

The Defense Science Board Task Force

on

**HUMAN RESOURCES
STRATEGY**



February 2000

*Office of the Under Secretary of Defense
for Acquisition, Technology, and Logistics
Washington, D.C. 20301-3140*

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OFFICE OF THE SECRETARY OF DEFENSE
3140 DEFENSE PENTAGON
WASHINGTON, DC 20301-3140

DEFENSE SCIENCE
BOARD

February 28, 2000

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (ACQUISITION,
TECHNOLOGY AND LOGISTICS)

SUBJECT: Final Report of the Defense Science Board Task Force on Human Resources
Strategy

I am pleased to forward the final report of the Defense Science Board Task Force on Human Resources Strategy. The Terms of Reference directed that the task force review trends and opportunities to improve DoD's capacity to attract and retain civilian and military personnel with the motivation and intellectual capabilities to serve and lead within the Department.

The human resource challenges that DoD faces today, and will continue to face in the future, deserve attention at the highest levels. While the military enjoys a high level of respect by the American people, this respect does not extend to a strong willingness to serve – in either military or civilian positions. The task force report highlights the difficulty of attracting young, talented individuals into the Department's workforce. Without attention in the next few years, the situation will likely worsen, as recruiting shortfalls mount and the civilian workforce begins to retire in large numbers. The Department faces a window of opportunity and the task force recommendations provide a framework for action.

I endorse the Task Force recommendations and urge you to review the Chairmen's letter and report.


Craig Fields
Chairman



OFFICE OF THE SECRETARY OF DEFENSE

3140 DEFENSE PENTAGON
WASHINGTON, DC 20301-3140

February 28, 2000

DEFENSE SCIENCE
BOARD

MEMORANDUM FOR THE CHAIRMAN, DEFENSE SCIENCE BOARD

SUBJECT: Final Report of the Defense Science Board Task Force on Human Resources Strategy

The final report of the Defense Science Board Task Force on Human Resources Strategy is attached. Our task force addressed a broad and complex topic: how to attract and retain personnel with the motivation and skills to serve and lead in civilian and military capacities in the Department of Defense.

Today, attracting young, talented individuals into the Department's civilian workforce is a difficult challenge. There is a growing shortage of quality managers in place to fill the career positions that will become available as more than half of the civilian workforce becomes eligible to retire in the next five years. The allure of public service has faded.

At the same time, the Services are finding it increasingly difficult to meet their annual recruiting goals, having fallen short of accession goals for the past two years. A strong economy offers many alternatives to today's youth – to include post-secondary education as well as lucrative employment options.

Moreover, downsizing during the last decade has led to major changes in the roles and balance between the Department's civilian and military personnel and the roles of government employees and the private sector personnel. The task force believes that the All-Volunteer Force remains the correct vehicle to support the nation's national security requirements. But the shape of the overall workforce is changing. There is a new "total force" that includes military, both active and reserve, civilian, and private sector personnel – all making contributions to the Department's mission. As an overall principle, the task force believes that:

- Government personnel should pursue only those tasks that are essential to the business of governing.
- Military personnel should be involved in those tasks that only the military can do, recognizing there are some functions in which both military and civilian personnel should be involved
- Civilian personnel should perform all other government tasks.
- The private sector should be called upon to support those functions that it can do best.

In examining the civilian and military workforce and likely trends in the 21st century, we identified three overarching issues that are having an adverse impact on the quality force that the Department has today and needs in the future:

- The American public is increasingly less involved and less inclined to serve in the Department of Defense.
- A strategic plan is needed for future human resources requirements for a fully integrated DoD force.
- The Department does not have the authority and tools necessary to integrate the management of its human resources.

The recommendations in our report provide a framework for addressing these concerns. We recommend developing an outreach strategy to promote more understanding of the value of public service, a strategic human resources plan that encompasses all elements of the new total force, and force-shaping tools that are appropriate for the 21st century. The task force identifies a number of priority areas for shaping both the civilian and military force.

Today's human resource challenges represent an urgent concern for the Department – one that deserves attention at the highest levels. People are the Department's most important resource and human resources management is the Department's hardest and most important resource management task. As DoD and the nation moves into the 21st century, it cannot do so with a human resources strategy designed for the past. A sustained transformation in the character and management of the human element of the force is crucial. Though many of our recommendations will take a few years to complete, it is essential to establish a plan and start working now. Strong, focused leadership is essential for success.

We thank the task force members for their hard work and valuable insights. Their dedication reflects their belief in the importance of this challenge to the Department.


Dr. John Foster, Jr.


General Larry D. Welch, USAF (ret.)

DEFENSE SCIENCE BOARD TASK FORCE ON HUMAN RESOURCES STRATEGY

“A country’s national security is only as strong as the people who stand watch over it. The men and women of the U.S. armed forces demonstrate their courage and excellence every day, protecting the lives and interests of the American people. In turn, the civilians provide the infrastructure that makes the military operations possible, while at the same time more of them face deployment and uncertainty as well.”

*Secretary of Defense William Cohen
Annual Report to the President and the Congress, 1999*

TABLE OF CONTENTS

Preface.....	iii
Executive Summary	v
CHAPTER 1. Introduction.....	1
CHAPTER 2. The Strategic Environment and Challenges for DoD	3
CHAPTER 3. Engaging the American Public	9
CHAPTER 4. Strategic Planning and Shaping the “Total Force”	15
CHAPTER 5. Shaping the Civilian Force.....	23
CHAPTER 6. Shaping the Military Force	47
CHAPTER 7. Concluding Comments.....	79
ANNEX A. Terms of Reference	A-1
ANNEX B. Task Force Membership	B-1
ANNEX C. Task Force Briefings	C-1
ANNEX D. Political Appointment System.....	D-1
ANNEX E. Military Housing and Health Care Issues	E-1
ANNEX F. Military Retirement System Options	F-1

PREFACE

The Department of Defense (DoD) employs more than three million people. Nearly half of its personnel, 1.44 million, are active duty military. About 870,000 Reservists, composed of 410,000 Selected Reservists and 460,000 National Guard personnel, add to the active duty force. Civilian personnel make up the remaining workforce, numbering about 730,000. These three million employees are supported by an array of defense contractors providing a wide variety of goods and services to the Department. Moreover, the Department spends more than half of its \$270 billion budget on pay and allowances alone. With a workforce this large, varied, diverse, and important, it is not surprising that its management is a uniquely challenging undertaking.

