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[H.A.S.C. No. 116–12]

OUTSIDE PERSPECTIVES ON MILITARY PERSONNEL POLICY

HEARING

BEFORE THE

SUBCOMMITTEE ON MILITARY PERSONNEL

OF THE

COMMITTEE ON ARMED SERVICES
HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTEENTH CONGRESS

FIRST SESSION

HEARING HELD
MARCH 12, 2019

U.S. GOVERNMENT PUBLISHING OFFICE
36–298 WASHINGTON : 2019

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[There were no Questions submitted during the hearing.]

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[There were no Questions submitted post hearing.]

OUTSIDE PERSPECTIVES ON MILITARY PERSONNEL POLICY

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ARMED SERVICES,
SUBCOMMITTEE ON MILITARY PERSONNEL,
Washington, DC, Tuesday, March 12, 2019.

The subcommittee met, pursuant to call, at 2:54 p.m., in Room 2212, Rayburn House Office Building, Hon. Jackie Speier (chairwoman of the subcommittee) presiding.

OPENING STATEMENT OF HON. JACKIE SPEIER, A REPRESENTATIVE FROM CALIFORNIA, CHAIRWOMAN, SUBCOMMITTEE ON MILITARY PERSONNEL

Ms. SPEIER. I would like to welcome everyone to this afternoon's Military Personnel Subcommittee hearing. Today we have a panel of experts who will share their perspectives on how to improve and modernize military personnel policy to sustain the All-Volunteer Force. I want to thank our witnesses for participating and sharing their views on this important subject.

The services need to end business as usual. All too often, they are operating out-of-date, one-size-fits-all recruiting and retention policies under inflexible cultures. I worry that this is hindering them from reaching and retaining the right talent. Too often, the response to proposed personnel reforms is "the system worked for me," "they know what they signed up for," or "that's not how it works." Those adages are simply not good enough. They are the hallmarks of a culture resistant to change, unprepared to face mounting challenges.

The services continue to use age-old policies to shape the force instead of reshaping how end strength is used. Meanwhile, the pool of recruits is contracting. Eighty percent of recruits have family service connections, there's a highly competitive labor market, and many potential service members don't meet physical standards or just don't want to serve. The status quo is not sustainable.

The Army for example was unable to meet its end-strength requirements in 2018 and will likely fall short again in 2019. The Navy has for close to a decade has not placed the correct number of trained sailors on ships, while the Air Force has struggled to keep pilots and qualified maintenance personnel at all levels.

The competition for talent is fierce. The qualified pool is dwindling and the bars to service seem to be increasing. The culture of the generation the services are attempting to recruit and retain has also changed. They think differently. They communicate differently and define what they value differently than the generation of cur-

rent leaders, and certainly of those that develop the policies used today.

These are complex, hard problems and we are not going to solve them today. But what we can do is get smarter about how we think about solving them. Our witnesses are personnel experts and they are also expert in conceptualizing our approach to personnel problems. They can help us find new ways to collect and use data to make personnel decisions, suggest novel approaches for evaluating program efficacy, and think creatively.

We have a responsibility to take these problems seriously and not chalk up shortcomings to the inscrutable lifestyles and preferences of quote, the kids these days, unquote.

Leadership means listening to and learning from those we serve. And the great benefit of living in the 21st century is that even when the people we wish we could talk to are too busy texting on their cell phones and playing, I do not even know if Candy Crush is popular today, we can collect data on them and just learn in the aggregate.

I believe the services need to think creatively and beyond their current cultures about how to manage people. The central question for you today is, how can we create a 21st century service personnel set of policies that are appropriately managed and sufficiently flexible in order to recruit, retain, and compensate the right mix of talented service members throughout their career to sustain the All-Volunteer Force?

I am interested to hear from our witnesses their views on what the future requirements are for effective military personnel policies, and what effect these policies may have on the All-Volunteer Force.

But before doing so, I would like to offer Ranking Member Kelly an opportunity to make his opening remarks.

[The prepared statement of Ms. Speier can be found in the Appendix on page 31.]

STATEMENT OF HON. TRENT KELLY, A REPRESENTATIVE FROM MISSISSIPPI, RANKING MEMBER, SUBCOMMITTEE ON MILITARY PERSONNEL

Mr. KELLY. Thank you, Madam Chairwoman.

I wish to welcome our witnesses to today's hearing. There can be no doubt that the United States military is the greatest in the world and that the key to our success is the people. Less than one percent of U.S. citizens volunteer to serve in the military and the officers, warrant officers, and enlisted members who make up our current force are among the highest quality that we have ever had.

Nonetheless, there are signs of stress within our force. The Army will again this year miss its recruiting goals while the Air Force continues to experience a critical pilot shortage. Similarly, many of the Reserve Components continue to struggle to meet their end-strength missions. It is clear that there are many issues contributing to the problem including a strong economy, record low unemployment, and a low propensity to serve among today's youth.

In that light, I want to thank the chairwoman for holding today's important hearing on military personnel policy.

The Defense Officer Personnel Management Act, DOPMA, and the Reserve Officer Personnel Management Act, ROPMA, represent the statutory foundation for officer accession, promotion, and separation. DOPMA and ROPMA have served us well for over 40 years and the fundamentals of the up-and-out system are integral to maintaining a talented and dynamic force.

Before making additional changes to personnel management, we need to clearly understand what the problem is, specifically we need to understand why officers are electing to get out of the military and what would have kept them in the service.

The Defense Department already has much of the data necessary to answer these questions, but my perception is, is they are not leveraging this information in order to make informed decisions. It is amazing what all the in-line and online information that we have today that can tell you what your shopping preferences at Wal-Mart are, but we can't tell why soldiers are getting out of the military.

While Congress has made several changes in the last few years related to DOPMA, I am interested to hear from our panel about how to improve Reserve officer management; particularly I look forward to hearing how we can improve permeability between the Active and Reserve Components and enhance the quality of life and predictability for the total force.

I am also interested to hear from the witnesses how we can improve recruiting and retention to the warrant officer corps. These professionals provide needed experience and technical expertise that is integral to military readiness, and I would like to hear how we can best incentivize them to stay until retirement.

Finally, I am interested to hear from our witnesses about preserving adequate compensation for our service members.

While increased compensation is not going to solve all of our recruiting and retention problems, it is an integral incentive. It is important to note that 71 percent of young Americans between the ages of 17 and 24 are not physically or mentally able to serve. That means the military services in many cases are competing head to head with civilian industries for the same 29 out of every 100 students who are eligible to serve, a very small and ever-shrinking pool. In short, the services must remain competitive and assure that our service members continue to receive the pay and benefits they so richly deserve.

With that, Madam Chairwoman, I yield back.

Ms. SPEIER. Thank you, Mr. Kelly.

We are now going to hear from our witnesses and each member will have the opportunity to question the witnesses for 5 minutes. And we ask the witnesses to try and limit their comments to 5 minutes. I know that is going to be tough, so we will give you a little latitude.

Let us start with Dr. Beth Asch, who is the senior economist at the RAND Corporation. Welcome.

STATEMENT OF DR. BETH J. ASCH, SENIOR ECONOMIST, RAND CORPORATION

Dr. ASCH. Thank you. Chairwoman Speier, Ranking Member Kelly, and distinguished members of the subcommittee, I would like to thank you for this opportunity to testify today.

Recently Congress and the services introduced measures to increase the flexibility of military personnel management to better reward performance and to meet emerging requirements in fields such as cyber. But any effort to improve retention, performance, and talent management should also consider how the current military compensation system might need to change, since military compensation is also a critical strategic human resource tool.

My comments today focus on this topic and the main conclusion is that research points to several areas for possible improvement in the compensation system. And I expand on this in my written testimony.

The first concerns the setting of the level of military pay, specifically it should be ascertained whether the appropriate benchmark for setting military pay is above the 70th percentile of civilian pay for individuals with similar characteristics.

Since the early 2000s the 70th percentile has been the guiding factor in setting military pay. In ascertaining whether the appropriate benchmark now exceeds the 70th percentile it is important for the services to identify the qualifications and the quality of the force that is required and whether military pay is the most cost-effective means of achieving that force compared with other policies that might be used.

The second area for improvement is the annual pay adjustment mechanism which determines the annual percentage increase in basic pay. The annual adjustment is based on the Employment Cost Index, or ECI. Unfortunately, the ECI does not seem to track accurately, excuse me, or accurately track the opportunity wages relevant to military personnel. In particular, measuring the pay gap using the ECI did not perform well historically in terms of tracking outcomes like recruiting and retention.

The implication is that the functioning of the ECI needs to be re-evaluated and alternative approaches for setting the annual pay increase should be assessed. This is important, because poor functioning of the pay adjustment mechanism should be minimized, especially given the growth of military personnel costs.

The third area for possible improvement is the structure of the military pay table. In particular, the structure of the officer pay table might need to be adjusted to embed stronger incentives for performances.

A first look at the structure of the officer pay table suggests that pay in the upper ranks may be overly compressed and may not provide adequate retention and performance incentives over a career. Related to this, some use of performance-based longevity pay increases should be explored.

Today, intra-grade performance incentives are weakened by the lockstep nature of longevity increases in the current pay table. One potential way to embed performance incentives is the use of a time-in-grade pay table, or an appropriately structured constructive credit within the current time-in-service pay table.

The fourth area is the setting of special and incentive pays or so-called S&I pays. The roughly 60 different S&I pays are intended to be a source of flexibility and efficiency. S&I pay might be improved in three ways.

First, research has argued that S&I pay should comprise a larger share of cash compensation to improve pay flexibility and efficiency.

Second, some S&I pays could be set to better sustain and reward performance. And third, S&I pays that are currently flat dollar amounts could be more cost effective if they provided an incentive to select a longer service obligation.

The fifth area of consideration is the new military retirement system. Under the new Blended Retirement System or BRS, it will be important for the services to ensure that continuation pay for officers is set high enough to sustain officer retention.

RAND research predicted that for enlisted personnel, the appropriate continuation pay that sustained retention was found to be the congressionally mandated minimum. But for officers the analysis found that continuation pay should be substantially higher to sustain retention, because the move to BRS is predicted to have a larger effect on the retention of officers than enlisted.

Sixth, efficiency of personnel policy might be improved if compensation was used to a larger extent to induce volunteers to take more taxing and critical assignments, locations, and occupations. In the future, more elements of compensation could be market—based on market mechanisms.

And finally, achieving non-traditional careers could also require changes in the military compensation system. Recent personnel reforms have not considered whether following a less traditional career path will also mean a less traditional pay trajectory over a career. And importantly, whether the current pay system can easily accommodate these non-traditional pay trajectories.

Thank you again for this opportunity, and I am happy to answer any questions.

[The prepared statement of Dr. Asch can be found in the Appendix on page 33.]

Ms. SPEIER. Thank you, Dr. Asch.

Next, Doctor, I mean Mr. Todd Harrison, Director of Defense Budget Analysis, Center for Strategic and International Studies. Welcome.

STATEMENT OF TODD HARRISON, DIRECTOR OF DEFENSE BUDGET ANALYSIS, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

Mr. HARRISON. Thank you.

Chairwoman Speier, Ranking Member Kelly, and members of the subcommittee, thank you for the opportunity to testify today.

The Department of Defense in many ways is on an unsustainable trajectory. By almost any measure, the size of the force is nearly the smallest that it has been since the end of World War II. Total Active Duty end strength reached a post-World War II low of 1.3 million in 2016.

Since the peak of the Cold War, the number of ships in the Navy has been cut in half. The number of aircraft in the Air Force has

been reduced by 44 percent. And the number of soldiers in the Army has fallen by roughly a third. Yet the base defense budget, when adjusted for inflation, is the highest it has been since the end of World War II, higher than the peak of the Reagan buildup in fiscal year 1985.

The long-term trend is clear. We are spending more and more for a progressively smaller force. There are many reasons why the budget has been growing while the size of the force has been declining. One of the main reasons and the focus of this subcommittee is the cost of personnel.

Over the past 20 years the average cost per Active Duty service member grew by 59 percent, or roughly 3 percent annually above inflation. These figures do not include overseas contingency operations funding or other military personnel-related funding outside of the DOD [Department of Defense] budget such as veterans' benefits and services. If these other costs are included, the growth is substantially higher.

In the long term, this level of growth is unsustainable because it means that if the DOD budget is flat and only grows with inflation the military will be forced to get smaller and smaller over time.

Too often over the past 20 years, Congress and DOD have turned to a limited set of compensation options to try to correct for deficiencies in the overall personnel system. When a problem is encountered in recruiting and retention, a typical response is to increase the overall pay scale or add bonuses and special pays for key personnel. And when that proves insufficient, even more compensation is heaped onto the pile.

For example, the Air Force has had trouble retaining pilots for several years. To curb the exodus of experienced pilots, the Air Force was offering bonuses of up to $225,000 for a 9-year commitment. But only 55 percent of eligible pilots elected to take the bonus in 2015.

The Air Force increased the bonus in 2017 to up to $455,000 for a 13-year commitment and the take rate fell even lower to 44 percent. As this example demonstrates, we are throwing money at problems with diminishing effects.

When service members make decisions about whether to join or stay in the military, compensation is just one of many factors involved. A key impediment to reforming the military personnel system is a lack of hard data on how service members value changes in personnel policies beyond just compensation.

Too often, decisions are made based on anecdotal evidence or the opinions of experts rather than testing and analysis. We can do better, and our service members deserve better. What matters in the end is not how much something costs to provide, but rather, how it is valued by the person who receives it. The way a person values something is a matter of personal preference and these preferences can and likely will change over the course of one's career.

Moreover, the preferences of one generation of service members may be entirely different than those of their current leadership and of the generations that preceded them.

Before making changes to compensation and personnel policies, we need to understand how the service members affected will value those changes relative to other factors that could also be adjusted.

For example, it is insufficient to simply model how high the pilot bonus should be raised without also considering other alternatives such as offering these pilots greater stability in duty location, more predictable deployment schedules, or more input into their next assignment.

We need to understand these tradeoffs and alternatives and the relative values service members place upon them.

To help recruiting and retention, and to put the military on a more sustainable fiscal trajectory, we need to collect better data from service members on their preferences for changes to compensation and personnel policies.

The goal of measuring these preferences is to identify opportunities where DOD can maintain or improve the attractiveness of its compensation package and personnel system in a cost-effective way. More importantly, proposed changes should be tested through surveys and, where possible, through controlled trials in a subset of the overall population before being rolled out to the entire force.

