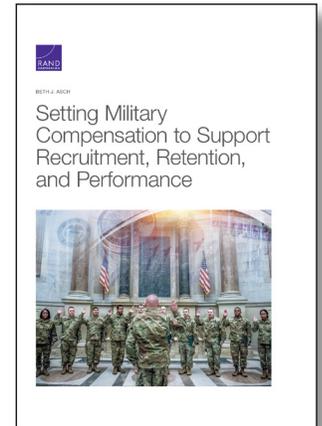




Setting Military Compensation to Support Recruitment, Retention, and Performance

Beth J. Asch

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This RAND Arroyo Center report describes the role of military compensation as a strategic human resource tool. The author reviews how well compensation works in this capacity and how it could be improved. The report considers issues related to the level and growth of military pay, the structure of the basic pay table, the role of special and incentive pay, and the structure of the military retirement system, especially the new Blended Retirement System.



RESEARCH QUESTIONS

- What is a competitive level of military pay? What should the annual pay raise be?
- How should military pay be structured across and within ranks to enhance talent management? How should entry pay be set? How much should pay increase when a member is promoted? How should this increase change as a member moves up the ranks?
- How much should be put into basic pay received by all personnel and how much into special and incentive pays?
- What is the purpose of the retirement system? What problems does the new Blended Retirement System solve? What concerns are there about this new system?



KEY FINDINGS

- In recent years, military pay has exceeded the 70th percentile for both officers and enlisted, raising the question of whether military pay is set too high relative to civilian pay.
- The Employment Cost Index is used to guide the annual military pay raise, but recently it did not track well with the opportunity wages or perform well in terms of tracking force-management outcomes.
- The Army did not increase recruit aptitude as military and civilian pay rose in recent years.
- The officer pay table appears compressed, possibly dulling financial incentives for performance.

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Nonetheless, whether the pay table is structured appropriately for officers ultimately comes down to whether the Army and the other services are satisfied with the officer performance.

- The primary source of flexibility and efficiency in the military compensation system turns out to be only a small fraction of cash compensation. Special and incentive pays are not as efficient as they could be in providing incentives for retention and performance.
- Research shows that the Blended Retirement System could sustain retention for officers and for enlisted personnel relative to the legacy retirement system, but only if continuation pay multipliers are set appropriately. The Army's policy of setting the multiplier at the Congressionally mandated minimum of 2.5 for officers is predicted to create long-run retention problems.
- The military retirement system is funded on an accrual basis, but the current methodology for computing the accrual rate results in inaccurate budget estimates and incorrect incentives for making defense resource decisions.



RECOMMENDATIONS

- Assess whether the military's 70th-percentile benchmark (of civilian pay for individuals with similar demographic characteristics) continues to be the right standard for setting the level of military pay.
- Reevaluate the pay-adjustment mechanism and reassess the Employment Cost Index, as well as other options (including the Defense Employment Cost Index), and compare it with more-recent data.
- Consider increasing performance incentives embedded in the pay table—including the possibility of a time-in-grade pay table—to address compression in the officer pay structure and to increase incentives associated with promotion.
- Improve the ways in which special and incentive pays are set to increase flexibility and efficiency.
- Ensure that continuation pay, part of the new Blended Retirement System, is set at the right level.
- Consider opening another opt-in window to permit members to choose the new Blended Retirement System.
- Reform the retirement accrual system to make it different for officers and enlisted members and by service.
- Consider ways to use compensation to induce more volunteerism and greater efficiency of compensation within the Army.
- Recognize that changes to the Defense Officer Personnel Management Act to improve management flexibility should also consider whether and how military compensation should change.

