Reenlistment bonuses are among the chief tools for managing retention. They are targeted to prevent personnel shortages in occupations critical to the capability of the armed services. Although bonus coverage varies from year to year, about 30 percent of all occupational specialties—representing approximately the same percentage of service personnel—are currently covered by the Selective Reenlistment Bonus (SRB) program. The reenlistment bonus budget totals less than two percent of the personnel budget.

What are the effects of reenlistment bonuses? How much do they increase retention rates in the occupations for which they are offered? To address these questions, a recent RAND study analyzed continuation rate data from the Defense Manpower Data Center for the period mid-FY76 through FY81.

**REENLISTMENT VS. EXTENSION**

To assess how bonuses affect retention behavior, the study uses the measure of expected personyears of service. This measure takes into account not only the overall retention rate but also the contractual length of the new terms of service. The study distinguishes two modes of retention, reenlistment and extension, because they affect expected personyears of service differently. As eligible personnel approach a retention decision point, those who wish to remain in the service may either sign a new contract (reenlist) or increase the length of their current contract (extend). Reenlistment contracts typically specify new service obligations of three to four years; contract extensions, by contrast, frequently last less than a year and rarely exceed 24 months, and many extenders decide not to reenlist when their extensions have been completed. In short, extensions yield fewer expected personyears of service than do reenlistments. In the study sample, extensions comprised about one-third of the retained personnel at the first-term retention decision point and one-fifth at the second-term point.

**EFFECT ON EXPECTED PERSONYEARS OF SERVICE**

The findings confirm that reenlistment bonuses are a powerful tool for controlling retention in targeted occupations. As Figure 1 shows, higher bonus amounts increase the overall retention rate, decrease the extension rate, and increase the reenlistment rate at both the first- and second-term retention decision points. The figure indicates how many percentage points each rate will rise or fall with each bonus increment of $2,000 (in 1985 dollars). This pattern of effects implies that higher reenlistment bonuses increase the expected personyears of active duty service in an occupation in two ways: by increasing the overall

![Figure 1—Higher bonuses increase expected personyears of active duty (lump sum payment)](image-url)
retention rate and by raising the proportion of reenlistments relative to extensions.

LUMP SUM VS. INSTALLMENT PAYMENT

In April 1979 the services changed from paying bonuses in installments to paying them in a lump sum. This change permitted the study to compare the effectiveness of the two payment methods. The analysis shows that, at least for the first-term retention decision point, lump sum bonuses are more cost-effective than installment bonuses. The advantage of lump sum payment comes primarily from shifting retained personnel within an occupation from shorter to longer contractual obligations (i.e., from extensions to reenlistments) and only secondarily from increasing the proportion of personnel who plan to stay in the occupation. As a result, paying bonuses as a lump sum also produces more expected person-years of service.

These conclusions are based on a comparison of cost-equivalent lump sum and installment bonuses. That is, the analysis takes into account the fact that an installment bonus costs the services less than a lump sum bonus of equal face value. With installment payments, the services can in effect earn interest on those installments not yet paid out, thus offsetting some of the cost of the bonus.

The current payment method, begun in January 1982, blends the lump sum and installment methods. Precisely because it is a blend, the study suggests, it will be less cost-effective than the pure lump sum approach. This appears to be true even when recoupment costs are considered. (Such costs arise when a person receiving a lump sum bonus does not remain for the duration of his term.)

BONUSES VS. HIGHER WAGES

When unemployment is low, retention rates tend to decline. This study estimates the extent to which higher reenlistment bonuses could be used to counteract this tendency and compares their effectiveness in this regard with higher military wages.

The study’s results show that higher unemployment rates produce the same pattern of effects as higher bonus amounts: increased retention and reenlistment rates coupled with a decreased extension rate, with the increase in reenlistments several times as large as the decrease in extensions (recall Figure 1). This shared pattern suggests that when unemployment rates fall, higher reenlistment bonuses could be used to offset the expected decline both in the retention rate and in expected person-years of service. This capability of bonuses has not, however, been widely recognized in SRB management practice.

Higher wages can also offset the effects of lower unemployment. But unlike bonuses, higher wages are found to increase the proportion of personnel selecting short terms of service (extensions). Moreover, pay increases affect all occupations, not only those with critical shortages. Therefore, for occupational specialties offering a bonus, increases in bonus amount may be preferable to increases in pay as a means of increasing retention during periods of low unemployment.

IMPLICATIONS FOR FORCE SHAPING

Reenlistment bonuses can play an important role in personnel force shaping. Whereas pay increases create higher retention across the board, bonuses permit retention rates and expected person-years to be increased selectively by occupational specialty and for a particular term of service. This capability is especially important because the service branches face the same basic pay structure but different planned growth into the 1990s.

Bonuses might also be used to help prevent the large number of personnel currently in the category of 5–9 years of service from creating an oversupply of personnel in the 10+ years category and an eventual surge of military retirees. Some evidence (not part of this study) suggests that personnel induced to stay by a bonus are more likely to leave the service upon completion of their terms. Greater use of bonuses at the first- and second-term retention decision points might result in a smaller proportion of personnel entering the category of 10+ years of service.