

Identifying Civilian Labor Market Realities for Army Officers Making Stay/Leave Decisions

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Key Points

- Many officers overestimate the ease of finding civilian employment that offers income comparable to what they receive while on active duty and also likely underestimate the additional, less visible “costs” of leaving active-duty service.
- These costs include the possibility of unemployment, underemployment, job instability, and less generous civilian health care and retirement benefits.
- Explaining the value of health care benefits and, to a lesser extent, retirement benefits appears to have the largest potential impact on retention.
- Communication on these issues will likely require multiple channels, including one-on-one communication, distribution of written materials, and the Internet.

A RAND Arroyo Center report describes the socioeconomic environment that officers will encounter if they leave active-duty service and analyzes the potential impact of these factors on Army retention. The study also considers how major differences between military and civilian employment can be effectively communicated to officers making stay/leave decisions.

How Does the Socioeconomic Environment Differ for Military and Civilian Employment?

Arroyo researchers reviewed military manpower, personnel, and labor economics literatures in order to identify socioeconomic differences between military and civilian employment. Since officers understand how much they receive in their paychecks, and civilian wages and salaries are the most visible “benefit” of leaving active-duty service, researchers concentrated on differences in other areas, including unemployment and cash compensation, noncash and deferred compensation, and other characteristics of jobs.

Unemployment and Cash Compensation

Officers leaving for the civilian workforce face risks of civilian unemployment and underemployment. There is a greater possibility of involuntary separation in a civilian job, and civilian unemployment rates vary greatly over time. Officers would also face potential job instability in civilian employment. On average, civilians hold seven different jobs in the first ten years of their careers. The economics literature generally concludes that the number of jobs held by new labor market participants adversely affects earnings later in one’s career. However, switching jobs can have a significant payoff for some workers who voluntarily transition from one employer to another. Officer wage growth is comparable to that of civilians, despite the fact that a significant

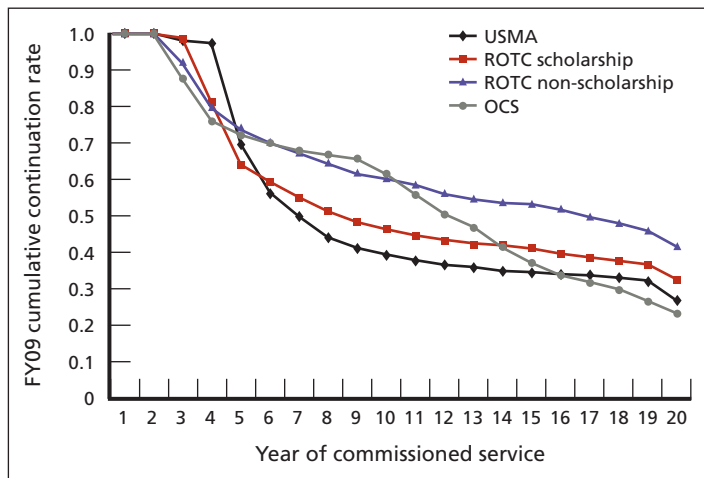
Despite relatively high levels of officer retention overall, Army personnel management officials have noted that junior officer retention is lowest for the individuals in whom the Army has made the largest investment, i.e., U.S. Military Academy (USMA) graduates or Reserve Officer Training Corps (ROTC) scholarship graduates. As the figure shows, by the eighth year of service, USMA graduates have the lowest continuation rates of any accession source, at about 44 percent, while ROTC scholarship graduates have the second lowest rates, at about 51 percent. Officials are concerned that these officers may not have a full and accurate picture of the socioeconomic environment facing them if they leave active-duty service.

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FY09 Cumulative Continuation Rates, by Accession Source



portion of civilian wage growth is due to switching jobs. Further, comparisons of wages earned by men and women, and by white and black workers, in civilian jobs consistently show gaps between groups.

Noncash and Deferred Compensation

Military health care benefits are more generous than the benefits available to both private-sector and civil-service employees. TRICARE plans do not charge members a premium, and officers have lower out-of-pocket costs than do their civilian counterparts. Twenty percent of civilian workers and approximately ten percent of college-educated civilians are not offered any health care benefits.

The military retirement benefit is also more generous than any private-sector benefit. Forty percent of private-sector workers, and 20 to 30 percent of white-collar workers, are not offered any retirement benefits, and defined contribution plans increase uncertainty about the value of benefits. However, private-sector workers are vested in retirement systems much earlier in their careers and retain their account balances even if they leave their employer before retirement.

Officers have access to several quality-of-life programs that are typically unavailable from civilian employers, including community and family support programs, and morale, welfare, and recreation programs. However, fewer than 50 percent of service members use these programs.

Other Characteristics of Jobs

There are several aspects of employment that affect officers more than civilians and are generally thought to reduce the value of military employment, including the prevalence of geographic relocation and the potential for deployment. However, it is not clear that officers have unrealistic expectations about these differences.

How Do Expectations About the Civilian Socioeconomic Environment Affect Retention?

How the socioeconomic environment affects retention depends on service members' expectations about military and civilian compensation, not on actual compensation. Individuals base their stay/leave decisions on what they expect to happen in the future, perceptions that may or may not be accurate.

Officers probably overestimate the ease of finding civilian employment that offers income comparable to what they receive while on active duty. Since they overestimate the most visible "benefit" of civilian employment, i.e., wages, it also is likely that they underestimate the additional, less visible "costs" of leaving active-duty service. If this is the case, improving the accuracy of officer expectations will lower expectations of civilian compensation and improve officer retention.

Of the socioeconomic characteristics for which quantitative estimates of the potential impact on officer expectations about civilian compensation are available, health care benefits appear to have the largest potential impact on retention, while military retirement is expected to have more modest impacts on retention.

Communicating the Socioeconomic Differences to Officers

The analysis implies a need to strategically target USMA and ROTC-scholarship graduates. Providing information on the costs of civilian employment before these individuals receive their commissions would allow the Army to get a head start on junior officer retention at a time when these individuals are in a structured environment.

Communication will likely require multiple channels, including one-on-one communication, distribution of written materials, and the Internet. The Army is experimenting with a junior officer retention website to provide information these officers need to evaluate differences between military and civilian employment. ■

This research brief describes work done by the RAND Arroyo Center and documented in *Expectations About Civilian Labor Markets and Army Officer Retention*, by Michael L. Hansen and Shanthi Nataraj, MG-1123-A, 2011 (available at <http://www.rand.org/pubs/monographs/MG1123.html>). This research brief was written by Kristin J. Leuschner. The RAND Corporation is a nonprofit institution that helps improve policy and decisionmaking through research and analysis. RAND's publications do not necessarily reflect the opinions of its research clients and sponsors. RAND® is a registered trademark.

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