The human resource challenges facing DoD have changed rapidly over the last decade as a result of many factors. A robust economy, civilian sector competition for employees to fill high-technology positions, declining American public interest in public service, major changes in the Department's missions and operational tempo, and a significant downsizing of the Department's workforce are a few examples. Reducing the size of the overall workforce by more than a million personnel, from a high in 1987 of 4.1 million, has left in place a very different force distribution – in age, education, and skill.

Managing and shaping this force to meet current and future needs is a critical task, which requires new tools, authorities, and management attention. This report of the *Defense Science Board Task Force on Human Resources Strategy* offers recommendations to help guide DoD in this task.

EXECUTIVE SUMMARY

The United States continues to maintain a high quality force. Professional, highly trained, and well equipped, the force has performed successfully in many and varied operations during the last decade – in Desert Storm, Bosnia, Haiti, and Kosovo to name a few. Working with allies and coalition partners, America's forces have brought to these operations both warfighting and humanitarian responses – illustrating the changing nature of today's international concerns and the need for a wide range of force capabilities. Today's military personnel are asked not only to be victorious in combat but also to be diplomats, humanitarians, and rebuilders – and to accomplish these tasks in the limelight of worldwide news broadcasts and public scrutiny. Even with a several fold increase in operational tempo, the force has continued to respond to U.S. interests worldwide. It is a force in which the American people take pride.

Despite these successes, however, there is evidence that the quality and capability of the force is beginning to erode from the record highs of the mid-1990s. While the decline has been modest, and the overall quality of recruits remains well above the minimum standards, it is a trend that is evident and needs to be reversed, particularly in a number of critical skill specialties. And it is a concern that extends to the civilian workforce as well. The future security environment will demand even more of the people involved in defending the nation and carrying out the mission of the Department. Thus, DoD will need even higher quality people, strongly motivated and able to deal with the more complex interactions required. As the Department transforms its force structure to meet the needs of the 21st century, transforming the character and management of the human element of the force is critical.

Recruiting, training, and retaining personnel are essential to building and sustaining the Department's workforce. Yet DoD faces a tremendous challenge in maintaining its force today, both the civilian and military workforce, including the active and reserve components. Attracting young, talented individuals into the Department's civilian workforce is a difficult challenge. There is a growing shortage of quality managers in place to fill the career positions that will become available as the aging civilian force becomes eligible to retire in large numbers in the next few years. Many of those retiring will take with them highly specialized and technical skills – ones not quickly or easily replaced – and they represent a significant portion of the civilian leadership today. In addition, senior civilian positions now stay vacant for longer and longer periods because of the reluctance of highly qualified individuals to be subjected to the political appointment process and the restrictions imposed on returning to their private sector careers.

The military Services face major challenges. It is becoming increasingly difficult to meet annual recruiting goals. The Services fell short of their accession goals in both FY 1998 and 1999 by nearly 8,000 active duty personnel; in FY 1999 shortfalls among the Reserve components numbered nearly 20,000. Further, talented individuals in junior and mid-career military positions, in a number of critical skills, are leaving in greater numbers for jobs in the private sector. As these shortfalls accrue, achieving force size and quality goals in the future will become an even more serious challenge. Also, the type and frequency of regional operations have revealed a number of shortfalls in the current relationships between the active duty force and the National Guard and Reserve components. Contingency operations have highlighted that certain elements of the force are badly over committed. A new balance and more flexibility in maintaining the force are needed.

Overall, the allure of public service has faded. These trends represent an urgent concern for the Department of Defense.

Rapid downsizing during the last ten years has led to major changes in the roles of and balance between the Department's civilian and military personnel and in the roles of government employees and private sector personnel. The task force believes that the All-Volunteer Force remains the correct vehicle to support the nation's national security requirements. But the shape of the overall workforce is changing. Today there is a new "total force" that includes military (both active and reserve), civilian, and private sector personnel – all making important contributions to the Department's mission. The roles of the civilian and private sector workforce are expanding, now including participation in combat functions, as a "virtual" presence on the battlefield, and in support duties on both the domestic and international scene. This expanding civilian role frees military personnel to focus on the warrior mission, for which they are uniquely qualified. But this expanding role also calls for greater attention to shaping an effective civilian workforce to meet the demands of the future.

In examining indicators of the civilian and military workforce and likely trends in the 21st century, the task force has identified three overarching issues that are having an adverse impact on the high-quality force that the Department has today and needs in the future:

- The American public is increasingly less involved and less inclined to serve in the Department of Defense.
- A strategic plan is needed for future human resources requirements for a fully integrated DoD force.
- The Department does not have the authority and tools necessary to integrate the management of its human resources.

To address these issues within the new "total force," the task force adopted the following principles:

- Government personnel should pursue only those tasks that are essential to the business of governing.
- Military personnel should be involved in those tasks that only the military can do, recognizing there are some functions in which both military and civilian personnel should be involved.
- Civilian personnel should perform all other government tasks.
- The private sector should be called upon to support those functions that it can do best.

The Department needs to develop a clear understanding of the roles and characteristics of its civilian and military personnel. In shaping the future workforce, priority must be given to providing needed capabilities from the most appropriate source – military or civilian, government or private sector.

ENGAGING THE AMERICAN PUBLIC

Recruiting civilian and military personnel is challenging in today's robust economy, against competitive and attractive private sector career options. But another element in recruiting – that affects retaining personnel as well – is public perception and public attitudes toward military and civilian service. The American public has high confidence in the military as an institution. Young people view the military as a highly professional organization that has effectively dealt with difficult regional crises and conflicts as well as a number of important domestic problems, particularly the elimination of drug use by military personnel and the integration of minorities and women into the military. Yet despite these encouraging perceptions, the propensity for America's youth to join the military continues to decline.

The mission of today's military and its importance to the nation are not well understood by the American public. A decline in the presence of military veterans among members of Congress and the executive branch, in state and local government, in the education system, and in the public at large means there are fewer role models with knowledge of and support for military service. Public perception of the military can be influenced by a belief that the commitment to military service is important to the individual and the country. Consequently, the government in general and DoD in particular need a strong program to enhance public appreciation for public service and respect for those who serve.

Outreach to the American public is the responsibility of the national leadership, beginning with the President and executive branch and including Congress. The President and Congress need to communicate forcefully and frequently to the American people and to DoD personnel at all levels the necessity and importance of maintaining a national security capability, and they need to provide leadership in defining and articulating national security requirements. Moreover, national leaders

need to speak to the American public, on an ongoing basis, about the value of public service.