While it is only practical to have OSD [Office of the Secretary of Defense] and the services manage this process of experimentation and data collection, Congress can play an important role by setting the parameters for what changes should be tested, providing the necessary authorities, and holding senior leaders accountable to make sure it gets done.

We should not continue to throw money at recruiting and retention problems and hope things will improve while some of our best and brightest continue to leave the military or never join in the first place. Nor should we make changes to the personnel system without understanding the effects these changes are likely to have on the force.

In many areas, we have reached the point of diminishing marginal utility in our compensation system. A new evidence-based approach is required that looks at the full range of options to optimize the military personnel system.

Thank you.

[The prepared statement of Mr. Harrison can be found in the Appendix on page 49.]

Ms. SPEIER. Thank you, Mr. Harrison.

Now we are going to hear from Mr. Peter Levine, who is a senior fellow at the Institute for Defense Analyses. Welcome.

STATEMENT OF PETER LEVINE, SENIOR FELLOW, INSTITUTE FOR DEFENSE ANALYSES

Mr. LEVINE. Thank you, Madam Chairwoman. Thank you Ranking Member Kelly. Thank you both for inviting me here today to participate in this hearing.

We have an extraordinary military, but building and maintaining the human capital that we need is an ongoing challenge.

As the chairwoman indicated, about one in six of our young people today will meet the academic standards for recruitment and are otherwise eligible to serve.

The numbers are even more daunting when you look at the high skills such as technological savvy and computer literacy that are increasingly needed for the future force, and for which we are in direct competition with the private sector.

Under these circumstances, we need to do everything we can to expand our talent base and not shrink it. That is why our search for talent must draw on every sector of our society. Without women, for example, our force would not only be smaller it would be significantly less capable.

I agree with the ranking member that the basic framework of our up-or-out system remains sound. DOPMA continues to play a vital role in providing the stability and predictability that young officers need to plan career and that personnel chiefs need to plan the future force. It also contributes to the development of our young officers by ensuring that the officer corps is continually refreshed and by providing a highly competitive environment in which it is possible to provide responsibility to developing leaders at an early age. However, we do need new flexibilities to meet new needs.

Our acquisition workforce for example faces the challenge of trying to acquire cyber, space, software, artificial intelligence, and other new technologies from an industrial base that is no longer dominated by the traditional defense contractors.

Despite unprecedented attention to strategic planning and requirements, promotion patterns and career development opportunities over the last decade, we continue to hear about critical gaps in acquisition skills and capabilities. Some of that shortfall is attributable to a risk-averse culture that has become overly dependent on traditional ways of doing business. But I don't think we should overlook the part played by the officer management system.

Under the best of circumstances, it takes 10 to 15 years to build a skilled manager with the training and experience needed to guide the acquisition process. For military officers it takes 5 to 10 years longer because we rightly insist on rotational assignments so that our acquisition professionals will have the muddy boots needed to understand how the military works. The result is that just as acquisition officers develop the specialized skills and experienced judgment that we so desperately need, they are pushed out the door into early retirement.

A few years ago, Bernie Rostker of RAND wrote that the DOPMA tenure and retirement rules fail to meet the needs of the military intelligence community because they truncate and terminate military careers just when intelligence officers have gained the experience necessary to make them truly productive.

He suggested we might need to try 40-year careers in this kind of specialty field. The same prescription may be appropriate for the military acquisition workforce. Fortunately, the DOPMA changes included in last year's NDAA [National Defense Authorization Act] provide a pathway for cautious experimentation with such changes. I urge you to stand by those changes and closely monitor the manner in which they are implemented. We need to change, but we cannot afford to break the existing system as we seek to improve it. Thank you for inviting me to testify today and I look forward to your questions.

[The prepared statement of Mr. Levine can be found in the Appendix on page 54.]

Ms. SPEIER. Thank you, Mr. Levine.

Thank you all. I was particularly shocked by the data that Mr. Harrison provided about the Air Force. And it is one thing to know that we kept adding bonuses in an attempt to get the number of pilots to retain the numbers we need for the force, but to see that the numbers actually went down the bigger the bonuses got was very disheartening, which underscores what all of you are really saying, that it is more than money. So I would like to ask each of you to give us your thoughts on how we can recruit the talent that we need without just throwing money at it.

Dr. Asch, would you like to begin?

Dr. ASCH. Yes. So thank you. So my understanding of the Air Force situation specifically is that actually they have been moving towards a number of non-monetary activities including more stability, more time flying, and so forth. And we have RAND research—that is not my expertise, but we do have RAND research that we could send the committee that speak to many of these non-monetary activities that have been going on.

It is not—you know, as somebody who studies carefully data on things like the effects of bonuses on retention, it is often not surprising that we see when bonuses increase retention falls, and what that is telling us is the bonus wasn't high enough or—and so now that doesn't mean that it has to be in the form of money. There could be non-monetary options, but in fact what it is saying is that given the growth of civilian demand, we know that civilian demand in the major airlines has increased dramatically as a result of retirements, a retirement boom that is happening in the major airlines, the economy grows, that causes the major airline industry to grow, and also changes in requirement of flying hours.

All that has resulted in increasing demand for pilots of which—which is affecting military—the demand for military pilots. So the competition is particularly fierce. Is it only about money? Of course not, and efforts are being made to not just deal with money, but money also helps and in fact bonuses are effective and there is a question of whether the cap of—the current cap of $35,000 per year of obligated service is sufficiently high given the nature of the demand and its continued growth in that field.

Ms. SPEIER. The Army didn't meet its goals for recruitment.

Dr. ASCH. That is an enlisted issue, and I can speak to that if you would be interested. So recruiting is particularly challenging right now because of—as Ranking Member Kelly mentioned, I think you mentioned—we have a growing economy, an economy where the unemployment rate is particularly low, great civilian job opportunities, and at the same time we have a force that is growing. Those are like—almost like the perfect storm, if you will, of difficult recruiting.

And so what that means is that we have to work hard at getting recruiting right. It means increased resources, but also doing resources smartly. It is not just about across-the-board pay raises.

It could be about recruiting, getting the right recruiting, selecting recruiters correctly, incentivizing recruiters.

It can be about more advertising, more intelligent advertising, targeted advertising, managing the recruiting enterprise more smartly, and frankly, even expanding selection criteria so that we can deal with the issue that only—that 70 percent of young people are not eligible to enlist.

Ms. SPEIER. Mr. Harrison, your comments on what, besides money, is going to get us the kinds of talent and recruits that we want.

Mr. HARRISON. I think we are continuing to ask the wrong questions here, right, that it is—we shouldn't just be focused on what is the right level of bonus, because if you are facing a retention challenge and you raise the bonus and not that many people take it, then obviously raise it more. At some point though, you raise the bonus to a level where you cheapen the value of service and that you do not want a force where people are just choosing to stay because you are giving them so much money.

I don't—I think that undermines the ethic of service that is a great tradition of our military. We should be really careful when we start to reach that limit. And I think when we are talking about bonuses that are reaching up to like half a million dollars almost, that we should be worried about that. I think there are better ways to look at it.

So, first of all, I would want to see exit survey data on all the people who elected not to take the bonus, and maybe they are even staying in a few more years because of the service commitment, I would want to do a comprehensive survey to figure out why did these people choose to not take the bonus. Let's ask them all kinds of questions about why and then let us look at that data so we can get some answers, because we may find, sure, some of the people might say it was enough of a bonus to compete with a job offer from an airline.

Other people might say, actually it is the deployment cycle. Or, I have got a kid in high school and I am going to be due for a PCS [permanent change of station] move in a few years, and I don't want to have to move my kid out of the high school again. You know, there could be a variety of factors here. Many of them could be in our control and maybe non-monetary entirely.

Another approach with bonuses is to have more of a bidding system.

The problem with a fixed bonus level of so many dollars per years of commitment is that of the people who take it, some of them were going to stay anyway. So we are just paying money we didn't need to pay. And of the people who don't take it, some of them might not have taken it for any amount that we would have offered, because it is totally non-monetary reasons that they are leaving.

A bidding system allows you to let people bid and just say to them, instead of us telling you here is how much we will offer for you to stay for a certain amount of time, let them bid on what they think that they—they are willing to stay for, what amount of bonus would be enough to let—to induce them to want to stay. You can then rank them in order from smallest to largest and start awarding that way and work your way through until you run out of whatever your bonus allocated amount of money is.

We have tried this—I think the Navy has done something like this in other areas but a dynamic bidding system seems it would make a lot more sense to actually target and get people at the right level, whatever their reservation price is, if that is what we are going to try to do. But, again, I think the best thing we could do is to understand why they are turning down the bonus, why they are leaving the service, what are the big issues and what are the non-monetary things we can start to address to keep service members.

Ms. SPEIER. Thank you. Mr. Levine.

Mr. LEVINE. First, let me admit up front that a couple years ago as acting Under Secretary for P&R [Personnel and Readiness], I did support the Air Force proposal to raise the cap on the flying bonus—on the pilot's bonus to address a crisis that they saw they had then. I believe though with you that that is a short-term and sometimes even shortsighted solution, that you need to look at long-term solutions.

To me, let me just say about the bidding system, I understand the bidding system from an economist point of view. I am troubled by it from a military point of view.

I think that one of the main things that we need to do with our compensation system is keep faith with our—with our force and one of the things that our force is structured around is the idea of equity, and I am a little bit troubled by the idea that you would have two pilots doing the exact same job and they would be paid differently because one of them held out longer than another one. I think that that strikes at some of core values that we have for our military.

So what is—what is my non-monetary solution? I think that there is a range of solutions that revolve around showing the people who are serving that you value the service that they are providing, and that can go to the issue we heard about, for example with PCS moves, if that is the problem, how do you keep—how do you work with people to ensure that they can stay in a single place longer.

I think that there is a particular issue with pilots. It is widely said that we have more pilots at desk jobs than we have in flying jobs, and that most pilots want to fly, not to be at a desk. And so to have a pilot shortage, when you have your pilots who aren't flying, seems to me there is a fundamental structural problem that you need to look at. You can pay greater bonuses but if you could maybe just take advantage of some of those hours that your existing pilots would like to fly and aren't able to, that might relieve some of the pressure.

So looking at what it is that people value. Right now, what you are doing with bonuses is you are trying to fight against things that people don't like about the service they are providing. Instead of fighting against the things that people don't like about the service they are providing, you address those problems themselves, you might have better retention impact.

Ms. SPEIER. Right. Thank you. Mr. Kelly.

Mr. KELLY. Thank you, witnesses, again for being here. I had the privilege to serve in our military since the mid 1980s. And in the 1980s through 2003, we incentived people to join using college ben-

efits, get your college education. And I saw in 1990 a drove of those folks go out and say, "Whoa, I didn't know I had to go to combat for signing up, I thought I was just getting a college education." And I saw that again in 2003. Since 2003, that has changed because people understand when you sign up, there is the chance that you are going to deploy.

I think you are hitting on some high points with the service versus pay, pilots join to fly, not to be a commander, not to be a desk jockey. Different people sign up—as a former attorney, I also understand some people like to try cases, some people like to sit on the bench and oversee other people's cases, and some people like to do research. And if you are not happy in your job, and if you wind up trying cases but you hate it, you are not going to stay in the business and I think the military is the same way. We have spoken in the past about improving Active and Reserve Component permeability while increasing benefit parity between the Active and Reserve Components. What needs to be done to achieve this?

Mr. LEVINE. So I would say the single greatest thing that we can do is just something that I understand, which was something that was going on when I was at P&R and that I believe is coming close to coming back to the committee soon, which is addressing the duty status reforms so that we can get consistent treatment of Reserves when they are on duty and not have this—the system we have now where you bump from one category to another and you have people who are serving in comparable positions with different statuses and different requirements.

So I think that is the single biggest thing you can do. I understand this is moving forward. I hope it is moving forward, but as if—to the extent that we are able to experiment with the Active—with the Active Duty and develop new career paths for example, I think we need to look at how the Reserves fit into that. The ROPMA, I believe, was enacted about a decade after DOPMA and that may be appropriate—it may appropriate here that we experiment first with the Active Duty, but eventually we are going to need to make sure that we have parity there too to achieve the permeability we want.

Mr. KELLY. Any comment from you two?

Dr. ASCH. I fully agree with Mr. Levine that duty status reform is definitely very important. I would also just hearken back to the compensation piece. There have been proposals that have been looked at to better integrate the Reserve retirement system with the Active retirement system. In particular, an area of contention has always been waiting to age 60 to be able to begin claiming benefits versus the Active side, where you can immediately get benefits if you reach 20 years of service. There have been proposals and we have done a lot of research in that area and—that could potentially solve that issue of having greater equity, if you will, without sacrificing some of the force management benefits of the current system.

Mr. HARRISON. I will just one add thing. To the point of equity, I think we ought to stop and realize we are making an assumption here that equity actually matters to the troops in the way that we are talking about. You know, so before I would want to change the Reserve retirement system to try to make it more equitable with

the Active retirement system in terms of retirement age, let us go out and test that. Let us do some surveys and see if that actually matters to people, if that is a reason that people are leaving or if they would actually understand how to value this change in the system.

We can calculate how much it would cost, but we don't necessarily know how much the troops would value that change. And especially when it comes to deferred benefits, people at different ages and different ranks have very different discount rates in how they value deferred forms of compensation.

But also back to the earlier point in terms of equity if you are like in a bidding system with bonuses, if you are giving some people different levels of bonuses for the same commitment, we actually deal with this already today because in many career fields, some people will qualify for a bonus based on their cohort or their time in grade or whatever and someone else who is doing the job right next to them may not qualify for that same bonus or may not have elected it.

So we have people already serving in similar jobs, some who are getting the bonus and some who are not, and that lack of equity does not appear to be overly disruptive to the force. So I would just challenge this assumption that equity should be a priority when we are setting benefits. I think we ought to look at all of these things and measure them and see what really does matter.

Ms. ASCH. Sir, may I just add——

Mr. KELLY. Okay. Let me go to the next question because you all are going back and forth on things that I didn't ask, so let us stay on point I guess. Congress made a lot of changes to DOPMA in the past year giving the services even more flexibility. However, I am not sure that any of these changes will matter if services don't fundamentally change their culture. By that I mean that services must ensure they are honestly and effectively evaluating officer potential and not writing off officers with non-traditional career patterns.

