive, and the other components of regular military compensation (RMC) which are basic quarters and subsistence allowances, variable housing allowance--or the equivalent of these allowance provided in-kind--and the value of the tax advantage for the nontaxable allowances. The combination of these pay elements is generally considered as the military equivalent to a civilian salary. Obviously, without a reasonable salary, it would be very difficult to attract and keep the people the services need. It is in the areas of basic pay, quarters, and subsistence allowances

where the question of an across-the-board pay raise or targeting it to specific problem areas is being debated.

While the level of RMC is probably one of the most important factors in an enlistment or reenlistment decision, it has serious drawbacks as a management tool as it has been traditionally used. First, because of the way this component of the pay system is structured--pay rates being based on rank, years of service, and "need" rather than on the basis of work performed--it is probably the least flexible insofar as addressing specific manpower problems. This component of the pay system results in paying people in some occupations far more than is needed to attract and keep them and paying people in other occupations far less than is necessary to satisfy the requirements of those occupations. Second, numerous studies have shown that most service members--enlisted and officers--underestimate the value of RMC. This is because RMC can include in-kind benefits--housing and food--and a computed tax advantage on nontaxable allowances. The value of these items may differ may for each individual, even at the same grade and longevity step. Third, many members see the RMC system as inequitable because two people at the same grade, with the same years of service, and doing the same work may receive a different pay depending on their marital status, number of children, and whether they live on or off base.

The First Concurrent Budget Resolution assumed a 4 percent across-the-board pay raise which would limit the military

pay raise to \$1.4 billion for fiscal year 1983, whereas the Administration's initial budget projections were that an 8 percent pay raise would be indicated by the Professional, Technical, Administrative, and Clerical (PATC) survey. Although the limitation set in the budget resolution assumed an across-the-board pay raise, this committee must decide how the money will be applied; that is, whether it will be applied across-the-board or whether it will be targeted.

Both Defense and the Congressional Budget Office report that, according to their estimates, all of the services will achieve their qualitative recruiting and retention goals--in aggregate--for fiscal year 1983 regardless of whether the available pay raise money is applied across-the-board or targeted to careerists above E-3.

As you may know, we have long advocated that available money should be used where it will be the most effective; that is, that the money should be "targeted" to solving particular manpower problems. Last year, through the hard work of this committee, the October 1981 pay raise was "targeted," with careerists receiving a larger percentage than first-termers. This targeting was aimed at stopping the drain of experienced NCO's, a problems all the services were experiencing to a greater or lesser degree, and to reducing pay compression, a problem which had been building since the introduction of the AVF.

Since last year's pay raise, retention of senior NCO's has improved considerably and pay compression between grades

was reduced. In our opinion, targeting last October's pay raise was a positive step in the right direction. However, as I said just a moment ago, the services' manpower problems are not static, and while aggregate recruiting and retention problems have abated, staffing imbalances among occupational specialties still persist. Over 60 percent of all military occupations are either over- or undermanned by at least 10 percent. Dr. Korb made reference to these skill imbalance problems last week in his testimony before this committee. But, this is a problem that cannot efficiently be addressed by "targeting" pay raises to grade and year-of-service groups. Evidence indicates that in the longer term this may serve to perpetuate the imbalance problems. Some military members will continue to be paid far more than is necessary to attract and retain them in their occupations, thus motivating a larger number of these people to remain in the service, whereas others will not be paid enough.

We believe that rather than targeting the October 1982 pay raise to specific grade and year-of-service groups, the committee may want to consider taking the targeting concept a step farther and use some of the available funds to help solve manpower shortage problems in particular career fields. This type of targeting could be done in one of several different ways. For example, the committee could (1) target a portion of the pay raise money to specific occupational areas where critical shortages exist, (2) allocate a portion of the \$1.4 billion

to the reenlistment bonus programs where targeting to critical shortage problems within the career force would be done by the services, or (3) allocate a portion of the money to be paid monthly as proficiency type pay, again requiring the services to make the critical skill area designations.

5-YEAR EXTENSION OF ENLISTED BONUS PROGRAMS

Active duty enlistment bonuses and selective reenlistment bonuses are Defense's two major cash incentive programs for attracting and retaining personnel in occupational specialties where critical shortages exist. In terms of meeting the criteria of being good management tools, these programs probably come closer than any other monetary incentives currently being used by the military. For the most part, adequate resources have been made available to managers, Defense managers have the authority to adjust the application of resources in a timely manner, managers generally have had the authority to target the resources to the specific problems, and managers get relatively good and timely feedback on how well the resources applied are working--although there is some question about this last item.