RECOMMENDATION

The Department of Defense should take specific action to promote more understanding of the value of public service in both military and civilian positions. Specifically, the Secretary of Defense should charge the Service Secretaries as a group with the responsibility to develop, execute, and fund an outreach strategy. Outreach programs should be a critical component of the Department's human resources responsibilities.

STRATEGIC PLANNING

Today there is no overarching framework within which the future DoD workforce is being planned aside from the planning conducted within the military Services and ad hoc fora in the Office of the Secretary of Defense. An overarching strategic vision is needed that identifies the kind of capabilities that DoD will need in the future, the best way to provide those capabilities, and the changes in human resources planning and programs that will be required. In short, the Department's force concept – embodied in *Joint Vision 2010* – needs to be linked to manpower requirements for the total force, military and civilian, public and private.

A strategic human resources plan should give the necessary priority to the key issues, needs, and concerns that are central to assuring the future numbers and quality of people. Of particular importance is planning for specific skills and experience requirements for both the civilian and military workforce. The task force has identified the key issues now evident in the force, many resulting from a lack of appropriate management tools. They include:

- Within the civilian workforce:
 - The insufficient number of properly trained candidates in the pipeline, an aging workforce with little turnover, limited professional development opportunities, and inflexible compensation and incentive systems for the Senior Executive Service and career civil servants
 - The lack of a continuing professional development program for career civilian employees
 - The need for an integrated personnel management plan that includes accounting for the increasing use of private sector personnel
 - The long confirmation cycle, inadequate compensation, financial disclosure rules, and post-employment restrictions that create a

limited, less qualified applicant pool and extended vacancies for political appointee positions

- Within the military:
 - Recruiting challenges and training and first-term attrition in enlisted grades
 - Retention of experienced individuals to fill key leadership, specialty, and technical positions in the non-commissioned officer corps
 - Improving job satisfaction, retention, and commitment to service within the junior officer grades
 - Retention and professional development of the “best and brightest” within the senior officer grades, including flag rank

RECOMMENDATION

The Department of Defense should establish a strategic human resources plan encompassing all elements of the total force: military, civilian, and private sector personnel. This plan should

- Forecast human resource needs
- Forecast expected available personnel inventories
- Specify overarching goals, policies, and resources
- Propose necessary changes in legislation and directives
- Develop the necessary management tools to meet the specified goals

SHAPING THE TOTAL FORCE

The human resources strategic plan should identify the tools necessary to size and shape the force – to influence the quality, commitment, skills, training, and quality of life of the workforce. Such shaping requires tools for recruiting, attrition, retention, professional development, utilization, transition, and separation as well as for balancing and integrating all elements of the new “total force.”

The Department has a wide range of tools for shaping its workforce, yet many of those available today are either not used or are no longer as effective as they need to be. Some of these tools tend to reflect the “one-size-fits-all” approach that has evolved from a system in place for many decades and are no longer well suited to the current needs of the workforce. The Department needs to recognize that “one size” does not fit all and to develop tools that allow flexibility for the different career patterns, compensation expectations, and motivations in different occupations.

The recently approved changes to the military compensation system – the pay raise, new pay table, and changes in retirement benefits – reflect progress in improving the tools available to the Department. These changes addressed important concerns among the military workforce and will provide more incentive for personnel to stay and seek advancement to higher rank. The task force applauds the efforts by the Secretary, the Joint Chiefs, the Under Secretary of Defense for Personnel and Readiness, and the Service Secretaries for their focus on this issue. The FY 2000 pay package is an important step on which further improvements can build.

Shaping an effective future force – a total force that includes government and private sector civilians as well as military personnel – will require priority attention on the civilian workforce. Managing the exodus of more than half the civilian workforce eligible for retirement in the next five years is a critical concern that needs attention today. The Department needs a professional civilian force and the civilian workforce needs to be treated as a professional force in every respect. The military Services tend to draw greater attention from both the Department and Congress, in part because the Secretary of Defense and the defense committees in Congress have authority over military personnel while the Office of Personnel Management oversees the civilian workforce. This management arrangement makes it difficult to execute timely changes in civilian force-shaping tools; it is a situation that needs to be addressed.

Civilian sector changes in lifestyles, education, and career paths are having a significant effect on the Department's ability to recruit and retain people. These changes are likely to continue. As a consequence, recruiting and retaining the kind of force the Department needs will require incentives that are different from those that were useful in the past. Thus, the current set of human resource policies and practices will not meet the needs of the 21st century force if left unchanged. Developing effective force-shaping tools, to meet the demands of the future, will require continuing change in personnel policies and programs. The task force recommendations for enhancing the Department's force shaping tools build on the many initiatives and policy improvements ongoing in DoD today.

RECOMMENDATION

The Department of Defense should develop force-shaping tools that are appropriate for the 21st century. The task force has identified a number of priority areas for both civilian and military personnel.

For civilian personnel:

- The Secretary of Defense should provide civilian personnel policy guidance to the military Services, which will be responsible for implementing this guidance in their respective departments.

- Propose legislation to amend, as necessary, the appropriate provisions of the United States Code (title 10 and title 5) to transfer authority for the civilian workforce from the Office of Personnel Management to the Secretary of Defense. This change will permit the Secretary to establish policies and develop force-shaping tools for all components of the new “total force” and in doing so meet changing DoD requirements.
- Develop a comprehensive professional development and career management program for scientific, management, and administrative fields, based on policy guidance and funding from the Office of the Secretary of Defense, with Service implementation. As part of this program
 - Implement planned expansion of the Defense Leadership and Management Program (DLAMP) to 3,000 participants
 - Create a Preparatory DLAMP for GS 9 to 12 personnel
- Provide resources and take necessary steps to recruit a more age-balanced workforce and increase the leadership pool for career civil service. Increase intern programs, vigorous recruiting on college campuses, and direct accessions of military personnel.
- Conduct a thorough review of the requirements for and implications of expanded participation of government civilians and private sector personnel throughout the force, including direct support in contingency operations.
- Fill political appointee positions promptly in view of their essential role in implementing administration policy.
 - Reduce the number of political appointee positions requiring Senate confirmation to those essential to implement policy.
 - Expedite the confirmation process by simplifying and standardizing paperwork.
 - Rescind Executive Order 12834, thereby reducing post-employment restrictions from five years to one.
- Reduce the number of political appointees below the assistant secretary level to provide upward career opportunities for career Senior Executive Service personnel.

For military personnel:

- Move to a more seamless integration of active and reserve components with a single, integrated personnel and logistics system.
- Shift military personnel from general support to direct combat and combat support, leveraging the transformation of the logistics and support systems.