How can the services best implement this cultural change? Again, we have broadening and assigning skills and everybody is not set for those. You have logistics officers that are treated the same as an infantry officer. Pilots who are treated the same. How do—how do we change that within the system to make sure that we are promoting the right people?

Dr. ASCH. Well, I will go first, which is—changing culture is difficult and in fact culture is important actually, because when you have a shared culture it gives allegiance to the organization, it can be a very good thing. But I understand your point. I think that the way to change the culture in this regard is that it has to be organic and it has to come from the services itself. And I think there are signs to indicate that.

The Army, for example, has put together a talent management group. The Navy has already moved forward on their Sailor 2025 I think it is called. They see that they have to bring in the cyber, they have to be doing things to meet their mission. And so I think the DOPMA reforms are actually ones that the services will organic—because they see the need for it that they will use, and then maybe eventually the culture will change. My guess, and it is simply a guess, is that the culture will continue but it will accommo-

date more flexible, non-traditional careers. In other words, we will still have the traditional careers but there will be an opportunity with these more non-traditional approaches.

Mr. KELLY. And I am going to move to the next question because I am trying to make sure I give other folks time. Mr. Levine, warrant officers have the benefit of prior enlisted experience and years of specialized technical expertise. We have done much to address officer management, not as much to address the warrant officer corps.

As we are doing—are we doing all we can to retain the right specialties within the warrant officer corps? Are there any specific policies that need to be changed in order to improve recruiting and retention of this population? You know, we have got them in maintenance and personnel and pilots, do we need those in cyber? Do we have the right mix or how can we improve that?

Mr. LEVINE. So I think we need to be aware of all the components of the total force, that goes to—it goes to officer and enlisted, it goes to Active and Reserve, it goes to military and civilian, it goes to organic and contract, and it also goes to special categories like warrant officers. And to me, the key to that is it is not necessarily compensational, I agree. You need to study that, make sure your compensation is adequate.

The key is making sure you value the service that people are providing. And I think the problem with warrant officers as much as anything may be that they get lost in the middle sometimes. We are paying too much—we are paying—we make sure we pay attention to the officer corps because they are central to our effort. We make sure we pay attention to the enlisted because we know that they are the bulk of the force, but sometimes—but are we paying enough attention to the special needs of the warrant officer? I am not sure we are.

It is a similar thing to what we face in the society as a whole where the middle skills—what they call the middle skills tend to get lost and aren't valued the way they need to be and we have good jobs that go vacant because people don't want to do something that isn't a valued occupation. So I think the most important thing we could do in that area is to show that we value the occupation, that it is something we can't do without.

Mr. KELLY. And I think we, as a society, often fail to identify issues or questions before we rush to a solution. And this next question is for you, Mr. Harrison. You mentioned in your written statement that the Defense Department needs to do more to gather and analyze data related to why officers and enlisted service members are leaving the military. I totally agree. What should the Department be doing to better understand service members' motivations for leaving and staying in the military? I think the data is there. I think we are just not using it. And please tell me how we can improve that.

Mr. HARRISON. I think a lot of the data is there and it is in databases that are in disparate places and in places that we might not think of as personnel data that is related to recruiting and retention. We know virtually everything about service members, their entire record of service. We know if this—if their duty assignment two tours ago was not their preference. We know if they had an

unaccompanied tour for 12 months 20 years ago. We have all of this rich data, we need to mine it and use it to develop predictive analytics.

I mean this is what corporations have gotten really good at doing in big data analytics. You know, a cellphone company, they are looking every day at your calling patterns and who is calling you and who you are calling, how you are using your phone and they are using that dynamically to predict whether or not you are likely to leave and go to a different service provider. And if they think you are, they are going to determine whether or not you are worth keeping as a customer, and if they think you are, if you are a high-value customer, meaning profitable, they are going to go after and try to keep you, they are going to give you different offers to try to lure you in.

They test all of this all the time. We have got a rich amount of data on our service members, their families, everything about their history. The real challenge I think is, with all that data, is pulling it all together in a useable form and having a group of analysts who will pour over that data and will look at it without bias, without prejudging and saying "I think this is going to be the answer," and look at it and say, "okay, on an individual level, what can we do better here with these people, what are the people that we are at risk of losing that we really want to keep and what can we do proactively."

You know, I think that is a real change in the way that we do a lot of our analysis. But you are right, a lot of the data is there. Some of the data that is not there, it is a matter of doing more targeted surveys that measure perceived value of things rather than just asking static questions. There are a lot of things you can do with online surveys now that you couldn't do 20, 30 years ago.

Mr. KELLY. I am gonna cut—you've answered that, so with that, I am going to yield back to the chairwoman.

Mr. HARRISON. Okay, absolutely.

Ms. SPEIER. Thank you. Ms. Escobar, you are next.

Ms. ESCOBAR. Thank you, Madam Chair, and many thanks to our panel. I very much appreciate the conversation and the diversity in views and I want to talk about a different kind of diversity and that is diversity within the ranks. According to media reports, as recent as last summer, Latino service members continue to be severely underrepresented in the upper military ranks despite the fact that their rate of military service has increased as their representation in the American population has also increased.

But across military services, the unfortunate truth is that diversity decreases as rank increases. So as we are discussing the various types of reforms to our personnel system, I would like for us to discuss building diversity in those ranks as well, and making sure that everyone has opportunity for success and access to success.

Recognizing the current disparity and knowing the human tendency of leaders to promote individuals who are similar to themselves and the natural role that networking and mentorship play in professional success, I would like for each one of the panelists please to answer the question of how we go about correcting this disparity, what steps we can take to ensure it in our talent pipeline

and leadership pipeline? And Latino service members also tend to end up in combat roles. Is there a disparity in promotions between combat service and support functions like logistics, administration, transport?

Mr. LEVINE. It is actually the other way around. The bias in promotion tends to be toward combat roles and toward the combat arms rather than away from it. The—I don't have a prescription of how to deal with the problem you have identified other than to just keep working at it and working at it hard.

When I was in the Department, I know that our senior military officers and our recruiting leaders in particular had their eye on that and were working on it as hard as they could. I can't tell you why the Marine Corps does better with recruiting Latinos for example than why—than the other services do. I know that is the case. I think it is probably cultural and it probably goes back to what you are saying, that people are comfortable with recruiting people who look like them, but also people are comfortable with going into a service where there are already people who look like them.

So in order to break through that, I don't know a solution other than working really hard at it, sending your recruiters to neighborhoods they are not going to, that they haven't been going to, making sure that you are working as hard as you can to get to that population, and doing what you can when you have people who are valued service members in your ranks to counsel them, to make sure that they know what the best paths are and what the routes are to promotion.

It is hard work and it is going to take—it is going to take place over a period of time, but I don't think we have any choice but to keep working at it.

Ms. ESCOBAR. Thank you.

Mr. HARRISON. I would offer one thing that—I do teach part-time on the side and I have always worried in my grading of students that there could be some sort of implicit bias that gets into it. So what I do is I grade blinded. I remove their names from their exams. So I am grading the exam not knowing which student's exam it is.

You could apply a similar principle to promotion boards and make them blinded where you remove the name, you remove any reference to gender, race, or whatever, and have them evaluated that way. And actually, consistent with my overall theme here of testing and experimentation, it would be interesting to do parallel promotion boards of the same candidates and have one promotion board blinded and then another promotion board unblinded and see if you do get difference in results.

Ms. ESCOBAR. Well and to your point and—and I definitely want our last panelist to answer the question as well, but to your point about collecting data and surveying individuals, it would also be interesting to get the perspective of those who have not risen to the top of the leadership pipeline about what obstacles they have encountered, about their own thoughts about the process and whether they think it has been fair or whether they think that the opportunities have been made available to them at all.

Dr. ASCH. So actually, this is to [Ranking] Member Kelly's point, this is an area where we actually do have a lot of studies and data, but unfortunately it hasn't been synthesized very well. And so there is a lot of information about promotion, about the choices that individuals make and how it differs by demographics. And my assessment from what I know is that it is—there is not a one-size-fits-all solution. So for example in the area of recruiting, one thing we know is that recruiter—recruiting is more successful when the recruiter has a similar demographic to the recruit. That is an example.

So it is a multi-step process about how the qualifications for occupations work, what kind of—what kind of guidance are people giving? Does it—is it biased? Is it—so it is multi-pronged, but fortunately there actually is quite a bit of data and information and survey data that I am aware of available both by studies such as at RAND, but also within the Department of Defense, there was the military leadership—MLDC, Military Leadership Diversity Committee a few years back. And so there are sources. I think what would be very useful is if somebody could compile that and sort of see where the gaps are.

Ms. ESCOBAR. Thank you.

Ms. SPEIER. Thank you. Next, we are going to hear from Mr. Bergman.

Mr. BERGMAN. Thank you, Madam Chairwoman. And thank you all of you for your testimony and your—and your hard work to this point. And as far as the Marine Corps and the recruiting, it is pretty simple. We look the young men, women in the eye and say, "we are recruiting you to go to the fight, we are going to go as a team, we are not going to leave you behind," it is no more complicated than that. Now, other services would do the same thing in their own way, but that is who we are as a culture.

Speaking of that, did any of your assumptions and therefore your assessments consider the unique differences between service missions? One quick example, we expect that 75—if 100 young men and women join the Marine Corps today, at the end of their first enlistment, they are going to say "it has been fun, been great fun, but I am out of here, I am on with life," okay? Other services want to keep those young and at that point NCOs [non-commissioned officers] longer because they have got different kind of skill sets. So were there any of those mission, you know the mission of the services considered?

Mr. LEVINE. So one of the things that I think is a good point in last year's legislation is that most of it is discretionary rather than mandatory, so it leaves it up to the services to determine which of the new authorities they think they are going to apply and how they are going to apply them. And I think that that is something that allows each of the services to build on its own culture and use an authority where it is appropriate for it.

I know there are some of the authorities for example that the Navy, the Air Force are planning to use them and the Marine Corps said yes, those are useful authorities to have, but I like the way that I operate right now and I am not going to use them and the legislation leaves them the flexibility to do that.

Mr. BERGMAN. Okay.

Dr. ASCH. I would just add that I agree with the point he made, but I would also add that we look at the data and the phenomenon you are referring to of different retention profiles by service are eminently obvious in the data. And so when we look—I mean it is—we see those differences in the data and then when we do analysis, we incorporate those differences that we see in the data.

Mr. BERGMAN. Okay, I would like to go down the ROPMA road for a minute here. Good we talked about DOPMA, and ROPMA is—and I think I already know the answer is—is ROPMA as good as it really needs to be at this point because of the fact that when we look at retention of different skill sets over the long term, let us say HDLD, high-demand and low-density assets that are high burnout in the Active Component, someone decides to leave Active service, but we—whether it is IT [information technology], intel, cyber, civil affairs, whatever it happens to be, is ROPMA as flexible as it needs to be going forward to transition some of those HDLD skill sets into the Reserve Component so you can maintain the expertise that now that staff sergeant or that major has acquired?

Mr. LEVINE. So I think that sometimes the legislation gets blamed for things that aren't the fault of the legislation at all. DOPMA and ROPMA both provide frameworks. They provide a great deal of flexibility within those frameworks even before last year's legislation, but more so with last year's legislation.

I think that we have a lot of the flexibility that we need to address specific needs of specific communities within the armed services, specific skill sets; there are places where we aren't using those and we need to move slowly on that because we don't want to break the system but we need to consider which skills are more appropriate in Reserves than the Active Duty for example and build those.

But I think that we need to be careful about saying, "Well, we are not getting everything we need, therefore, the legal framework is wrong." I think the legal framework is fundamentally sound and we need to figure out how to work within that to get the skills.

Mr. BERGMAN. So to go down that road for a quick second, is the 175—179-day limitation continuous Active Duty, then you count against Active Duty end strength, is that still in place?

Mr. LEVINE. I believe so.

Mr. BERGMAN. Is it time to get rid of that?

Mr. LEVINE. I don't have—I don't have a view on that.

Mr. BERGMAN. Well, the point is when you look at force management and you look at the commander's capability to bring on limited assets, we are not talking about big—we are not talking battalions, we are not talking squadrons, we are talking onesie, twosies, because the reason people used to ask for 179 days Active Duty for a reservist is that was all they could get by law whether they need them for 30 days or they need them for 230 days. But as we move forward with, you know we are here to be part of the solution here, but it means we need to change something in that 179-day limitation because nobody wants to go over end strength.

Mr. LEVINE. So I would say if you are talking about ones and twos, it is probably not something that is going to push you up against end strength and you may have more of a budget problem

than an end-strength problem, do I have the money to pay, to bring these folks onto Active Duty, have I budgeted it right?

Mr. BERGMAN. Okay. If you have got—if you are funding out of RPMC [Reserve Personnel Marine Corps]—and pardon me, I am getting to the acronyms now here. But the point is that yes, it is all about funding and I guess I am over my time. I yield back.

Ms. SPEIER. Thank you. Ms. Luria.

Mrs. LURIA. Well, thank you for being here today. And as we have gone through this, we have mentioned that there is data and there is a need to analyze the data more, as well as the fact that exit data would be useful information for us to be able to help craft these policy decisions.

And I am wondering, from any of the data that is available that you have reviewed, and I will put my question to Mr. Harrison, where would you say that military pay falls out in the scale of the different things such as job satisfaction, OPTEMPO, work-life balance, morale, and then a desire basically to have your boss's job and to continue to move up through the—in the chain of command; where would you say pay falls in all of those? Is it at the top?

Mr. HARRISON. So I would first caution that I have not seen data that I am adequately satisfied with that actually does the tradeoffs, that measures the tradeoffs that service members make among these very different forms of compensation and personnel system. In a study that I had done about 7 years ago now, we attempted to do this, but we did not have a statistically significant data set. It was not randomly chosen service members. It was whoever decided to take the survey.

And so it was more of a proof of concept, but we were trying to get at how you measure relative value that folks place on different forms of compensation. I do believe that the Military Compensation and Retirement Modernization Commission from several years ago, they did a survey like this. I believe they published the results, but I have not been through that thoroughly enough to know, but I think that is a place to look.

Mrs. LURIA. Okay. Well, I—I can take a look at that as well and I did find a Navy retention study from 2014 that the list I gave were some of the factors that they put in there. And also just speaking anecdotally for my 20 years of serving, as well, as an officer, and we are focusing on that the—the pay and compensation were good, they were sufficient, and I don't know myself or my peers were ever really looking at that.