While the programs themselves come very close to having all the key ingredients, that does not mean Defense managers have always taken full advantage of the latitude and flexibility these programs offer nor does it mean that bonuses are necessarily the most economical or cost-effective solution to a particular problem. We will soon be publishing a paper which reviews nearly

150 research and audit reports, and brings together in one document pertinent issues and observations concerning the use of bonuses and other alternative attraction and retention incentives. This document, I believe, will be useful to this committee as you move the 1983 pay bill and Defense's requested 5-year extension of the bonus authorities through the legislative process.

The key to both of these programs and the instruction the Congress gave to Defense managers when the programs were initially authorized, was that (1) the bonuses were to be applied selectively to specific problem areas and (2) they were to be used only after Defense had determined that, for the particular problem, bonuses were the most cost-effective solution, i.e., that all other incentive or investment options would be less cost-effective. In other words, the Congress expected Defense to apply good management principles and "manage" the programs.

How effective are bonus programs?

The questions of how successful the bonus programs have been and whether Defense managers have used the tools at their disposal in the most cost-effective manner are difficult to answer. Much depends on how effectiveness is defined, and in our review of nearly 150 studies we found no common definition or agreement as to what "effectiveness" or "cost effectiveness" means. Defense officials have testified that both the enlistment and reenlistment bonus programs have been extremely successful. They point out that the current bonus programs are less costly than their

predecessors, and that recruitment and retention rates have improved since the programs were initiated.

While this is certainly one way to measure effectiveness, there are several other questions which need to be asked and answered before one could reasonably conclude that these bonus programs are the most cost-effective or economical means of solving specific skill shortage problems. For example, are bonuses the least costly method of attracting the additional number of people needed to fill shortages in specific skills? What cost-benefit analyses have been made of the bonus programs, and what have they shown--i.e., what is the marginal cost of bonuses to attract or retain those who would not otherwise join or remain in the services? Are cash bonuses being used only after other incentives or investments are shown to be less cost effective?

Defense, in its May 10, 1982, request for the 5-year program extension said that it has in the past, and will in the future, use the bonus authority "only after other less costly options have been fully explored and exhausted." Despite this assurance, our review of nearly 150 different studies and audit reports indicates to us that often bonuses were the "remedy-of-choice" rather than an incentive used only after other options had been tested and found ineffective and/or more costly.

Are the bonus programs being properly administered?

As I mentioned earlier, while the bonus programs seem to have most of the key ingredients for good management, this does not

necessarily mean that these tools are being prudently managed. At this time, when everybody is being asked to tighten their belts, to reduce waste, and save, these programs should be treated no differently. Opportunities for doing things better and, most importantly, more cost effectively cannot be ignored.

Recent reviews by the Defense Audit Service and the service audit agencies suggest millions of bonus dollars have been wasted through deficiencies in program administration. Problems identified cover the whole spectrum of the bonus cycle, from the skill selection process, through assignment and utilization, and into contract terminations. Here are some highlights of these reviews.

Selectivity--In 1978, GAO reported that the Army had unnecessarily paid enlistment bonuses of \$9.6 million to recruits in six overstuffed specialties. Two years later, in September 1980, the Army Audit Agency reported that the Army paid reenlistment bonuses amounting to \$6.8 million in 13 occupations which may have been improper due to the poor selection process. Similarly, a June 1981 Naval Audit Service report indicated that the Navy controls the number and level of selective reenlistment bonuses by source rating rather than by enlisted classification codes, a more selective method for selecting bonus specialties. As a result, some occupations were on the bonus list which probably should not have been, while others were not on the list but probably should have been.

Tracking--Both the Army and Navy have poor systems for tracking bonus recipients, according to service auditors. Army

Enlisted Master Files, a key monitoring device, failed to show enlistment bonuses for 95 percent of the people receiving such bonuses during the auditors' test period. Such poor record keeping makes tracking virtually impossible. Similar problems were noted by the Navy auditors who concluded that ill-kept management information systems make it difficult to determine what benefits the Navy receives from the skills for which bonuses are paid.

Assignment and use--Bonus recipients being assigned or used outside their critical skills is not uncommon. In a just completed study of the selective reenlistment bonus program, the Defense Audit Service estimated that between fiscal years 1978 and 1982, about \$4 million was lost DOD-wide to bonus recipients who served "out-of-skill" for more than 180 days.

In its September 1980 report, the Army Audit Agency also cited malutilization as a significant problem. In a test at five Army bases, the auditors determined that individuals receiving \$8 million in reenlistment bonuses were not being used in their specialty. Rates of maluse ranged between 7 and 20 percent at the installations reviewed. Auditors found bonus recipients being used as customs inspectors, recreational specialists, and as members of a local marksmanship team. Navy auditors have also reported problems in this area.