- Constitute a task force to study and develop a plan that will merge, over time, the Army and Air Force reserve units with their respective National Guards.
- Place priority focus on attracting and retaining the needed military personnel who are motivated and qualified to serve and lead.
- Effectively explain to the force why today's diverse military operations are essential to the nation's security and the proper business of the military, and explain how they contribute to the development of individual leaders and warriors.
- Institute changes and provide the resources necessary to meet recruiting and retention goals and reduce training base and first-term attrition.
- Place added emphasis on improving quality of life, overcoming problems with job satisfaction and retention, and strengthening commitment to service.
- Restructure the military pay system to further emphasize pay for performance and skills. Modify the "up or out" requirement for selected skilled personnel.
- Continue to reform the military retirement system to provide earlier vesting, a 401K-type option, benefit portability, and different service lengths and retirement points depending on military needs.

Implementing the task force recommendations will require the Department of Defense to increase its annual resource investment devoted to addressing current and future human resources concerns. Based on estimates from the Department and other sources, the task force believes that approximately \$800 million in additional investments – as detailed in the following table – will be required each year to fund the recommendations discussed in the following chapters. Given that the Department spends more than half its \$270 billion budget for pay and allowances alone, the additional resource investment recommended by the task force results in an increase of less than one percent over current spending.

Today's human resource challenges represent an urgent concern for the Department of Defense – one that deserves attention at the highest levels. People are the Department's most important resource, and human resource management is the Department's hardest and most important resource management task. As DoD moves into the 21st century, it cannot do so with a human resources strategy designed for the past. The task force recommendations attempt to respond to the urgency of this challenge as well as to suggest a longer-term approach to shaping the Department's workforce after the near-term concerns abate. Though implementing many of the recommendations will take a few years to complete, it is essential to establish a plan and start working now.

It is not sufficient to adjust DoD policies and practices in temporary measures to meet the most critical shortfalls identified today. A sustained transformation in the character and management of the human element of the force is crucial – one that keeps pace with the rapid changes in the national security environment and in society at large. Making the needed changes will be difficult and complex. But without such a transformation, the Department’s human resource problems will become much worse. Successful transformation is necessary in order to maintain the needed force for the 21st century. Strong, focused leadership, with clearly assigned responsibilities for implementation, is essential for success.

Cost Impact of Task Force Recommendations

<i>Initiative</i>	<i>Cost</i>
<i>Continue to reform the military retirement system</i> to a defined contribution system, vested after 5 years of military service, and establish a separation pay system.	Costs are the same as the FY 1999 retirement accrual charge already in the DoD budget. While costs to DoD are neutral, federal government outlays will increase by \$3.4 billion per year in the short run. In the long run, these costs will be more than offset by budgetary savings from lower federal government outlays for retirement annuities.
<i>Extend the defined contribution system</i> to non-active duty personnel.	Costs not estimated, but should be offset by eliminating the retirement accrual charge for these personnel.
<i>Increase recruiting resources</i> to better meet objectives. (Estimates reflect annual increases over current funding levels.)	<ul style="list-style-type: none"> - Joint Recruiting Advertising Program -- \$150 million (from \$300 million), including an additional \$50 million for a new corporate advertising campaign, \$25 million for advertising focused on centers of influence such as parents, and \$25 million for advertising with a citizenship message for young people ages 10-14 - Recruiter support such as expanded training, lap top computers, cellular telephones, and other modern communication and information processing equipment -- \$40 million - Clerical and administrative support for recruiters -- \$60 million - Joint Recruiting Facilities Program to locate recruiting offices at more effective sites -- \$50 million - Montgomery GI Bill and separate Service college funds -- \$300 million, including \$135 million to expand current college funds and create an Air Force college fund. - ROTC programs to include additional scholarships, larger stipends, and expanded cadet training -- \$50 million - Special Duty Assignment pay for recruiters -- \$30 million - Recruiter productivity/incentive pay program -- \$20 million
<i>Merge the Air Force and Army Reserves into their respective National Guards</i> over the next 3-5 years.	Costs remain to be estimated; however, costs should be partially offset by savings from eliminating separate leadership, administrative, personnel, management, and logistics infrastructure.
<i>Increase the size of the JROTC Career Academy program</i> from 30 to 60 academies.	Additional \$15 million in FY 2001.
<i>Expand the Defense Leadership and Management Program</i> to 3,000 participants over the next 3-5 years. <i>Create a DLAMP preparatory program</i> for GS 9-12.	DLAMP: FY 2000 budget level of \$46.8 million funds 1,200 participants and includes development costs for facilities and coursework. Pre-DLAMP: \$16 million in the first year; \$36 million in the second; and \$53 million in the third, for a total of \$105 million over three years to fund 9,000 participants.
<i>Expand the Presidential Management Intern Program</i> to 30-50 selections a year over the next decade.	Additional salary and benefit costs would grow from about \$5.2 million in FY 2001 to \$7.4 million in FY 2010 .

INTRODUCTION

At the request of the Under Secretary of Defense for Acquisition and Technology and the Under Secretary of Defense for Personnel and Readiness, the Defense Science Board (DSB) formed a task force to review trends and opportunities to improve the ability of the Department of Defense (DoD) to attract and retain personnel with the motivation and skills to serve and lead in civilian and military capacities. The task force was asked to provide recommendations to enhance the attractiveness of the DoD and the capabilities of those who would serve.¹

The need for the Department of Defense to formulate and carry out a strategy for acquiring and retaining human resources is greater than ever. For the past decade it has been increasingly difficult to attract "the best and brightest" to national security service given competitive alternatives in the private sector. As more and more civilian and military positions become high technology jobs, DoD is increasingly drawing on the same pool of talent and skills as private sector firms that can offer greater economic rewards as well as the opportunity to work with advanced technology. At the same time, the body of legislation and regulation formulated to reduce real or perceived conflicts of interest is an increasing disincentive for government service. DoD needs to take steps to manage these realities in order to ensure an effective workforce into the 21st century. The challenges are urgent and demand attention at the highest levels of the Department.

In conducting its review, the task force was asked to examine the following, as appropriate:

- The perceptions, practices, and laws which govern relationships within DoD and between DoD, the White House, the Congress, and the public
- The implications of outsourcing and privatization
- The perception and nature of DoD's mission to assure national security in the 21st century

To address these questions it was important to draw the task force members from a broad spectrum of communities. The team included individuals who have dealt with issues of human resources in the public and private sectors, military recruiting and operations, technology, and program management.² In addition, task force members represent varied professional backgrounds, having served in the Congress, the White House, and DoD as well as academia, private industry, and non-profit research organizations. This diverse group brought a wide range of

1 The complete Terms of Reference for the Defense Science Board Task Force on Human Resources Strategy is contained in Annex A.