And Dr. Asch, I appreciate your analysis in different ways of the breakdown of both time in grade and rank and what those deltas are in the pay structure. But I think that—that might be something that is helpful, but I don't find that to be the main thing that is going to drive people towards whether they stay or go and with the career path.

But what I think really is that we are making an investment in people once we bring them in, and we bring them in, there is a specific point they get to in their career and with the up-and-out model if you are in the out group, i.e., you didn't meet that particular career milestone that would lead—then lead to your next promotion, we don't have, I wouldn't even say an off-ramp, but a re-ramp to take the skills that that person has developed, whether

they would be a pilot that may never go to command, but is a really good pilot and wants to continue to fly, why continue to train a new pilot from scratch? The same thing with a variety of other career fields.

So I just wondered if you had anything to weigh in on that and whether you think that that type of alternative path system might be an effective way to maintain the talent that we have already invested in.

Mr. HARRISON. So I think that that is a very good way to try to maintain some of the talent we have invested in. Up-or-out promotion is great, but to a point, right? And there should be a way for people to rise to the level of their highest competence and not be pushed further, quite frankly. And if we just have a plain up-or-out promotion system like we've traditionally had, you keep pushing people to higher and higher levels of competence and eventually it exceeds their ability and then they get pushed out.

A lot of people know when they have reached that middle point where they are at their best, they are at their peak, and we should allow them to be able to stay there and stay for a much longer productive career as long as they are good use to the military and good at what they are doing.

Mrs. LURIA. Well, I appreciate that. And I know early on, and Dr. Asch, you also mentioned, I think in your statement, the refresh of the pool of officers coming in which is very important, so a balance between the two. But I felt like I often saw peers who have met that point of there was no longer an up and then it was an option for an out.

And I saw this almost like a sine wave both on the officer and enlisted side because you are always trying to meet the demand signal and the time to react to it is always somewhere in the past, so we seem to always have fluctuations where we grow and shrink, but we are never quite at the strength we need at a particular time.

So I really appreciate all of your inputs and studies into this and thank you for being here today. I yield my time.

Ms. SPEIER. Mr. Levine, you had I think a comment that you would like to make to Ms. Luria.

Mr. LEVINE. I think we need to be very careful about how we depart from up or out. I think that exceptions are fine, but I would hate to see us abandon it completely. We don't want to get to a point where we have the senior ranks jammed and there is no place for the younger people to move to.

And I also think that we have a second problem which is a great deal of difficulty saying no to people in the military. And so if there is a way to say yes, we will always say yes. The up-or-out system is something that enable—that forces a no decision in some circumstances, you are gone. So I don't have to say you are gone because you are inadequate and you don't meet our standards. You are gone just because that is what happens at this stage of a career.

If you just look at OERs [officer evaluation reports] and the ability to say this person isn't performing up to snuff, we don't have that ability strongly built into our culture. And I think that the back—that the backstop of the up-or-out system is something that helps us in that regard.

Mrs. LURIA. Well, may I respond just——

Ms. SPEIER. Certainly.

Mrs. LURIA. Well I agree completely that we need them. The main structure of our military system in rank should continue to be essentially an up-and-out structure, but I think that there are certain points in career milestones. We also talked about everything was always built to the 20 years, everybody was well, "get to 10, I have done this for 10, I have invested this time, so my goal is now just to stay for 20 so I can get the retirement."

You know, changing that end goal with a different and blended retirement system may adjust people's decisions at those milestone points. And then 40 years old is pretty early for somebody to say I am now retired from the military, get those benefits, and move on to another career. So maybe it is a longevity thing where somewhere between the 10- and 20- or 10- and 15-year point, we can get more out of the investment that we had if the up and out is not so stringently enforced in a two promotion board look cycle and it was extended.

So I think that up and out is essentially the culture of the military and that maintains the order and rank structure of the military, but I think that maybe a little bit more flexibility within that, especially when we talk about people's family planning choices, retaining more women. I mean, we don't have time to get into all of those things, but a lot of those are factors within people's decision.

Mr. LEVINE. I think I agree with absolutely everything you just said.

Mrs. LURIA. All right. Thank you. Sorry to take so much time.

Mr. LEVINE. We just need—we need flexibility in the system. We need just to be careful about how we do it.

Ms. SPEIER. Ms. Haaland.

Ms. HAALAND. Thank you, Madam Chair.

I have a question going back to diversity, and I mean I think you each can answer this question pretty quickly. Studies have shown diversity including diversity of race, gender identity, religion, and ethnicity, improve retention and reduce the costs associated with employee turnover or personnel turnover. And in your opinion, wouldn't the DOD benefit from diversity in that respect?

Mr. HARRISON. Absolutely. Always want to draw from a large as possible pool of people and get the best and brightest of that. So, we should absolutely cast the net as wide as we possibly can and try to recruit everyone we possibly can.

Mr. LEVINE. If we want to benefit from the talents that are available in our society, we have to be open to what our society has to offer and that's an incredible amount of diversity, it is one of our strengths.

Ms. HAALAND. Absolutely agree.

Dr. ASCH. I, of course, agree as well. And my sense is that this is an issue that the services are working actively on. Whether it is effective, I don't know, but I think that it is understood that it is important for the reasons my colleagues have mentioned.

Ms. HAALAND. Right. Yes. And it is seemingly important in our history, right, of having—I am thinking about the Navajo code talkers, for example. If we hadn't recruited Native Americans in

large numbers, perhaps we never would have known that they had something like that to offer our military.

But I am concerned about the transgender ban. I will just be honest with you. I feel like that's not benefiting our military. And so, in your opinion, do you feel that a policy such as that should be eliminated in order to not discriminate and keep that diversity channel open?

Mr. LEVINE. So, I am not going to directly address the transgender ban, but I was at P&R, in charge of implementing the former policy of accepting transgenders, and I would tell you that the position we started from was that we have several thousand transgender individuals in the military today and we have historically, and the question isn't are you going to have them. It's how are you going to treat them.

And so the approach that we took was given that they are in the military, what is the appropriate way to treat them and we thought the appropriate way to treat them was as individuals, to allow them to serve openly and to provide them the medical care that they needed.

Mr. HARRISON. In my own personal opinion, I don't see any reason to ban people from service based on gender or transgender status.

Dr. ASCH. As a researcher, my natural inclination is what are the costs and how will it affect the force. And my sense is from the research is that this is such a small population with a small cost relative to the overall size of the budget that it might be that it ultimately is not an issue in terms of readiness.

Ms. HAALAND. Thank you for that. And so, I guess, I think you can all answer this question also. Other than salary, are there other conditions such as housing conditions or frequent relocations that cause service members to leave? I know there has been an issue recently with military housing, for example, that hasn't met—actually has been dangerous to families. So, what is your opinion on that?

Dr. ASCH. So, what I would say is obviously mold and unlivable conditions is just unacceptable and it needs to be fixed, clearly. But we have to distinguish between the living conditions and the acceptability of the living conditions and the oversight and making sure that we are giving the right quality housing from the allowance.

And it is not clear that the allowance is inadequate frankly and in fact—so I think we have to make that distinction. The other point I would like to make is in the area of research and data in my view, there is inadequate research related to the effect of what I will call quality of life aspects of military service on retention.

There is a recent study that was completed on the MyCAA [My Career Advancement Account], the scholarship for military spouses. That was one of the first well—scientifically valid studies that have been done on that. But, what is the effect of commissaries? What are the effects of housing quality? All those things, we actually don't know.

I would like to say one other thing which is there has been some discussion about looking at exit surveys and people's attitudes towards and values of compensation, of course that is useful, includ-

ing the housing. But I would also say that ultimately it comes down to what is the effect on readiness and what is the most cost-effective way of meeting readiness goals using all the tools available.

So what I would say is what members say they value, what we found in research is what people say doesn't necessarily affect their behavior in terms of retention. So we need to be very careful including the quality of the housing. Thank you.

Ms. HAALAND. Thank you, Madam Chair. I yield.

Ms. SPEIER. Thank you. Mrs. Davis.

Mrs. DAVIS. Thank you, Madam Chair. And thank you all for being here. I appreciate it.

And I know that you have been talking a lot about having good data and asking questions and I wanted to just single out Mr. Harrison for a second, because I know we were having this discussion a number of years ago. And one of the conversations as I recall is that we often just don't ask and that if you don't ask, you are not going to get the information. It sounds like maybe there's a little bit more asking, but I am not sure that it is as focused necessarily as it could be.

And, Dr. Asch and I think Mr. Levine as well, I mean, you start talking about the quality of life issues, and we can't assume that people would select any one quality of life issue over another. But again, I guess, are people getting that, that we have to ask?

Mr. HARRISON. I mean, as Dr. Asch has just pointed out that we actually don't know how a lot of these things, PCS moves and the quality of the housing and things like that, we don't actually have good analysis and data to know how they affect things like retention.

And so, I think the answer is no. I don't think we are getting it yet, that these things are very important. I mean, just take commissaries, for example. How many times do we debate the value of commissaries over and over? It is $1.3 billion, $1.4 billion a year in the budget and we don't know how it actually affects service member recruiting and retention. I mean, we need to know that.

Mrs. DAVIS. Yes.

Mr. HARRISON. These are important questions. So I think we still have a long way to go.

Mrs. DAVIS. And maybe we just haven't figured out the best way to do that. But getting that input from you all is good.

I wanted to just turn to an area of parental leave because I think the parental leave policies make a great difference to our service members. We know that certainly from the private sector and having an equitable parental leave policy across the services has to increase retention, I would think. But, perhaps again, that is something that one has to ask.

And the next question is, and again, it is making that connection with people, is what kind of parental leave policy is it that people would like to see because we have both primary and secondary caregivers. And I know that I have spoken to a number of people and we tried introducing this in the past that it is best if both parents not necessarily continuously but at least over a period of time can be available with a new child. And the same goes for an aging parent that needs some assistance.

So what do we know about that and how would we begin to really ascertain what that looks like?

Dr. ASCH. So these type—this is a great example, child care, all these important benefits, it is not that we don't think—people don't think it is important. It is really hard to do an evaluation because they are—it is like it is important but I don't think about it.

And so what is needed is a data collection, a controlled experiment, but it takes resources and time and it really—it is not clear it is something that can be put to the—I mean, the services spontaneously will put it together. There needs to be resources to do valid testing of these things because it is very hard to collect data. Somebody who is very familiar with the data that are available on personnel. These data are not available in a way that is amenable to analysis. So, we need to collect the data and we need to do it within a framework of a controlled experiment that will take time and funding. Thank you.

Mr. LEVINE. So, we did just make the parental leave policies more generous a couple of years ago. I don't know and maybe Ms. Asch can do it, but I don't know how we separate out the impact of that from the impact of a lot of other things that have been going on in the military to determine how much of an impact that has on recruitment or retention.

The one thing I would say is I think that there is a piece that is a cultural piece, too. One of the things that Congress did last year which I think is a good thing is you made the Career Intermission Program permanent, which I think gives potential flexibility to young parents in a way that a leave period of several weeks does not, because if you could take a couple of years to be with a young child, that might really make a difference. The question is whether it will be acceptable within the military system to actually take advantage of that opportunity, and we won't know that for a while yet whether people will actually be able to do that——

Mrs. DAVIS. Can I interrupt you?

Mr. LEVINE [continuing]. And then be able to have careers afterwards.

Mrs. DAVIS. Yes, Mr. Harrison, just quickly, because my time is up.

Mr. HARRISON. Sure. I just want to reiterate that as Dr. Asch said, that it is a very excellent point that what people say in a survey does not always translate in how they act in reality. So, that is why I think this has to be a multi-phased approach. With any potential changes, you first need to ask through surveys, figure out if this looks like it might be a potentially good idea.

Then, you want to run small-scale, randomized, controlled trials and actually verify that these results are working in practice. It is not always possible to do that for something macro like the commissaries. But for things like parental leave, you could do trials like this; verify the results happen in reality. And then, once you roll it out to the whole force, you need to continually measure and reassess and understand do we need to change this, do we need to tweak it as time goes by, because the preferences of generations are going to change over time and the demographics of the service members coming in are going to change over time. And so, we have to respond to that.

Mrs. DAVIS. Thank you very much. Thank you, Madam Chair.

Ms. SPEIER. Thank you.

A couple of quick questions and then I don't know if we want to do another round or not. I believe we now have 12 weeks for service members for parental leave. Is that correct?

Mr. HARRISON. That sounds right. Yes.

Ms. SPEIER. Which is more than we have for staff of Congress, I believe, and certainly for Federal employees. So, that is a good positive.

One thing we haven't talked about is the number of women coming into the military and to what extent that should be changing the way we look at these policies. So, that is one question. Second question is the military of yesterday was made up of single people. The military of today is made up of couples, and how should that inform our decision making in terms of personnel policies? Each of you can just answer those two questions quickly.

Start with you, Mr. Levine.

Mr. LEVINE. Well, I think that it has to inform our decision making. The fact that we have more women and we are reliant on women for critical skills and capabilities that we absolutely need is why Secretary Carter wanted to extend the family leave policy. It is the basis for that decision. It was more self-interested than anything else. We need that in order to—his feeling was we need that in order to retain the force that we need.

And we do have a more married force. That's why something like career intermission may be a necessary step if we can use it effectively to be able to retain people that we haven't been able to retain in the past. One of the statistics that always interested me about the force is that male officers who are married stay longer. Female officers who are married leave sooner. And why is that? It is because of gender roles in society presumably, but it is a fact that we have to deal with.

We have to understand that that pattern exists and figure out how we deal with that so that we can retain female officers without putting them in a position where they feel they could never get married because if they do, then they are not going to be able to serve.

Mr. HARRISON. I would say to your point, it is not just that we have more couples in the military, more married people in the military. We are having more and more dual professional households, right?

We want to attract and retain the best and the brightest, the hard-charging people. Those people also tend to marry people like that themselves. And then we have to look at some of the policies of our career system like PCS moves when you are forcing families to pick up and move every couple of years. If the service member's spouse also has a profession of their own, sometimes jobs aren't that portable.

If you are a young attorney, getting up and moving to different States every couple of years, it is going to be very disruptive to your career and so I think we have to take that into account. And we have to also watch out for a self-selection system as Mr. Levine was just talking about, that you may have the people who choose to stay may be the people who this is not a problem for and their

family, and the ones who are getting out, it might tend to be those who this does create a bigger burden for them.