Recoupments of unearned bonuses--Millions of dollars have been lost each year as a result of bonus recipients leaving the service before completing their enlistments and reenlistments.

Unearned bonuses have been the subject of numerous audit reports, including recent reports by the service audit agencies and GAO. The Defense Audit Service, in its June 8, 1982, report estimated, for example, that \$69 million in bonuses will be paid for unrealized service to persons reenlisting in fiscal year 1978 through 1982 who will separate prematurely. Particularly disturbing is the fact that most unearned bonuses are never recovered. Army auditors reported that only about 12.5 percent of these debts are collected and a review by our Office a few years earlier showed an even poorer recoupment rate--6.5 percent.

It is hard to say how much of the cost growth in these bonus programs can be attributed to these types of internal management problems. Credit must be given to Defense and the services for the actions they have taken to clear up these problems, but more needs to be done. We were particularly pleased to see that this committee, along with your counterparts in the House, specifically directed the Secretary of Defense to tighten up procedures for recouping unearned bonus payments.

NAVY AND MARINE CORPS USE
OF AVIATION BONUSES

While the manpower problems confronting the services often differ between the enlisted and officer corps, there are some similarities. This was particularly true with respect to the problems the services were encountering retaining a sufficient number of officers in some aviation specialties--particularly pilots. To counter this problem, the Congress gave the services a retention incentive which comes closer to meeting all the

criteria of a good management tool than almost any other incentive mechanism available to the services. The Aviation Officer Continuation Bonus Program--which only the Navy and Marine Corps elected to use--is flexible, was adequately funded, managers had the authority to target the money to where the specific problems were occurring, and a reasonably good information feedback system was available to let managers know if the mechanism was working. Despite all these pluses, in our opinion, the Navy and Marine Corps did not judiciously use this management tool which they had at their disposal.

Our report to Senator Exon, who requested that we review the management of the program, is being released today. It details our specific findings and conclusions, and recommends that the bonus program be extended for 2 years--but that the legislation be amended to restrict the use of bonuses to insure that they are used only for aviation specialties where there are critical shortages and at career points where there is a reasonable chance that retention can be improved. Because our report provides considerable detail, I will just briefly summarize it.

Our analysis shows that as much as \$81.6 million of the \$102.9 million committed by the Navy and Marine Corps in fiscal year 1981, has been, and will continue to be, needlessly spent because, in our view, neither service used the bonus authority as the Congress intended that it be used. Because the services' approach to managing the program has not changed, many more millions of dollars are being needlessly committed and spent for fiscal year 1982.

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. Defense echoed this intent in its implementing policy directive. Despite this guidance, the Navy and the Marine Corps 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.

The Navy and Marine Corps applied the bonus 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.

Navy and Marine Corps
NFO Shortages

Neither the Navy nor the Marine Corps have experienced, or anticipate experiencing, serious shortages of NFOs in the pay grades when bonuses are paid. Furthermore, retention of NFOs has not been a problem, even in the vulnerable 6 to 8 years-of-service period where high losses usually occur. Since we could find no critical shortages 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.

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 0-1 and 0-2 levels. For at least the last 2 years the Marine Corps has had a surplus of pilots, as compared to requirements, in grades 0-3 to 0-5.

Marine Corps officials acknowledged that insufficient pilot training rates, and not shortages of pilots in grades 0-3 to 0-5, have caused their overall shortage problem and that this problem cannot be solved by the bonus program. They believe, however, that paying bonuses to pilots in grades 0-3 to 0-5 helped them keep some pilots who would have otherwise left the service and 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 may have been improved by retaining additional pilots at the 0-3 to 0-5 grade level. However, we believe that paying bonuses to officers at grade levels where surpluses already exist is not an economical way to solve a pilot shortage problem caused by insufficient training rates. Furthermore, as our analysis shows that since Marine Corps pilot year-to-year continuation rates have historically been quite high, particularly at the 0-4 to 0-5 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.

In contrast to the Marine Corps, the Navy has had a pilot shortage at grade levels 0-3 to 0-5. We found that the continuation rates for Navy pilots dropped off substantially during the sixth year of service--the year the pilots' initial service obligation was completed--and remained quite low through the eighth year of service. In the 9th year, however, continuation rates began to increase dramatically to the point where they exceeded 93 percent from the 13th year forward. This means that a bonus paid during the sixth to eighth year period, and possibly the ninth year, could reasonably be expected to influence retention behavior. However, beyond the ninth 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 95 and 99 percentage range, as they were in the 14th and 15th years of service, the marginal pilot gain by paying a bonus is even smaller.