2 Annex B contains a list of task force members.

knowledge and operational disciplines to the task force effort, enabling rich debate and perspective.

As background for its work, the task force heard a variety of briefings from current and former DoD officials involved in force management, both civilian and military, as well as individuals from other government organizations and private industry. Speakers included former Secretaries of Defense, senior officials in the Office of the Secretary of Defense and the military Services including current Deputy Chiefs of Staff for Personnel, and military recruiters. Briefings covered topics including recruiting and retaining military personnel, recruiting challenges for civilian personnel, special concerns of the National Guard and Reserve, Congress and the legislative process as it relates to human resources, the political appointee confirmation process, and public perception of government service.³ In addition, the task force reviewed a variety of studies, including some that are ongoing, addressing issues related to the Department's human resources challenges.

The chapters that follow present the results of the task force deliberations. Chapter 2 begins with an overview of the national security strategic environment and the human resources requirements that evolve from this environment. The remainder of the report examines the challenge of sizing and shaping the DoD workforce for the future, beginning in Chapter 3 with the overarching concern of public attitudes toward military and civilian service in the Department of Defense. Chapter 4 describes the need for a strategic planning process for human resources and for tools to shape the force to meet the Department's human resources requirements. In Chapters 5 and 6 the task force identifies a number of priority areas in which force-shaping tools need to be developed for both civilian and military personnel. The final chapter contains concluding remarks, including an enumeration of resource requirements for implementing the task force recommendations.

3 Annex C contains a list of briefings to the task force.

THE STRATEGIC ENVIRONMENT AND CHALLENGES FOR DOD

Human resource requirements pose many critical challenges for the Department of Defense. The Department is reaching the end of a decade defined largely by downsizing, with reductions in the size of the civilian and military components of the DoD workforce as well as the overall defense budget. As DoD enters the 21st century, it faces the task of sustaining its workforce and shaping it to support the requirements of the future security environment – one that is fundamentally different from that of the era distinguished by the superpower threat.

The 21st century security environment will demand much more of the people involved in defending the nation and carrying out the mission of the Department of Defense. Tomorrow's workforce must be empowered to meet these demands. It needs to be capable of accepting greater responsibility for decision making in a more varied environment. It needs to be highly skilled and able to use and adapt to new information-age technologies. It also needs to be flexible enough to adapt to the change and uncertainty that will dominate the future security environment for decades to come. DoD must continue to be prepared to respond to a wide variety of missions, often on short notice.

This chapter describes elements of the strategic environment – internal and external, international and domestic – within which the Department will build and shape its future workforce. It provides a framework for the chapters that follow, which examine more specifically the implications of this environment on shaping the civilian and military components of the Department's workforce and offer recommendations for building an effective total force in the future.

THE STRATEGIC ENVIRONMENT

With the demise of the Soviet Union, much of the certainty associated with defense planning ended as well. For decades, DoD has planned against the threat of the Soviet Union. The threats and challenges of today's world and that of the coming decades will be quite different. And they will be harder to predict.

A future adversary could look very much the same as the one the United States has understood and faced. Such an adversary can field a force that is an instrument of its nation and will challenge the United States in the battlespace. This adversary can exploit commercial technology, build or buy modern weapon systems on the world market, and challenge early-entry forces fielded by the United States and its

allies. This adversary may also have the capability to employ weapons of mass destruction. More broadly, such an adversary will seek asymmetric approaches that avoid America's conventional advantages.

The United States also faces a very different kind of adversary. Instead of the traditional nation-state, this future adversary could be an individual, small group or band, or an organization that is motivated by an ideology that transcends a single nation. Often achieving military successes are less important to such an adversary than generating attention-getting headlines, acting on historic and ethnic hatreds, or responding to the emotional appeals of demagogic or despotic rulers. And this new adversary may be willing to sacrifice innocent people anywhere in the world.

Moreover, the rapid spread of militarily relevant technology can give even a small nation or group, with relatively few resources, considerable capability. There is a rapidly expanding world market in modern weapon systems, space-based reconnaissance and surveillance, and information systems that can form a competent communications infrastructure. Potential adversaries of all types can take advantage of the proliferation of technology and engineering competence in weapons of mass destruction and ballistic and cruise missiles. The future battlefield is likely to include space, urban areas, the U.S. homeland, or cyber space; and pictures of the conflict will be transmitted to viewers everywhere, nearly simultaneously.⁴

CHALLENGES FOR DOD

Overall, the security environment can be best characterized as one of change and uncertainty. And future forces must deal with these two "givens." The environment is also one in which DoD will face a diverse and complex set of missions and mission demands – from strategic nuclear deterrence to humanitarian operations. These missions will all require a very high standard of performance. The operational challenges of the future will include

- Protecting the U.S. homeland from threats that range from strategic nuclear to low-level terrorist attack
- Maintaining and strengthening regional stability
- Projecting combat power anywhere in the world
- Responding to peacekeeping and humanitarian contingencies
- Responding to austere and unplanned contingencies
- Incorporating and protecting information operations
- Operating in space and with space-based assets
- Operating in urban environments

⁴ This overview of the future strategic environment was drawn from *Transforming Defense: National Security in the 21st Century*, Report of the National Defense Panel, December 1997.

- Deterring and defeating weapons of mass destruction
- Addressing transnational threats and issues

These changes have and will continue to have a profound impact on the Department. DoD needs to transform its forces to operate within this new environment despite the uncertainty thereof. This means devising and testing new operational concepts, technologies, and force structures. The military Services have defined new operational concepts to address the future threat – *The Army After Next*, *Forward from the Sea*, *Air Expeditionary Forces*, and *Operational Maneuver from the Sea* – which will continue to evolve. An effective national security strategy must also be adopted, one that encourages regional stability, enables the United States to manage relationships with current and emerging powers, and protects the homeland.