And so then when you have senior leaders who are making a lot of the decisions within the services about how often people should move and what their career path should be, they may be a subset of the population that does not reflect the overall population coming into our military. And so, we have to be conscious of that.

Ms. SPEIER. Academia does a pretty good job of recruiting a particular professor and typically the spouse is also highly educated but may not be recruited. But they find a way to help them locate a position either at the institution or somewhere. Do we do that?

Mr. HARRISON. I mean, I am aware there are many programs to help military spouses, but you can only go so far in helping a spouse attain appointment in a new location when you are forcing them to move so often. I don't think there is hardly anything you can do to mitigate that disruption in someone's career.

And you are still setting up a situation where the spouse's career, their profession is taking a back seat to the service member's. And that is going to cause a lot of stress in a lot of families and can lead people to self-select out of service.

Ms. SPEIER. Is 2 years something we should look at? Should it be 3 or 4?

Mr. LEVINE. Absolutely.

Mr. HARRISON. Absolutely.

Ms. SPEIER. Why didn't you say that in your comments? Okay. Dr. Asch.

Dr. ASCH. So just speaking about women, so focusing on recruiting, at least on the enlisted side, it appears that the issue, it has to do with women having a lower propensity to want to join the military. So the opening up of slots to women hasn't necessarily generated an increase in supply of women of—the women are half the population. We didn't see this massive influx.

And so, there is an issue of why aren't women joining, why do they have a low propensity and so forth on the recruiting side. On the retention side especially in the officer, women are more likely to leave especially at the key point, I think an O–3 point, and I think the career intermission and those sorts of programs could be quite helpful in that regard.

And I just want to make one point about single versus couples. I agree with the point of PCS moving and dual income but let me just make one point just from the evidence. What the evidence shows that military couples, it is not that they are more likely—what we see in the data is that military couples are more likely to get married sooner than their civilian counterparts. So it is really an issue of the timing of marriage as opposed to whether they ultimately get married.

Ms. SPEIER. Mr. Kelly.

All right. Well, thank you very much for participating today. You were very insightful and we will look forward to opportunities when we can pick your brains again.

This committee stands adjourned.

[Whereupon, at 4:15 p.m., the subcommittee was adjourned.]

A P P E N D I X

March 12, 2019

PREPARED STATEMENTS SUBMITTED FOR THE RECORD

MARCH 12, 2019

Statement of Representative Jackie Speier
Subcommittee on Military Personnel
"Outside Perspectives on Military Personnel Policy"
March 12, 2019

I would like to welcome everyone to this afternoon's Military Personnel Subcommittee hearing. Today we have a panel of experts who will share their perspectives on how to improve and modernize military personnel policy to sustain the all-volunteer-force. I want to thank our witnesses for participating and sharing their views on this important subject.

The services need to end business as usual. All too often, they are operating out of date, one size fits all recruiting and retention policies under inflexible cultures. I worry that this is hindering them from reaching and retaining the right talent. Too often, the response to proposed personnel reforms is "the system worked for me," "they know what they signed up for," or "that's not how it works." Those adages are simply not good enough. They are the hallmarks of a culture resistant to change, unprepared to face mounting challenges.

The services continue to use age old policies to shape the force instead of reshaping how end-strength is used. Meanwhile, the pool of recruits is contracting. 80% of recruits have family service connections, there's a highly competitive labor market, and many potential servicemembers don't meet physical standards or just don't want to serve. The status quo is not sustainable.

The Army for example was unable to meet its end-strength requirements in 2018 and will likely fall short again in 2019. The Navy has for close to a decade has not placed the correct number of trained sailors on ships, while the Air Force has struggled to keep pilots and qualified maintenance personnel at all levels.

The competition for talent is fierce, the qualified pool is dwindling, and the bars to service seem to be increasing. The culture of the generation the services are attempting to recruit and retain has also changed. They think differently, communicate differently and define what they value differently than the generation of current leaders, and certainly of those that developed the policies used today.

These are complex, hard problems and we're not going to solve them today. What we can do, though, is get smarter about how we think about solving them. Our witnesses are personnel experts and they are also expert in conceptualizing our approach to personnel problems. They can help us find new ways to collect and use data to make personnel decisions, suggest novel approaches for evaluating programs' efficacy, and think creatively.

We have a responsibility to take these problems seriously and not chalk up shortcomings to the inscrutable lifestyles and preferences of "kids these days." Leadership means listening to and learning from those we serve. And the great benefit of living in the 21st century is that even when the people we wish we could talk to are too busy texting on their cell phones and playing candy crush, we can collect data on them and just learn in the aggregate.

I believe the services need to think creatively and beyond their current cultures about how to manage people. The central question for you today is: how can we create Service personnel policies that are appropriately managed and sufficiently modern and flexible in order to recruit, retain, and compensate the right mix of talented service members throughout their careers to sustain the all-volunteer force?

I am interested to hear from our witnesses their views on what the future requirements are for effective military personnel policies and what effects these policies may have on the all-volunteer force.

Before I introduce our first panel, let me offer Ranking Member Kelly an opportunity to make any opening remarks.

Testimony

Military Compensation to Support Retention, Performance, and Talent Management

Beth J. Asch

CT-505
Testimony presented before the House Armed Services Subcommittee on Military Personnel on March 12, 2019.

For more information on this publication, visit www.rand.org/pubs/testimonies/CT505.html

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Military Compensation to Support Retention, Performance, and Talent Management

Testimony of Beth J. Asch[1]
The RAND Corporation[2]

Before the Committee on Armed Services
Subcommittee on Military Personnel
United States House of Representatives

March 12, 2019

Chairwoman Speier, Ranking Member Kelly, and distinguished members of the subcommittee, I would like to thank you for this opportunity to testify this afternoon. The Defense Officer Personnel Management Act (DOPMA) of 1980 is a key piece of legislation that governs officer management. In recent years, service leaders, Congress, and outside experts have come to the conclusion that DOPMA prevents the services from achieving certain personnel outcomes. It hampers the services' ability to recruit experienced civilians with specialized skills, such as cyber skills, or to accommodate nontraditional career paths, such as noncommand and technical career tracks. It provides insufficient opportunities for servicemembers to control their career trajectories, and it too closely ties promotions to rank and seniority, rather than performance. These concerns were highlighted in service leadership testimony to the Senate Armed Services Committee in January 2018.

The National Defense Authorization Act (NDAA) for 2019 created new authorities to address some of these concerns. It repealed the age limit of 42 for entry to the armed services; created more expansive constructive credit for relevant civilian labor market experience to allow direct commissioning (i.e., lateral entry) up to the grade of O-6; permitted merit-based promotion lists that allow officers up to five opportunities to compete for promotion; and allowed officers to opt out of promotion board consideration. At the same time, the services are also pursuing their own efforts. For example, the Army has established a Talent Management Task Force, and the Navy is pursuing its Sailor 2025 initiative to modernize personnel management and training systems.

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[1] The opinions and conclusions expressed in this testimony are the author's alone and should not be interpreted as representing those of the RAND Corporation or any of the sponsors of its research.

[2] The RAND Corporation is a research organization that develops solutions to public policy challenges to help make communities throughout the world safer and more secure, healthier and more prosperous. RAND is nonprofit, nonpartisan, and committed to the public interest.

But any effort to improve retention, performance, and talent management must also consider whether and how the military compensation system might need to change. Like personnel management, military compensation is a critical strategic human resource tool. It helps the services attract and retain sufficient numbers of personnel with the necessary skills and qualifications to meet grade and experience requirements. The compensation system has performed remarkably well over time, despite dramatic changes in the military and the environment in which it operates. However, the concerns that led to DOPMA reform, as well as recent service initiatives to improve retention, performance, and talent management, raise questions about the current compensation system.

My comments today focus on these questions about the compensation system. Several areas merit a closer look for possible improvement.

- It should be ascertained if the appropriate benchmark for military pay is above the 70th percentile of civilian pay or if higher personnel quality, if required, can be achieved through more-targeted investments, such as bonuses.
- The annual pay adjustment mechanism might better track external wages relevant to military personnel.
- The structure of the officer pay table might need to be adjusted to create stronger incentives for performance. Some use of performance-based intra-grade pay should be explored, including the possibility of a time-in-grade pay table.
- Special and incentive (S&I) pay might become more flexible and efficient by making these pays a larger share of cash compensation and (for some pays) making the amount more explicitly based on performance or service obligation.
- The services should ensure that continuation pay for officers is set high enough to sustain officer retention under the new Blended Retirement System (BRS).
- Personnel policy efficiency might be improved and servicemembers' control over their careers might be improved if more elements of compensation were based on market mechanisms.
- Nontraditional career paths could also require changes to the military compensation system.

Objectives and Elements of the Compensation System

Beyond the overarching manning objective, compensation must also help achieve three additional human resource objectives. First, compensation, together with personnel policy, must be designed to provide individuals with proper incentives to work hard and seek advancement. Second, compensation should help sort personnel effectively into the ranks and jobs where they are best suited, including retaining and promoting more capable personnel to higher ranks. In addition, individuals with low ability or effort should be induced to leave. "Climbing" (seeking ranks for which one is unqualified) and "slumming" (the converse of climbing) should be discouraged. Third, compensation and personnel policy should induce personnel to stay long enough to provide a return on their training and experience and to meet mid-career and senior personnel requirements. However, compensation and personnel systems must provide incentives for individuals to leave when it is in the services' best interest for them to do so.

Other objectives or principles of military compensation are that it should be efficient and effective in both peace and war; predictable and understandable; fair; and sufficiently flexible to adapt to changing technology and tactics, supply and demand, and the environment in which the military operates.[3]

Military compensation is a complex system of pays, allowances, and benefits. The foundation is basic pay, determined by the military pay table, through which personnel of the same rank and years of service receive the same basic pay. Allowances, provided tax-free, are intended to meet servicemembers' living needs, such as food and housing. Members may also receive one or more of the 60 or so S&I pays targeted to personnel in specific circumstances, such as personnel who have strong alternatives in the civilian market (e.g., medical professionals). S&I pays are also used when the demand in the military for a skill, such as a certain language, increases; when compensation is required to offset dangerous or difficult aspects of the work; when training costs are very high, as with pilots; and when skills are particularly specialized, as with chaplains.

The military retirement system is the centerpiece of the compensation system. Servicemembers become vested after 20 years of service, and active component members receive an immediate annuity. As such, retirement provides a transition benefit for military retirees and an old-age benefit when they exit the labor force entirely. The elements of the new BRS are discussed later.

Setting the Level of Military Pay

Economists have argued that setting military pay for a volunteer force means that pay must be sufficiently high to induce sufficient numbers of people with the required qualities to voluntarily choose to forego civilian opportunities. Analyzing data from the 1990s, researchers found that the services were able to recruit and retain the required the quality and quantity of officers and enlisted personnel when military pay was at around the 70th percentile of civilian pay for individuals with similar demographic characteristics.[4] This benchmark, at the 70th percentile of civilian pay, rather than the median (the 50th percentile), reflects the unique nature of military duty. Military jobs are often more hazardous, rigorous, and inflexible than civilian jobs, and a military career requires frequent moves. Servicemembers are subject to military discipline and are considered to be on duty at all times.

Since the early 2000s, the 70th percentile has been used as a guiding factor in setting military pay. Recent RAND analysis found that, over the 2000s, military pay relative to civilian pay

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[3] The objectives of military compensation are stated in the 2018 Military Compensation Background Papers as well as in the reports of the fifth (1984), seventh (1992), and 11th (2012) Quadrennial Reviews of Military Compensation. The Defense Advisory Committee on Military Compensation (2006) also reviewed the objectives of military compensation.

[4] Office of the Under Secretary of Defense for Personnel and Readiness, *Report of the Ninth Quadrennial Review of Military Compensation*, Vol. 1-V, Washington, D.C., March 2002; Beth Asch, James Hosek, John Warner, *An Analysis of Pay for Enlisted Personnel*, Santa Monica, Calif.: RAND Corporation, DB-344-OSD, 2001.

increased substantially.[5] Military pay is now above the 70th percentile benchmark and has been for some time; pay is at about the 90th percentile for enlisted members and at about the 83rd percentile for officers. Rising pay, allowances, and bonuses during the 2000s were needed to sustain recruiting and retention during wartime, when frequent and long deployments to Iraq and Afghanistan stressed the force. While military pay above the 70th percentile was critical for sustaining the force during wartime, the level of recruit quality is now also above the Department of Defense (DoD) benchmark for three of the four services. Throughout the services—with the exception of the Army—force quality, as measured by recruit aptitude, has increased considerably since the early 2000s. DoD requires that 60 percent of recruits have above-average aptitude.[6] The increase in recruit aptitude is not entirely surprising, as a large body of research shows that, all else the same, higher military pay is associated with an increase in the supply of higher-quality enlistments.[7]

It is important to understand that the 70th percentile is not a goal in and of itself. Compensation should be set high enough to meet manning needs, including personnel quality objectives. **The services need to articulate if their quality requirements have increased, given that recruit aptitude currently exceeds the DoD standard.** Perhaps the complexity and highly technical nature of today's defense environment requires a higher-quality force than in the early 2000s. If so, then perhaps the 70th percentile is not the right standard today, although research shows that military pay is not the most cost-effective instrument for improving recruit quality compared with bonuses and other targeted investments.[8] On the other hand, if the services do not require higher personnel quality, then they need to explain why the quality of their enlisted recruits is generally higher than the DoD standard.

The annual percentage increase in basic pay is a related issue. The annual pay adjustment is an important source of income growth for military members. Section 1009c of Title 37 provides a formula for the annual increase in basic pay that is indexed to the annual increase in the Employment Cost Index (ECI) for the wage and salary of private-industry workers. The military pay increase is measured as the 12-month percentage change in the ECI for the third quarter of the calendar year where previous years' values are used. For example, the ECI guiding the 2020 pay raise is the percentage change for the third quarter of 2018 relative to the third quarter of

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[5] James Hosek, Beth Asch, Michael Mattock, and Troy Smith, *Military and Civilian Pay Levels, Trends and Recruit Quality*, Santa Monica, Calif.: RAND Corporation, RR-2396-OSD, 2018.

[6] W. Steven Sellman, "Predicting Readiness for Military Service: How Enlistment Standards are Established," draft prepared for the National Assessment Governing Board, September 30, 2004.