Bonuses Awarded on "Years of Aviation Service" Rather Than on "Years of Active Duty Service"

Many pilots and NFOs were being paid large bonuses even though they were already beyond their 16th year of active duty

service or would be beyond that point by the time they had completed their bonus commitment. Navy and Marine Corps records show that, as of January 1982, bonuses have been awarded to 637 pilots and NFOs in this category. For example, at the extreme, we noted that two individuals--both Navy 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.

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" rather than "years of active duty service." 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 eligibility.

While legislation permits situations like this to occur, it does not preclude the Navy from exercising good management judgment. This, we believe, would dictate that paying bonuses to officers nearing retirement is a needless expenditure and that paying bonuses on "years of active duty service" would be more appropriate.

Aviator Gains Attributed
to Bonuses Overstated

On May 20, 1982, the Navy and Marine Corps reported to this, and other committees that the aviation bonus program was highly successful in retaining additional aviators, even more so than

originally expected, and that it was cost effective when compared to the training costs avoided. The Navy reported that an additional 489 pilots and 110 NFOs remained in the Navy solely because of the bonus program, and the Marine Corps credited the program with retaining 77 pilots and 13 NFOs who would have otherwise resigned.

We agree that some aviators remained in the services solely to take advantage of the bonus program; however, we believe that the the program was not as successful as claimed. Based on our evaluation of the sketchy documentation Navy provided, along with an explanation of how the program managers think the gain was computed, we judged that the numbers reported were exaggerated and, like the Marine Corps, many of the aviators remaining were not in critical shortage areas. We estimate that the Navy might have gained between 60 and 70 pilots in the critical 6- to 8-year groups.

The Navy argues that the bonus program is cost effective when compared to the high cost of training new aviators and that in fiscal year 1981 alone over \$487 million in training costs were avoided because of the bonus program. But, the Navy calculated this savings by (1) using the exaggerated pilot and NFO gains, (2) comparing a 1-year bonus cost with a training investment which will be paid back over at least 4 1/2 years, and (3) failing to take into account the total life-cycle cost of an aviator. Life-cycle costs would include, among other things, recruiting, training, pay, allowance, and retirement costs. For these

reasons, then, we believe that the Navy claim is exaggerated and that the actual cost savings, if any, would be considerably less.

SUMMARY

In summary Mr. Chairman, what we have tried to present today is a framework for assessing the relative worth of particular incentives in terms of whether each incentive has the key ingredients needed to be useful as a management tool. Again, we think that for an incentive to be most useful, managers should have (1) adequate resources, (2) authority to apply resources in a timely manner, (3) authority to make adjustments, (4) authority to target the resources to the problem areas and to stop feeding resources once the problem is well, and (5) good feedback to know if the targeting is working.

But, as any textbook on management principles will tell you, along with authority goes responsibility--and in our opinion Defense manager must be held accountable for responsible management. We believe that this has clearly been a problem with respect to both the enlisted and aviation officer bonus programs.

In our opinion, the enlistment and reenlistment bonus programs should be extended as requested by Defense. However, along with the extension of authority should go a directive to Defense that, in consultation with this committee, it more fully define in its program policy directives how bonus program cost effectiveness is to be measured. We believe that bonus effectiveness should be measured not only in terms of the number of new recruits and reenlistments generated, but also in terms

of how cost effective bonuses are as compared to other alternative ways of solving the shortage problem. This may not always involve simply comparing one monetary incentive against another, but could often involve involve measuring the cost and usefulness of a non-monetary management action against the cost of awarding bonuses for a particular specialty.

As I mentioned, we are recommending in our report to Senator Exon on the aviation bonus program that it be extended for another 2 years, if requested by Defense; however, on a much more restrictive basis. We are also suggesting that the Navy does not, but should, know when it is more economical to keep existing aviators--both pilots and NFOs--than it is to train new ones. In our opinion, such a determination would require considerable analysis on the part of Navy, but would greatly enhance its ability to manage its aviator community.

Mr. Chairman, concerning whether the October 1982 pay raise should be targeted or applied or applied across-the-board, we believe that this committee made a significant step forward in targeting last year's pay raise. We would urge that this movement continue, and that the committee consider targeting a portion of the available resources to those occupational areas within the career force where manpower shortages exist, and where the money would be most effective in solving specific problems. As I mentioned, there are several ways to achieve this type of pay targeting, which include (1) this committee targeting a portion of the pay raise to specific shortage areas, (2) allocating a

portion of the pay raise money to the reenlistment bonus program where career force targeting would be done by the services through already established mechanisms, or (3) designating a portion of the money to be paid monthly as proficiency-type pay, again with the services making the designation as to where the money is most needed. We believe that any one of these alternatives would result in a more efficient and cost-effective use of available resources.

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