Today's National Security Strategy specifies three main tasks: to shape, to respond to, and to prepare for the foreseeable world security environment as it affects the United States. To best succeed in the decades ahead, the Department should emphasize the following attributes as it strives to conduct effective military operations in support of this strategy:⁵

- *Responsiveness* to needs that will change, sometimes rapidly
- *Reliability* to perform in a predictable and consistent manner
- *Cooperation* and *trust* that underpin unified operations – whether joint, multi-agency, or coalition
- *Innovation* in new weapons, organizations, and operational concepts
- *Competition* to find constructive solutions to complex problems
- *Efficiency* in delivering effective military operations at the least cost

The future security environment calls for a shift in military capabilities toward lighter, more agile forces capable of rapidly responding to a crisis and conducting dispersed operations from longer range. Forces will need to have a broad capability base and use multi-dimensional platforms that are supported by a small logistics footprint. They will be linked by integrated information systems. Typically, units will be smaller in size yet capable of much more firepower, though some residual heavy forces should be retained and used as necessary. These capabilities are in contrast to much of today's force that still maintains an emphasis on heavy weapons combat capabilities, relies upon long and heavy logistics tails, and requires extended deployment timelines.

⁵ These six qualities are drawn from *Directions for Defense: Report of the Commission on Roles and Missions of the Armed Forces*, p 1-9.

HUMAN RESOURCES

These agile forces, in turn, place different demands on human resources. Service members must be highly trained and capable of responding to a wide range of missions. Yet as the demand for high-quality human resources is increasing, the environment in which the Department must recruit both civilian and military personnel is posing new challenges.

On the one hand, there are traditional forces that attract individuals into government service: patriotism, the quest for something worthy of commitment, pride in service, the desire for training and education, the quest for adventure and new experiences, and the need for job stability. But the allure of public service – civilian or military – is not what it once was. There has been a general decline in national security awareness among the American public and the lack of awareness is coupled with varied opinion and perception about the importance of DoD's missions. Fewer people in the public at large, in Congress, and in government at every level have had the direct experience and understanding that are gained through actual service in the military forces – a factor that will increase over time, leaving fewer military role models for future generations.

That fewer individuals are drawn to public service is at least in part the result of media and political campaigns that degrade the government and the contributions of its workforce and thus call into question the inherent rewards of public service. Public attitudes toward the government in general, and the military in particular, have a significant impact on the Department's ability to build and maintain the necessary support of the American people for a defense establishment that can do its job.

Competition from economic growth bears on the Department's ability to staff its civilian and military workforce. Lucrative career opportunities in the private sector, with the promise of higher salaries, more stable working hours, and less likelihood of frequent and long family separations, are an attractive draw. This is particularly true in high-skilled areas where there are intense commercial demands – airline pilots and skilled computer-capable information systems experts represent two particularly acute examples.

Whether today's force can continue to sustain the demands of the current environment – demands that are likely to continue – is in question, particularly since certain elements of the force are already over committed. It seems increasingly certain that the demand for recruiting, retention, and commitment of human resources called for by the current security environment is showing signs of overstressing the system.

Moreover, rapid downsizing during the past decade has led to major changes in the roles of and balance between the Department's civil and military personnel and in the roles of government and the private sector. The task force believes that the All-Volunteer Force remains the correct vehicle to support the nation's national security requirements. But the shape of the overall workforce is changing.

Today there is a new “total force” that includes military (both active and reserve), civilian, and private sector personnel – all making important contributions to the Department’s mission. The roles of the civilian and private sector workforce are expanding, to include participation in combat functions, as a “virtual” presence on the battlefield, and in support duties in both the domestic and international arenas. This expanding civilian role properly frees military personnel to focus on the warrior mission, for which they are uniquely qualified. But the evolving civilian role also points to the need to place priority attention on shaping the future civilian workforce.

In examining indicators of the civilian and military workforce and likely trends in the 21st century, the task force has identified three overarching issues that are having an adverse impact on the high-quality force that the Department has today and needs in the future:

- *The American public is increasingly less involved and less inclined to serve in the Department of Defense.*
- *A strategic plan is needed for future human resources requirements for a fully integrated DoD force.*
- *The Department does not have the authority and tools necessary to integrate the management of its human resources.*

To address these issues within the new “total force,” the task force adopted the following principles:

- *Government personnel should pursue only those tasks that are essential to the business of governing.*
- *Military personnel should be involved in those tasks that only the military can do, recognizing there are some functions in which both military and civilian personnel should be involved.*
- *Civilian personnel should perform all other government tasks.*
- *The private sector should be called upon to support those functions that it can do best.*

The Department needs to develop a clear understanding of the roles and characteristics of its civilian, military, and private sector personnel. In sizing and shaping the future workforce, priority must be given to providing needed capabilities from the most appropriate source – military or civilian, government or private sector – and on shaping a single, integrated workforce.

ENGAGING THE AMERICAN PUBLIC

Despite multiple challenges in today's tough recruiting environment, recruiting strategies must ensure success in attracting a high-quality civilian and military workforce even in a highly competitive economy. A critical element in recruiting is public perception of and public attitudes toward the military and public service. The growing lack of awareness of public service and a lack of clarity about the Department's mission and purpose are the greatest inhibitors to successful recruiting and retention. Consequently, the government in general, and DoD in particular, should make a conscious effort to enhance the attractiveness of public service.⁶

The American public has high confidence in the military as an institution. In a 1998 Harris poll, 43 percent of those polled ranked the military number one among institutions inspiring a "great deal of confidence." This reflects a rise from fifth in 1971 to number one throughout the 1990s. A University of Chicago survey in the same year showed that 52 percent of the 19 and 20 year olds surveyed had a "great deal of confidence" in the "people running the U.S. military."⁷

America's young people view the military as a highly professional organization that has dealt effectively with difficult regional crises and conflicts as well as a number of important domestic problems, particularly the elimination of drug use by military personnel and the integration of minorities and women into the military. Military successes in the 1980s and 1990s in Grenada, Panama, the Persian Gulf, Bosnia, and Kosovo, for example, have restored public confidence after years of decline in the post-Vietnam era. The military's ability to handle important social problems serves as a symbol of the institution's professionalism and efficiency and its ability to adjust to changing American social values. Confidence in the U.S. military remains strong despite the fact that support, trust, and confidence in nearly every public and private institution has dropped over the last thirty years.

Ironically, however, the propensity for America's youth to actually join the military is declining. Americans tend to view the military as their national security "team." They support their team when it is deployed to defend national interests. But this support falls short of a desire to participate. Since Operations Desert Shield and Desert Storm, youth interest in the military has dropped to historically low levels. The 1998 Youth Attitude Tracking Study showed the propensity for young men to enlist in the military to be below 30 percent, while the propensity for women to enlist was about 12 percent. Moreover, a 1997 survey indicated that young men aged 16-21 increasingly feel that a private sector career is more likely to have attributes that are important to them – attributes that include doing something for their country, working in a high-technology environment, and providing an

6 The findings of the Volcker Commission are still relevant in this regard. "Leadership for America: Rebuilding the Public Service," *Report of the National Commission on the Public Service*, 1989.