[7] For a summary of these studies, see Beth Asch and John Warner, "Recruiting and Retention to Sustain an Volunteer Force," in *Routledge Handbook of Defence Studies*, David Galbreath and John Deni, eds., London: Routledge, 2018, pp. 87–97; Beth Asch, James Hosek, John Warner, "New Economics of Manpower in the Post-Cold War Era," in *Handbook of Defense Economics*, Vol. 2, Todd Sandler and Keith Hartley, eds., Amsterdam: Elsevier, 2007, pp. 1076–1138; John Warner and Beth Asch, "The Economics of Military Manpower," in *Handbook of Defense Economics*, Vol. 1, Keith Hartley and Todd Sandler, eds., Amsterdam; Elsevier, 1995, pp. 348–398.

[8] Recent research for the Army shows that the relative effectiveness of bonuses, recruiters and advertising depends on the recruiting objectives and the external environment (see David Knapp, Bruce R. Orvis, Christopher E. Maerzluft, and Tiffany Tsai, *Resources Required to Meet the U.S. Army's Enlisted Recruiting Requirements Under Alternative Recruiting Goals, Conditions, and Eligibility Policies*, Santa Monica, Calif.: RAND Corporation, RR-2364-A, 2018).

2017. That said, the statute also allows the President to specify an alternative pay adjustment, so that the ECI is ultimately only a guide for adjusting basic pay. Recruiting and retention outcomes also inform the recommended pay raise. Historically, the military pay increase has often deviated from the increase in the ECI.

Using the ECI to compare military with civilian pay growth has the advantage that the ECI is readily available from the Bureau of Labor Statistics, and its use is codified in law. Further, it provides easily understandable information to military personnel about the nation's commitment to maintaining comparable pay. However, to function well, the ECI as an adjustment mechanism must be relevant to military enlistment and reenlistment decisions. A 1992 RAND study analyzed data between 1982 and 1991; although military pay lagged substantially behind the growth in the ECI, the services recorded no major recruiting and retention problems during this period.[9] That is, measuring the "pay gap" using the ECI did not accurately track force management outcomes.

The problem with the ECI is that it does not accurately track the opportunity wages relevant to military personnel. The ECI is based on data from private industry wage and salary workers who are older and have a different mix of education and occupations than military personnel. Further, the size of the ECI-measured "pay gap" is sensitive to the base year chosen, so measures of the gap have an arbitrary component.[10] Other pay adjustment mechanisms could be used that better reflect the demographics of military personnel. A RAND study developed the Defense Employment Cost Index (DECI) for this purpose; pay gap comparisons using the DECI found that it tracked military enlistment and reenlistment more accurately than the ECI.[11] That said, the ECI is available quarterly, while the DECI is an annual metric, and the ECI is less influenced by the more variable wages of young workers and so is more stable over time.

The DECI did not gain DoD or congressional acceptance when it was proposed in the 1990s[12]—but the ECI still has clear disadvantages. **The functioning of the ECI as an appropriate pay adjustment mechanism needs to be reevaluated and alternative approaches, including the DECI, should be reassessed with more recent data.** Inaccuracies in the pay adjustment mechanism should be minimized, especially given the growth in military personnel costs.

Structuring the Pay Table

Receiving much less attention than the annual adjustment to pay is the question of whether the structure of the military pay table is set appropriately. By structure, I mean by how much pay increases when a member is promoted, how much pay increases within a grade, and how these

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[9] James Hosek, Christine E. Petersen, Jeannette Van Winkle, and Hui Wang, *A Civilian Wage Index for Defense Manpower*, Santa Monica, Calif.: RAND Corporation, R-4190-FMP, 1992.

[10] James Hosek, Beth Asch, Michael Mattock, Troy Smith, *Military and Civilian Pay Levels, Trends and Recruit Quality*, Santa Monica, Calif.: RAND Corporation, RR-2396-OSD, 2018.

[11] Hosek et al., 1992.

[12] See Congressional Budget Office, *Evaluating Military Compensation*, Washington, D.C.: U.S. Government Printing Office, June 2007.

pay increases are sequenced across grades and by longevity. This question is closely tied to retention, performance, and talent management because the structure of the pay table can affect performance and retention incentives for the best and the brightest. These incentives are produced when future outcomes such as higher compensation in the pay table is made contingent on current performance.

The structures of the commissioned officer and the enlisted pay tables have changed periodically since the end of World War II as a result of the addition of new grades in 1958, targeted pay raises such as those given in 2000–2004, and the extension of the pay table to 40 years of service in 2007. As with the level of pay, whether the pay tables are structured appropriately comes down to whether the services are satisfied with the performance and the retention of military personnel and these objectives are achieved at least cost. Recent DOPMA reform efforts, as well as service interest in improved talent management, suggests that it is prudent to consider whether the structure of the pay tables remain appropriate.

A first look at the structure of the officer pay table suggests that pay increases across rank may be overly compressed and may not provide adequate retention and performance incentives over a career. **For that reason, the structure of the officer pay table should be reevaluated to assess if the observed compression is appropriate.**

Research tells us that in a hierarchical organization like the military, the pay structure should be skewed across ranks for personnel to see a continuing reward to performance as they move up the ranks.[13] "Skewed" means that the increase in pay associated with promotion rises with each subsequent promotion to a higher rank, so that the promotion pay bump is greater in upper than in lower ranks. For example, in a skewed pay structure, the pay bump associated with a promotion to O-7 should be higher than the pay bump associated with an O-6 promotion, and the O-6 pay bump should be larger than the O-5 pay bump, and so forth. It is important to note that the "pay bump" can occur in the form of both monetary and nonmonetary rewards, and even monetary rewards can take the form of other types of compensation, such as retirement or other deferred benefits—including better postservice civilian opportunities.

The military needs a skewed pay structure for three talent management–related reasons. First, larger pay raises in the upper ranks provide performance incentives for those in the more junior ranks, since those who perform well will have a higher chance of reaching those upper ranks and higher pay. Second, since more talented people are more likely to get promoted, a skewed structure motivates them to stay in the military and perform well. From a talent management perspective, it is important for the most talented to stay and seek advancement to the upper ranks, as the actions of those in the upper ranks have spillover effects on those in the lower ranks. Third, a skewed pay structure system addresses a key feature of the military's promotion system: Namely, performance incentives will tend to decline as one moves up the ranks, for two main reasons. First, those in the upper ranks have lower promotion probability than those in the lower

[13] See Beth Asch and John Warner, "A Theory of Compensation and Personnel Policy in Hierarchical Organizations with Application to the United States Military," *Journal of Labor Economics*, Vol. 19, No. 3, 2001, pp. 523–562; Michael Bognanno, "Corporate Tournaments," *Journal of Labor Economics*, Vol. 19, No. 2, 2001, pp. 290–315; Sherwin Rosen, "Prizes and Incentives in Elimination Tournaments," *American Economic Review*, Vol. 76, 1986, pg. 701–715.

ranks and so a lower probability of receiving a promotion-related award. Second, competition for promotion is keener in the higher ranks. People who are not a good fit tend to be weeded out in the junior ranks, so those competing for a promotion to the upper ranks tend to be better performers. The keener competition makes it harder to earn a promotion in the upper ranks, thereby reducing performance incentives. The pay structure must be skewed to offset declining performance incentives and sustain incentives for performance across the officer pay table.

The current officer basic pay structure is not skewed but appears compressed.[14] Under a skewed structure, the increase in pay associated with each subsequent promotion should increase with rank. Instead, under the current officer pay structure, the increase in pay associated with each subsequent promotion is roughly the same. Faster or slower promotion has relatively little effect on this finding.

It is possible that other factors have reduced the required skewness of the officer pay structure. Individuals may value sufficiently the status and other nonmonetary factors associated with higher ranks; military training may be sufficiently less transferable to the external market; and team-oriented work may make large pay variations across ranks seem likely to erode cooperation and esprit de corps. Finally, retired pay could provide an important source of skewness.

The structure of enlisted pay table should also be reevaluated. Entry enlisted pay increased considerably in the early 1970s prior to the beginning of the all-volunteer force, compressing the overall 1972 enlisted pay structure. But targeted pay raises in 2000–2004 and in 2007, when the 40-year pay table was created, increased the skewness of the current enlisted pay structure. Again, whether this structure has enabled the services to meet its performance and retention objectives is unclear.

Another aspect of the military pay structure is the pay differences within a grade—i.e., longevity increases. These pay differences could also be structured to motivate effort and induce the proper personnel sorting. Intra-grade pay should rise to some extent with experience to provide continuing skill acquisition and performance incentives. However, the longevity increases within a grade cannot be as large as the pay increases associated with promotion; otherwise, individuals will be encouraged to "slum." At some point, longevity increases should stop, so that those who have low promotion chances will be induced to leave voluntarily when it is in the services' interest that they do so. Today, intra-grade performance incentives are weakened by the lock-step nature of longevity increases in the current pay table.

Given interest in technical career tracks and lateral entry, any evaluation of the structure of the officer and enlisted pay tables should consider whether the structure of longevity increases continue to be appropriate and whether some use of performance-based longevity increase is warranted.

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[14] See Congressional Budget Office, *Military Pay and the Rewards for Performance*, Washington, D.C.: Congressional Budget Office, December 1995; Directorate of Compensation, Office of the Under Secretary of Defense for Personnel and Readiness, U.S. Department of Defense, *Military Compensation Tables*, Washington, D.C.: U.S. Department of Defense, 2018.

Setting Special and Incentive Pays

S&I pays are the primary way that compensation varies with occupation, assignment location, or type of duty for members in the same rank and years of service. The roughly 60 different S&I pays are intended to provide the services with flexibility to recognize persistently higher civilian pay for similar skills in the military, onerous or dangerous working conditions or assignments, specialized skills and proficiencies, temporary fluctuations in supply and demand conditions, and high training costs. The flexibility stems from the ability of the services to turn some of these pays on and off and to target them to specific groups of personnel to achieve potentially different experience or grade mixes across occupations. S&I pays are also considered by economists to be a more cost-effective means of addressing recruiting and retention challenges than across-the-board increases in basic pay.

Research shows that bonuses targeted toward critical occupations are both effective and cost-effective as enlistment and retention incentives.[15] In the case of enlistment bonuses, research shows that they induce recruits to choose critical occupations and expand the recruiting market. Enlistment bonuses are found to be more cost-effective in expanding the market than across-the-board pay raises because the bonuses can be turned off and can be targeted to high-quality recruits. Analyses of special pays for such officers as mental health care providers and Air Force aviators show that special pays increase retention and induce officers in these communities to select longer obligations.[16]

S&I pays might be improved in three key areas. First, despite the large number of pays, S&I pays account for only $1 in $20 of the 2019 defense military personnel budget. For individual members, S&I pays make up about 3 percent of total compensation and 5 percent of cash compensation, although the percentage is much higher in certain occupations.[17] Put differently, the primary source of flexibility and efficiency in the compensation system turns out to be only a small fraction of cash compensation. This shortcoming is seen by the small differences in cash compensation across broad occupational areas for both enlisted personnel and officers.

Pay variation is relatively small for members at similar points in their career, even when including bonuses and S&I pays in the measure of pay.[18] This is likely attributable to a

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[15] Michael Polich, James Dertouzos, and James Press, *The Enlistment Bonus Experiment*, Santa Monica, Calif.: RAND Corporation, R-3353-FMP, 1986; Beth J. Asch, Paul Heaton, James Hosek, Paco Martorell, Curtis Simon, and John T. Warner, *Cash Incentives and Military Enlistment, Attrition, and Reenlistment*, Santa Monica, Calif.: RAND Corporation, MG-950-OSD, 2010; David Knapp, Bruce R. Orvis, Christopher E. Maerzluft, and Tiffany Tsai, *Resources Required to Meet the U.S. Army's Enlisted Recruiting Requirements Under Alternative Recruiting Goals, Conditions, and Eligibility Policies*, Santa Monica, Calif.: RAND Corporation, RR-2364-A, 2018.

[16] James Hosek, Shanthi Nataraj, Michael G. Mattock, and Beth J. Asch, *The Role of Special and Incentive Pays in Retaining Military Mental Health Care Providers*, Santa Monica, Calif.: RAND Corporation, RR-1425-OSD, 2017; Michael G. Mattock, James Hosek, Beth J. Asch, and Rita Karam, *Retaining U.S. Air Force Pilots When the Civilian Demand for Pilots Is Growing*, Santa Monica, Calif.: RAND Corporation, RR-1455-AF, 2016.

[17] Defense Advisory Committee on Military Compensation, *The Military Compensation System: Completing the Transition to an All-Volunteer Force - Report of the Defense Advisory Committee on Military Compensation*, Arlington, Va.: Defense Advisory Committee on Military Compensation, April 2006.

[18] Beth J. Asch, James Hosek, and Craig Martin, *A Look at Cash Compensation for Active Duty Military Personnel*, Santa Monica, Calif.: RAND Corporation, MR-1492-OSD, 2002.

longstanding egalitarian philosophy that governs the setting of military pay, in which everyone in the same grade and year of service should receive similar pay regardless of job type, location, and exposure to danger. But this egalitarian approach is expensive, because significant cost savings might be realized by flexibly targeting pay to specific communities and circumstances rather than across-the board. **Past commissions have argued that S&I pays should comprise a larger share to improve pay flexibility and efficiency.**[19] So far, reallocating compensation from basic pay to S&I pays has been slow.

Second, S&I pays could be set to better sustain and reward performance. In a number of cases, these pays are flat monthly amounts fixed by law. For example, Special Duty Assignment Pay (SDAP) ranges from $75 to $450 per month. The amount varies with the responsibility and demands of the assignment, but not with performance. For instance, recruiters receive SDAP, but the amount is unrelated to the recruiter's productivity in achieving the recruiting mission. One approach for linking S&I pays to performance is to make these pays a function of pay grade and, therefore, promotion. Linking S&I pays to grade would reinforce the relationship between financial return and performance and promotion. Another approach would be to explicitly base payment of some S&I pays on whether the member met performance criteria. For example, in the case of recruiting, different SDAP levels could be set so the payment depended on meeting recruiting goals over a period of time. Different approaches should be explored.