7 King, David and Zachary Karabell. "The Generation of Trust: Public Confidence in the U.S. Military Since Vietnam," John F. Kennedy School of Government, Harvard University. July 22, 1999.

opportunity for adventure. Nonetheless, it is fortunate that even in this environment, public confidence in the military is high. The challenge is to translate this public confidence into a willingness to serve in both civilian and military positions.

The Department of Defense needs to take the lead in implementing a national campaign to educate the public on national security needs. The Department needs a broad and integrated outreach program that includes advertising, media coverage through news and entertainment, citizenship programs, and initiatives with civic organizations and in high schools and colleges.

Leadership. Outreach to the American public is the responsibility of the national leadership, beginning with the President and executive branch and including Congress. The President and congressional leaders need to communicate to the American people and to DoD personnel at all levels the necessity and importance of maintaining a national security capability and need to provide leadership in defining and articulating national security requirements.

Moreover national leaders, at every level, need to speak to the American public, on an ongoing basis, about the value of public service – both civilian and military. As an example, former President Ronald Reagan was a strong supporter of public service and the military in particular. He spoke often of the armed forces in glowing terms and stressed the values of honor, courage, and commitment. After years of a declining image, the President's leadership helped to reshape the public view of the armed forces and the importance of a strong national security. Such leadership is needed now more than ever to promote a positive attitude toward military service and to maintain public support for troops wherever they are engaged.

Clarify the Mission. The national leadership must communicate to the American public a clear statement of the importance and relevance of the Department's mission. The nation faces a new era of diverse threats that are more complex and demanding than in the past. The United States remains an active participant in responding to global demands. The world is in far less danger of cataclysmic conflict, but is far more subject to a range of conflicts and situations demanding a response from the United States and its allies. The missions that today's forces must respond to, and will continue to respond to in the future, are not as easily articulated as the Cold War threat from the Soviet Union. But they are important missions that serve America's national security goals. The validity and value of the military's new missions – humanitarian, peacekeeping, and peace enforcement – need to be effectively explained to the Department's own workforce and the public at large.

Senior leaders also need to invest time in generating interest in and support for the missions of today's military among intellectual leaders throughout the country. The public affairs organizations in the Service headquarters should take responsibility for this activity to assist the recruiting and retention mission of the force on a national as well as local level.

Media. Military victories in the Persian Gulf, Bosnia, and Kosovo have been broadcast to millions of Americans on prime time television. These wars have been fought in the public eye through press briefings and video images of conflict. Network anchors broadcasting live from the theater have enhanced the public's perception of the military. During these crises, the armed forces tend to be the center of media attention. The military has been portrayed in a leadership role in protecting and maintaining national security interests.

During major crises, press coverage is easy to generate. But interest in these events wanes quickly. The Department needs to work to keep media coverage active, particularly at a local level. Working through the Services, including the National Guard and Reserves, local media can be invited to cover military missions. The Department engaged the local press after the major networks lessened their coverage of Bosnia and was rewarded with extraordinary coverage in the local markets, including television interviews and newspaper stories featuring soldiers from the local communities. The media can also be encouraged to cover support missions and regular deployments to help share information about what the Department is doing. Coverage in regions such as Korea and the Middle East, where the United States maintains an ongoing presence, can highlight the role that DoD is playing in regions important to American national security. Local media coverage can be particularly useful in providing employers visibility into employee activities in the National Guard and Reserves. The Department can also do more to provide the media with informational materials, on an ongoing basis, to motivate press coverage.

Media exposure through the entertainment industry is another venue for maintaining an awareness of the military in the civilian population. Popular movies such as *Top Gun* and *Saving Private Ryan* and television shows such as *Major Dad* and *J.A.G.* present positive portrayals of the military. Among the youth population, this type of exposure is likely to be even more valuable than news coverage, as the press tends to be held in relatively low esteem. Thus efforts by the armed forces to improve and expand relations with the media and Hollywood are valuable and can serve as a vehicle to further positive attitudes toward the military and toward public service in general.

Advertising. Paid advertising has proven to be a highly successful recruiting tool. Advertising campaign slogans such as the Army's "Be All That You Can Be" and the Marine's "The Few, the Proud, the Marines" were tremendously successful in creating a positive image of the military. Moreover, this type of advertising is not only about recruiting messages but also about building public support for and confidence in the military. During the force drawdown of the past decade, advertising resources were cut, but the Services have more recently increased these resources in response to today's recruiting challenges. This type of investment needs to be sustained even during periods when recruiting is going well.

Today most of the Department's advertising is career oriented, focusing on education and training, adventure, high technology, and good benefits and pay. There is very little emphasis on patriotism and values. However, anecdotal and

survey data suggest that many new recruits – as many as half – cite “service to their country” as an important reason for enlisting.⁸ There is a growing belief that America’s youth will respond to messages of patriotism and a sense of service. Today the Peace Corps is still very popular and the relatively new Americorps programs have encouraged more youth to enter national service. And community service is now mandatory in many high schools across the country. Moreover, advertisements that emphasize patriotism and values are likely to appeal to parents – an important influence on youth propensity to serve. Patriotism may be an under marketed area of emphasis that needs to be tapped.

Furthermore the Department should launch and sustain an aggressive, coordinated DoD-wide advertising campaign complementing Service-specific advertising messages. Combining “corporate” and Service-specific advertising will further create awareness of the benefits of service among the American people and can also serve to create confidence in the military among America’s youth. A campaign that focuses on values can give people a reason to be proud of military and civil service and generate a desire to join.

Citizenship and Education Programs. Expanding the Department’s citizenship programs – such as Junior Reserve Officer Training Corps (JROTC), JROTC Career Academies, the Civil Air Patrol (CAP), and the National Guard *ChalleNGe* program – is an important way to instill a sense of patriotism and desire for public service in American youth. The Reserve Officer Training Corps (ROTC) program in colleges also provides visibility for the military and is another vehicle through which to attract interest in military service. The resources required for maintaining these programs comprise a worthwhile investment that should be sustained. The visibility they provide helps to counter the declining presence of military veterans in the public at large.