Third, S&I pays are more cost-effective when they include an incentive to select a longer service obligation. For example, RAND research finds that a dollar-for-dollar increase in aviation continuation pay (an S&I pay for aviators that depends on obligation length) has a larger effect on aviator retention than an increase in aviation continuation incentive pay (an monthly S&I pay amount that does not change with obligation length).[20] Therefore, to achieve a given change in retention, an S&I pay would have to increase more if it does not depend on a service obligation. **Careful consideration should be given to identifying if S&I pays that are currently flat amounts per month should be made contingent on a service obligation.**

Blended Military Retirement System

The creation of the BRS in NDAA 2016 (and its amendment in NDAA 2017) represents the first major change to the military retirement system since the end of World War II. The BRS retains a defined-benefit plan from the legacy system and adds a defined-contribution plan and a new pay called continuation pay (CP). Under a defined-contribution plan, a percentage of earnings is paid on a regular basis into an investment fund during the worklife of the future retiree and then paid out at retirement age as a lump sum or as an annuity. The BRS was introduced to modernize the legacy system and addressed several criticisms raised by past commissions and study groups.

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[19] See Defense Advisory Committee on Military Compensation, *The Military Compensation System: Completing the Transition to an All-Volunteer Force—Report of the Defense Advisory Committee on Military Compensation*, Arlington, Va.: Defense Advisory Committee on Military Compensation, April 2006.

[20] James Hosek, Michael G. Mattock, and Beth J. Asch, *A Wage Differential Approach to Managing Special and Incentive Pay*, Santa Monica, Calif.: RAND Corporation, RR-2101-OSD, 2019.

Two issues regarding the BRS have been raised by force managers and researchers. First, some have argued that BRS embeds a weaker incentive to remain in service because of the reduction in the defined benefit annuity from a multiplier of 2.5 percent to 2.0 percent for those reaching 20 years of service and because of vesting after two years of service in a portable retirement benefit—the TSP—gives early-career service members an incentive to leave earlier. RAND analysis shows this concern is likely to be unfounded.[21] Since the TSP benefit cannot be claimed until age 59-and-a-half at the earliest and the annuity is claimed after 20 years of service, these incentives to leave are not likely to be large for members in their early career. Further, offsetting the increased incentive to leave is also a stronger incentive to stay. The BRS includes continuation pay, which increases the incentive to stay both for junior personnel looking to the future and those who are under a CP service obligation. In addition, while early vesting of the TSP increases the value of leaving, the matching contributions that would be foregone by a member who leaves provide an incentive to stay.

The second concern is related to the continuation pay. Congress mandated that CP be set at a minimum of 2.5 times monthly basic pay (e.g., a 2.5 multiplier), but concerns have been raised about whether the minimum is too low for officers. RAND research shows that retention can be sustained under the BRS for officers and for enlisted personnel relative to the legacy retirement system, but only if CP multipliers are set appropriately.[22] For enlisted personnel, the appropriate multiplier was found to be 2.5, the mandated minimum. But for officers, the analysis found that the minimum is too low to sustain officer retention and should be closer to 12 or about a year's worth of basic pay. The analysis found that in the transition years, retention problems may not show up immediately or may be relatively muted; new officers who are automatically enrolled in the BRS will be under an initial service obligation and officers who opted into the BRS will tend to be relatively junior and may not be influenced by the CP until they reach their mid-career. But, in the long term, absent any other change, the BRS is predicted to lead to lower officer retention unless the CP is set higher than the minimum.

Thus, the adequacy of the minimum CP differs for officers and enlisted. The move to BRS is predicted to have a larger effect on the retention of officers than enlisted, so the CP must be higher for officers to offset this effect. The larger retention effect is attributable to three factors. First, an individual in early or midcareer looking forward toward military retirement will expect a lower annuity under the BRS because of the reduced multiplier. Because officers have higher retention and a higher likelihood of reaching 20 years of service, they are more likely to experience the reduction in the multiplier than their enlisted counterparts. Second, officers earn higher basic pay and can expect a larger annuity if they become eligible at 20 years of service. Consequently, the reduction in the multiplier has a larger effect for officers than for enlisted personnel with a given number of years of service. Finally, we estimate that officers place a higher value on a dollar received in the future than do enlisted personnel, so a given reduction in future benefits, such as the reduction in the annuity, is perceived as larger for officers. Both CP

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[21] Beth J. Asch, Michael G. Mattock, and James Hosek, *The Blended Retirement System: Retention Effects and Continuation of Pay Cost Estimates for the Armed Services*, Santa Monica, Calif.: RAND Corporation, RR-1887-OSD/USCG, 2017.

[22] Asch, Mattock, and Hosek, 2017.

and TSP help to offset the negative effects of the reduced multiplier, but the CP multiplier that sustains retention still must be higher for officers than for enlisted personnel. **Thus, it is important that the services ensure that CP is set appropriately to sustain officer retention under the BRS.**

Increasing Volunteerism

The foundation of the all-volunteer force is the use of compensation and other policies to induce civilians to volunteer for service, and then once in service, to voluntarily remain in service. However, other aspects of service are anything but voluntary. For example, the matching of personnel to assignments or locations is often done through bureaucratic methods whereby personnel may end up in undesirable assignments or locations. In other words, there is a "share-the-pain" policy: "If you take a bad assignment today, we'll give you a better one tomorrow." This is a kind of "command-and-control" philosophy that is better suited for a draft military than a volunteer force.

One place where innovations in compensation policy could make the services and their personnel better off is in using compensation to induce volunteers for onerous or dangerous assignments. The Navy piloted a test of this approach in its use of assignment incentive pay (AIP) in the early 2000s. In the pilot, Navy AIP rates were set in an auction based on sailor willingness to go to particular locations and the number of unfilled billets (i.e., supply and demand). AIP was found to be more efficient than the "share-the-pain" approach. Specifically, the Center for Naval Analyses found that involuntary assignments fell to 5 percent (from 100 percent), the Navy saved money (estimated at $2,200 per billet in 2006), and manning improved in sea duty jobs.[23] The Navy was better off because it achieved its manning objective at less cost, and members were better off because they exercised more control over their career. **In the future, more elements of compensation could be based on market mechanisms.**

Compensation for Nontraditional Career Paths

As mentioned, NDAA 2019 included DOPMA reforms that would give constructive credit to facilitate lateral entry as well as other changes to permit less traditional career paths. Still unknown, though, is whether following a less traditional career path will also mean a less traditional pay trajectory over a career, and importantly, whether the current pay system can easily accommodate possible nontraditional pay trajectories while still facilitating the pay trajectories for traditional careers. As with those following traditional careers, the pay for those following nontraditional careers should be set to attract, retain, motivate, and otherwise assist the services in meeting their manning objectives efficiently, given the external opportunities faced by those following these careers.

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[23] Peggy A. Golfin, Diana S. Lien, and David Gregory, *Evaluation of the Assignment Incentive Pay (AIP) System*, Alexandria, Va.: Center for Naval Analyses, CAB D0010240.A2/Final, June 2004; Peggy A. Golfin, *Manning Under AIP*, Alexandria, Va.: Center for Naval Analyses, 2006.

The 13th Quadrennial Review of Military Compensation is currently considering the advisability of replacing the time-in-service pay table with a time-in-grade pay table. A time-in-grade table has been suggested as a way to better facilitate lateral entry as well as to reward better performers.[24] Thus, it is possible an alternative time-in-grade system would be improvement. On the other hand, appropriately structured constructive credit for time in service might be equally effective. **More information will be needed from the forthcoming 13th** Quadrennial Review of Military Compensation **report about the relative merit of a time-in-grade table for facilitating the pay of nontraditional careers.**

Conclusion

The key recommendations and areas for consideration are:

- To better ascertain if the appropriate benchmark for military pay is above the 70th percentile of civilian pay, the services should articulate if their quality requirements have increased.
- If quality requirements are greater, the services should also articulate whether pay, rather than more targeted resources such as bonuses, is the most appropriate means of achieving higher aptitude requirements.
- Reevaluate the pay adjustment mechanism. The ECI has clear disadvantages. Measuring the "pay gap" using the ECI did not performed well historically in terms of tracking force management outcomes like recruiting and retention, and the size of the ECI-measured "pay gap" is sensitive to the base year chosen, so measures of the gap have an arbitrary component. The functioning of the ECI as an appropriate pay adjustment mechanism and alternative approaches, including the DECI, should be reassessed with more recent data.
- Consider increasing performance incentives embedded in the pay table: First, some use of performance-based intra-grade pay should be explored, including the possibility of a time-in-grade pay table. Second, the officer pay structure appears compressed and pay compression has increased over time, so that inter-grade performance incentives for officers appear to be dampened and occurring through nonmonetary factors. Third, greater incentives associated with promotion should also be explored for officers.
- Improve the setting of S&I pay:
  - To increase pay flexibility and efficiency, S&I pays should comprise a larger share of cash compensation.
  - Consider basing some S&I pays explicitly on members meeting specific performance criteria and making S&I pays that are currently flat amounts per month contingent on a service obligation.
- Ensure the appropriate setting of CP for officers so that retention is sustained under the BRS.
- Consider ways of using compensation to a greater extent to induce more volunteerism and greater efficiency of compensation, such as the unit or location assignment system.

[24] David Chu, *Statement on the Defense Officer Personnel Management Act: Hearing Before the Subcommittee on Personnel, Committee on Armed Services*, Washington, D.C.: U.S. Government Printing Office, January 24, 2018.

- Recognize that changes to DOPMA to achieve nontraditional careers should also consider whether and how military compensation should change.

These recommendations point to the value of developing new measures of performance that will enhance the services' capability to determine empirically the extent to which alternative compensation and personnel policies result in better performance and improved retention of high performers relative to nonhigh performers. Data containing the new measures of performance would also be helpful in evaluating policies.

Beth J. Asch
Senior Economist
RAND Corporation

Education: Ph.D. and M.A. in economics, University of Chicago; B.A. in economics, University of California, Los Angeles

Beth Asch is a senior economist at the RAND Corporation. Her areas of study include labor economics and defense manpower. She has led numerous studies on compensation design in the military and in the federal civil service, and on military recruiting and personnel supply to the armed forces. Her most recent work includes military retirement reform, enlistment supply and recruiting resource effectiveness, and retention and compensation in the federal civil service. Asch's research has been widely disseminated as reports, briefings, and journal articles among the policy community, the media, and the academic community. Asch received her Ph.D. in economics from the University of Chicago.

Statement before the

House Armed Services Subcommittee on Military Personnel

"Outside Perspectives on Military Personnel Policy"

A Testimony by:

Todd Harrison

Director, Defense Budget Analysis, Director, Aerospace Security Project
and Senior Fellow, International Security Program

Center for Strategic and International Studies (CSIS)

March 12, 2019

2212 Rayburn House Office Building

Chairwoman Speier, Ranking Member Kelly, and Members of the Subcommittee, thank you for the opportunity to testify today. The Department of Defense (DoD) is on an unsustainable trajectory. By almost any measure, the size of the force is nearly the smallest it has been since the end of World War II. Total active duty end strength reached a post-World War II low of 1,302,000 in 2016. Since the peak of the Cold War, the number of ships in the Navy has been cut in half, the number of aircraft in the Air Force has been reduced by 44 percent, and the number of soldiers in the Army has fallen by roughly a third. Yet the base defense budget, when adjusted for inflation, is the highest it has been since the end of World War II—higher than the peak of the Reagan buildup in fiscal year (FY) 1985. The long-term trend is clear: we are spending more and more for a progressively smaller force.

There are many reasons why the budget has been growing while the size of the force has been declining. One of the main reasons, and the focus of this subcommittee, is the cost of personnel. Over the past twenty years, the average cost per active duty service member grew by 59 percent, or roughly 3 percent annually, above inflation. Most of this growth took place in the period spanning 2001 to 2011, which saw costs rise by 46 percent above inflation in just ten years. These figures do not include Overseas Contingency Operations funding or other military personnel-related funding outside of the DoD budget, such as veterans' benefits and services. If these other costs are included, the growth is substantially higher. In the long-term, this level of growth is unsustainable because it means that if the DoD budget is flat and only grows with inflation, the military will be forced to get smaller and smaller over time.

But cost growth is not the only factor affecting the long-term sustainability and health of the U.S. military. Since the end of the draft nearly four decades ago, the military personnel system has not fully adapted to the unique needs of an all-volunteer force. In 1970, the Gates Commission recommended a set of comprehensive reforms deemed necessary for a successful end to conscripted service. Conscription officially ended in 1973, but the Gates Commission's recommendations were largely unheeded in the years that followed.

As the Gates Commission and many other studies since have noted, a key difference in an all-volunteer force is that the military personnel system plays a vital role in filling the ranks. While a military career has no direct parallel in the private sector, an all-volunteer force must nevertheless compete directly with private sector employers to attract and retain quality personnel. The military personnel system must therefore be competitive with what private sector employers provide. This does not mean that DoD should simply match the total compensation levels provided by private sector employers. That has proven to be insufficient. Rather, DoD must be competitive across the board in the mix of cash, deferred and in-kind benefits, and the other intangible factors that matter to people when making a career choice, such as job satisfaction, stability, and training opportunities.

Too often over the past twenty years, Congress and DoD have turned to a limited set of compensation options to try to correct for deficiencies in the overall personnel system. When a problem is encountered in recruiting or retention, a typical response is to increase the overall pay scale or add bonuses and special pays for key personnel. And when that proves insufficient, even more compensation is heaped onto the pile. For example, someone enlisting in the military right

out of high school today can make more than $45,000 annually in cash compensation in their first year of service, and that climbs to more than $60,000 annually after four years of service. Yet in 2018, the Army still failed to meet its recruiting goal by more than 8 percent. Similarly, the Air Force has had trouble retaining pilots for several years. To curb the exodus of experienced pilots, the Air Force was offering bonuses of up to $225,000 for a 9-year commitment. But only 55 percent of eligible pilots elected to take the bonus in 2015. The Air Force increased the bonus in 2017 to up to $455,000 for a 13-year commitment, and the take rate fell even lower to 44 percent. As these examples demonstrate, we are throwing money at problems with diminishing effects.

When service members make decisions about whether to join or stay in the military, compensation is just one of many factors involved. As this subcommittee well knows, reforming the military personnel system is no simple task. It is a politically sensitive issue that successive Congresses and administrations have been reluctant to tackle. A key impediment to reforming the military personnel system is a lack of data on how service members value changes in personnel policies and compensation. Too often, decisions are made based on anecdotal evidence or the opinions of experts rather than testing and analysis. We can do better, and our service members deserve better.

What matters in the end is not how much something costs to provide, but rather how it is valued by the person who receives it. The way a person values something is a matter of personal preference, and these preferences can and likely will change over the course of one's career. Moreover, the preferences of one generation of service members may be entirely different than those of their current leadership and of the generations that preceded them.

Before making changes to compensation and personnel policies, we need to understand how the service members affected will value those changes. The models currently used by the Office of the Secretary of Defense (OSD), the military services, and the Federally Funded Research and Development Centers (FFRDCs) that support them can only go so far in predicting behavior and recommending solutions because they were not built to account for the full range of preferences service members have for changes in personnel policies and compensation, nor do they collect the data necessary to measure and validate all of these preferences. For example, it is insufficient to simply model how high the pilot bonus should be raised without also considering other alternatives, such as offering these pilots greater stability in duty location, more predictable deployment schedules, or more input into their next assignment. We need to understand these tradeoffs and alternatives and the relative value service members place on them.

Therefore, the first thing we must do to help recruiting and retention and to put the military on a more sustainable fiscal trajectory is to collect better data from service members on their preferences for changes to compensation and personnel policies. The goal of measuring these preferences is to identify opportunities where DoD can maintain or improve the attractiveness of its compensation package and personnel system in the most cost-effective way. This data is essential to make informed decisions about what to change and by how much. Preference data collected from surveys can be used to model how service members value changes to the personnel and compensation systems and the interactions between the two. More importantly,

proposed changes should be tested through surveys and, where possible, through controlled trials on a subset of the overall population before being rolled out to the entire force. While it is only practical to have OSD and the services manage this process of experimentation and data collection, Congress can play an important role by setting the parameters of what changes should be tested, providing the necessary authorities, and holding senior leaders accountable to make sure it gets done.

We should not continue to throw money at recruiting and retention problems and hope things will improve while some of our best and brightest continue to leave the military or never join in the first place. Not only is this approach fiscally unsustainable, it has proven ineffective. In many areas, we have reached the point of diminishing marginal utility in our compensation system. A new, evidence-based approach is required that looks at the full range of options to optimize the military personnel system.

Todd Harrison

Todd Harrison is the director of Defense Budget Analysis and the director of the Aerospace Security Project at CSIS. As a senior fellow in the International Security Program, he leads the Center's efforts to provide in-depth, nonpartisan research and analysis of defense funding, space security, and air power issues. He has authored publications on trends in the overall defense budget, military space systems, civil space exploration, defense acquisitions, military compensation, military readiness, nuclear forces, and the cost of overseas military operations.

He frequently contributes to print and broadcast media and has appeared on CNN, CNBC, NPR, Al Jazeera English, C-SPAN, PBS, and Fox News. He teaches classes on military space systems and the defense budget at the Johns Hopkins School of Advanced International Studies. He is a member of the National Oceanic and Atmospheric Administration's Advisory Committee on Commercial Remote Sensing and a member of the Defense News Advisory Board.

Mr. Harrison joined CSIS from the Center for Strategic and Budgetary Assessments, where he was a senior fellow for defense budget studies. He previously worked at Booz Allen Hamilton where he consulted for the U.S. Air Force on satellite communications systems and supported a variety of other clients evaluating the performance of acquisition programs. Prior to Booz Allen, he worked for a small startup (AeroAstro Inc.) developing advanced space technologies and as a management consultant at Diamond Cluster International. Mr. Harrison served as a captain in the U.S. Air Force Reserves. He is a graduate of the Massachusetts Institute of Technology with both a B.S. and an M.S. in aeronautics and astronautics.

STATEMENT OF PETER LEVINE,
FORMER ACTING UNDER SECRETARY OF DEFENSE
FOR PERSONNEL AND READINESS

HOUSE ARMED SERVICES COMMITTEE
SUBCOMMITTEE ON MILITARY PERSONNEL
HEARING ON OUTSIDE PERSPECTIVES
ON MILITARY PERSONNEL POLICY

March 12, 2019

Madame Chairwoman, Ranking Member Kelly, Members of the Subcommittee, thank you for inviting me here this afternoon for your hearing on outside perspectives on military personnel policy. The views that I express today are my own, based on my past experience in the Department of Defense, and should not be interpreted as reflecting the position of my employer, the Institute for Defense Analyses.

Even more than technology, our greatest military advantage over our competitors is our people: our Armed Forces are filled with countless highly-trained professionals, including officers whose leadership qualities are the envy of the world. The capability of our total force – officer and enlisted, active duty and reserve, military and civilian, organic and contractor – is multiplied many times over by the exceptional quality of our recruits and the unparalleled levels of their training and education.

Building and maintaining that human capital is an ongoing challenge. Only about one in six of our young people today meet the academic standards for recruitment and are otherwise eligible to serve. The numbers are even smaller when you look at high skills – such as technological savvy and computer literacy – that are increasingly needed for the future force. That is why our search for talent must draw on every sector of our society. Without women, for example, our force would not only be smaller, it would also be significantly less capable.

You have asked me to focus my testimony today on recent legislative changes to our officer personnel system.

The starting point for this discussion should be an understanding not only of what is broken, but also what is *not* broken. In my view, the up-or-out system

embodied in the Defense Officer Personnel Management Act (DOPMA) of 1982 continues to play a vital role in providing the stability and predictability that young officers need to plan careers and that personnel chiefs need to plan the future force. It also contributes to the development of our young officers by ensuring that the officer corps is continually refreshed, and by providing a highly-competitive environment in which it is possible to provide responsibility to developing leaders at an early age.

That does not mean that the current system is perfect. Far from it. Over the last decade, DOPMA has been criticized for being out of step with the demographics of today's force and the realities of the 21st century job market, for pushing highly-trained officers with critical skills into premature retirement, and for limiting the Department's access to talent that will be needed to respond to emerging threats. Respected experts decry a "cookie cutter" system that rewards risk-avoidance and churns out officers who look like their peers, rather than the innovative, creative talents that today's military needs.

As a result, some have argued in favor of more choice for individuals, greater emphasis on merit over seniority, and more flexibility in career management. Others have advocated more radical approaches, such as eliminating the "up-or-out" policy, scrapping mandatory promotion timelines and mandatory retirement dates, and applying market-based solutions to officer assignments and career advancement.

While this criticism is not without basis, many of the issues described arise out of the culture of our military rather than the legal requirements of the personnel system. Moreover, much of this criticism crystalizes hard choices that any personnel system must face: how do you foster innovation without sacrificing predictability, build breadth of experience without giving up depth, and ensure that the force is constantly refreshed without surrendering needed seniority and experience? Just because people complain about the existing system doesn't mean that they wouldn't complain even more loudly about an alternative approach.

My old boss, Secretary of Defense Ash Carter, captured the good and the bad of DOPMA when he launched his military personnel reform proposals three years ago. As Secretary Carter said at the time:

> "Up-or-out" isn't broken – in fact, it's an essential and highly successful system – but it's also not perfect. Most of the time, and for most of our people, it works well. The problem, however, is that DoD can't take a one-

> size-fits-all approach. . . . [We need new flexibilities] to enable the services to respond to an uncertain future, in ways that can be tailored to their unique capability requirements and particular personnel needs, without casting off a system that still largely meets our needs for most officers across the force.

In my view, Secretary Carter had it right. Today's military must adapt to a world in which cyber, space, artificial intelligence and other technologies provide new opportunities and new vulnerabilities. But more traditional combat arms specialties are no less needed today than they were 40 years ago. As important as creativity and innovation may have become in today's warfighting environment, hierarchy, order, rules, and discipline remain essential as well. Our military could not operate under the unstructured personnel system of a tech start up – as appealing as that model might seem to some – but we do need new flexibilities to meet new needs.

There are two areas in particular where I believe the officer personnel management system could use improvement. First, we need new flexibility to address the unique needs of specialized workforces with creative approaches that may not appropriately apply to the entire force. Let me give two examples:

- In the cyber arena, one of our biggest problems has been access to young people with technical skills who do not fit into the traditional military mold or career patterns. We may need cyber skills too much to give up on individuals who have past drug issues, can't meet military weight standards, or are unwilling to sign up to military discipline for an entire career. To address this problem, the Department may want to consider a variety of tailored options, including expanded lateral entry and constructive service credit, selected waiver of accession standards, and increased reliance on civilians (possibly with reserve commissions) in lieu of active duty service members.

- In the acquisition arena, one of our biggest problems has been building and retaining expertise that may take a career to develop. Today, we take years to train and develop officers with skills in critical areas like system engineering, software development, cost estimating, and program management – only to push these officers into early retirement and allow their expertise to be snatched up by contractors. To address this problem, the Department may want to consider options to build skills faster and

keep them longer, including extended tours of duty, career patterns that strive for depth of experience instead of rotational breadth, and waiver of mandatory retirement dates to enable officers with needed expertise to serve longer (with appropriate compensation).

Second, we need new flexibility to allow career patterns to be tailored to individual needs within the existing DOPMA structure. Again, let me give two examples:

- First, the layering of Goldwater-Nichols joint duty requirements on top of DOPMA timelines has pressurized military careers, required young officers to spend too much time on jointness at an early stage of service when they should be learning the fundamentals of their profession, and encouraged rapid rotation through ticket-punching rotations. These tight timelines have discouraged some talented officers from seeking career broadening and deepening experiences – such as interagency assignments, industry rotations, and pursuit of advanced degrees – which might make them better leaders, but would not enhance their chances of promotion. Congress has adjusted some Goldwater-Nichols requirements in recent years, but more flexibility would be helpful to allow innovative future leaders to grow and thrive.

- Second, today's military force is predominantly a married force, and a force in which military spouses increasingly expect to have careers of their own. Some of our most talented officers may be driven out of the force by career path constraints which leave them insufficient time and space to build their families, or by rotation requirements that separate them from their spouses too frequently or for too long. Congress has established a pilot career intermission program to relieve some of this pressure, but more flexibility would still be helpful to ensure that we don't lose some of our best young officers because we are unable to accommodate their family needs.

I am pleased to say that Congress addressed both of these areas in last year's National Defense Authorization Act, which largely followed the outline suggested by Secretary Carter in 2016. In particular, section 507 of the FY 2019 NDAA provides authority for the military services to develop alternative promotion processes tailored to the needs of specialized workforces, while section 505 provides new flexibility for career broadening and deepening experiences by authorizing officers to "opt out" of a promotion cycle "to complete a broadening

assignment, advanced education, or another assignment of significant value to the Department."

Of course, these new authorities will have an impact only to the extent that the military Services choose to use them. Changing laws is hard, but changing culture is much harder. The Department's recent report to Congress on the military personnel system, for example, emphasizes that the military Services value "the predictability and reliability" provided by DOPMA and continue to support its major tenets. Despite the inflexibility of the existing system, the report states, the Services have "a high degree of confidence" that it will continue to serve them well.

DOPMA's root structure is deeply embedded in the military personnel system, and the Services rightly worry that changing even a few small pieces could undermine the whole. It is all very well to promote greater flexibility and choice, for example, but what assurance do we have that we will still be able to produce the right number of officers every year, with the grade structure and competencies that we need? Extended service may be desirable for some specialty fields viewed in isolation, but how will different career lengths and promotion rates impact career choice, retention, compensation, grade structure, and other critical elements of force demographics?

These problems do not mean that change is impossible, or even unlikely. Where others see a cultural resistance to change of any kind, I see a willingness to engage in cautious experimentation. Indeed, the DOD report notes that emerging mission requirements associated with cyber warfare and other highly technical fields "have underscored the need to be more flexible and creative" in officer personnel management. As a result, the military Services recognize that some change may be needed "to accommodate nuances of low-density occupations" and "to foster the pursuit of unconventional but beneficial career paths,"

The senior military personnel officials with whom I served when I was in the Department were not only exceptionally well-qualified officers and leaders, they understood the need of the system to adjust to meet new circumstances and new requirements. In my view, even the inherent conservativism and caution of the military personnel system can be beneficial. We need to change, but we cannot afford to break the existing system as we seek to improve it.

In conclusion, I urge the Subcommittee to stand by last year's reforms, and to closely watch the manner in which they are implemented. We need to give the

Services space to develop their own unique approaches to changing demographics and concerns about specific career fields without seeking to impose one-size-fits-all solutions. I thank you for your commitment to supporting our military personnel and improving our military personnel system, and for inviting me to participate in your review. I look forward to your questions.

Peter Levine

Peter Levine is a senior fellow at the Institute for Defense Analyses. His IDA publications include Civilian Personnel Reform at the Department of Defense: Lessons from the Failure of the National Security Personnel System (NS P-8656, October 2017); Lessons from the Never-Ending Search for Acquisition Reform NS P-8951, May 2018); and Auditing the Pentagon, A Road to Nowhere? (NS P-9121, September 2018).

From April 2016 to January 2017, Mr. Levine served as Acting Under Secretary of Defense for Personnel and Readiness. In this capacity, he was the principal assistant and advisor to the Secretary on military and civilian personnel policy and management. He played a key role in developing the Secretary's Force of the Future initiative and the Department's policy for the equal treatment of transgender service members.

From May 2015 to April 2016, Mr. Levine served as the Deputy Chief Management Officer of the Department of Defense. As DCMO, he was the senior advisor to the Secretary on business transformation. He led the Secretary's review of the Goldwater- Nichols Act and the Department's efforts to and achieve greater efficiencies in management, headquarters, and overhead functions.

Prior to his appointment as DCMO, Mr. Levine served on the staff of the Senate Armed Services Committee from August 1996 to February 2015, including two years as Staff Director, eight years as General Counsel, and eight years as minority counsel. Throughout this period, Mr. Levine was responsible for providing legal advice on legislation and nominations, and advised members of the Committee on acquisition policy, civilian personnel policy, and defense management issues affecting the Department of Defense. Mr. Levine played an important role in the enactment of the Military Commissions Act of 2009, the Weapon Systems Acquisition Reform Act of 2009, the Acquisition Improvement and Accountability Act of 2007, the Detainee Treatment Act of 2005, and numerous defense authorization acts.

Mr. Levine served as counsel to Senator Carl Levin of Michigan from 1995 to 1996, and as counsel to the Subcommittee on Oversight of Governmental Management of the Senate Committee on Governmental Affairs from 1987 to 1994. In this capacity, Mr. Levine played a key role in the enactment of the Lobbying Disclosure Act of 1995, the Federal Acquisition Streamlining Act of 1994, and the Whistleblower Protection Act of 1989.

Mr. Levine was an Associate at the law firm Crowell and Moring from 1983 to 1987. He received a Bachelor of Arts degree summa cum laude from Harvard College and a Juris Doctor degree magna cum laude from Harvard Law School.

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