- **JROTC.** Established in 1916, the JROTC program is a citizenship and leadership program currently being implemented in about 2,600 high schools, enrolling 400,000 students.⁹ Although not a recruiting program, JROTC can enhance the image of the military in communities across America. Estimates suggest that around 40 percent of JROTC participants affiliate with the military in some way, either by enlisting directly, attending a Service academy, participating in ROTC, or entering the National Guard or Reserves. The Services fund the program at a cost of about \$165 million annually. *Over 600 schools remain on a waiting list for JROTC programs, but Congress has recently authorized \$34.8 million to eliminate most of the backlog – a move supported by the task force. In fact, the task force would support additional funding for more units to reach the statutory limit of 3,500 schools, authorized by Congress in FY 1993.*

8 David R. Segal, “The Influence of Accession and Personnel Policies on Changing Civilian and Military Opinion,” Center for Research on Military Organization, University of Maryland College Park, 1999.

9 For a discussion of the effectiveness of JROTC, see *Junior Reserve Officers’ Training Corp: Contribution to America’s Communities*, Center for Strategic and International Studies, Washington, DC, May 1999.

- **Career Academies.** The JROTC career academy program addresses the academic and other needs of “at-risk” high school students. The program stresses academic excellence, vocational training, and values such as citizenship, leadership, responsibility, and discipline through JROTC. Begun in 1993, the program enrolls nearly 4,000 students in 30 academies in 21 states. Although the program is considered a citizenship program, it provides the military an opportunity to come into the public school system and become involved in academics, vocational training, and the community. It also provides retired military personnel an opportunity to use their skills and background in public school classrooms and to serve as positive role models. Data from five years of successful operation show a significant increase in student attendance, grade point average, and credits earned and a marked reduction in dropout rates compared to the achievement of these students in traditional programs. *The task force recommends an increase in the size of the career academy program to include 30 additional schools.*
- **Civil Air Patrol.** The Civil Air Patrol is a civilian organization, but since 1948 has been an auxiliary of the Air Force. There are more than 53,000 members, with 17,000 young men and women in cadet programs. Cadets between the age of 13 and 18 develop physical and moral leadership skills through their interest in aviation, and many are given an opportunity to learn to fly. For over 50 years, the CAP has performed three congressionally mandated missions: aerospace education, cadet program development, and voluntary emergency services such as search and rescue, disaster relief, humanitarian assistance, and counter-drug activities. CAP owns over 500 light aircraft and a significant communications system to conduct education and training activities and emergency services, and members contribute nearly 5,000 personal aircraft to the mission as well.
- **National Guard ChalleNGe.** Currently funded at \$62.5 million under the Department’s civil-military innovative readiness training initiative, the National Guard’s *ChalleNGe* program is a 22-week residential course for 16- to 18-year-old unemployed high school dropouts. Core components of the course are citizenship, life-coping skills, community involvement, skill development, and physical training. Enrollees are assisted in obtaining their general education development (GED) or high school diploma and are mentored for one year following their course. The program is currently operating in 26 states (13 states are on the waiting list due to funding limitations) with the residential portion of the program most often located on military installations. Since 1996, more than 30,000 youths have participated.
- **ROTC.** Although primarily an officer recruiting program, ROTC also enhances the visibility of the military in local communities. ROTC programs are active in 470 colleges and universities, but it is becoming increasingly difficult to sustain these programs in many areas. Campus

access laws denying federal funds to schools that prevent ROTC access to campuses or students have helped to preserve many programs. ROTC has been a valuable tool for DoD in the past, and the Department needs to ensure that the program remains a strong presence in college communities, especially as the importance of this market for recruiting grows.

Community Involvement. Civic activities provide many opportunities to widen the Department's sphere of influence in American communities. Examples include tutoring, coaching youth sports activities, soldier-to-teacher programs, guest speaker programs in areas that lack military installations, speeches to civic organizations, participation in civic events like parades and ceremonies, Internet sites, and visits by active duty members to their home towns. Civic involvement is a way to increase engagement with the public, and it can be a vehicle to connect today's youth with the World War II and Korea veterans who speak positively about military and public service based on personal experience. In addition, the large number of Reserve and National Guard units across the country already create a military presence, but efforts should be explored to expand this influence further.

Other innovative programs can also promote knowledge of public service and the military. The Time for America Foundation, for example, is a web-based interactive educational program that connects students and troops. The purpose of the program is to encourage patriotism and to give youth an opportunity to learn about and appreciate America's military and its history. Students learn about Service members, both as professionals and as family members. At the same time, they learn, through the Service members with whom they are partnered, the positive values of community service and commitment.

The Department faces an environment where it must compete for people. The current lack of understanding and willingness to serve the Department must be reversed. It is essential to educate the American public on what the civilian and military workforce in DoD is doing and why it is important. National security needs can arise quickly and require rapid response with public support. Engaging the American public, using a sustained public relations campaign, is an important step toward building an effective 21st century workforce.

RECOMMENDATION

The Department of Defense should take specific action to promote more understanding of the value of service, in both civilian and military positions. Specifically, the Secretary of Defense should charge the Service Secretaries – as a group – with the responsibility for developing, executing, and funding an outreach strategy. Outreach programs should be a critical component of the Department's human resources responsibilities.

STRATEGIC PLANNING AND SHAPING THE "TOTAL FORCE"

DoD's manpower requirements are shaped by America's national security needs and the forces necessary to respond to those needs. The Department will continue to respond to a wide variety of missions in a global environment. How often and on what basis U.S. forces will deploy is uncertain, but the higher operational tempo of the past decade appears likely to continue. *The demands of the 21st century security environment are markedly different from those that shaped the manpower requirements and personnel systems and policies that are used in the Department today. The current set of human resources policies and practices will not meet the needs of the 21st century force if left unchanged.*

STRATEGIC PLANNING

The quality of DoD personnel, both uniformed and civilian, has always been critical to the implementation of the national defense strategy. Weapon system performance, the rapid capability to face widening and diverse threats, and the ability to take advantage of the revolution in military affairs depend on the quality and training of DoD personnel. However, current defense-planning strategies do not include personnel-specific requirements.

Today there is no overarching framework within which the future "total force" is being planned aside from the planning conducted within the military Services and ad hoc fora in the Office of the Secretary of Defense. In some areas, there is planning and long-term vision, but in many cases these are areas where severe shortfalls are evident. In other cases, the task force learned of many important ongoing programs, but could find no systematic way of relating these programs to what the Department needs and therefore identify their purpose or results. The Department needs to look beyond its immediate problems and take a comprehensive strategic approach to forecasting future personnel requirements in terms of quality, attributes, and skills. These needs must be balanced against evolving market trends and used as the basis for a manpower investment strategy. Most importantly, a strategic planning approach needs to be flexible and adaptable to today's rapidly changing environment, in sharp contrast to the systems in place today.

A strategic vision is needed that identifies the kind of capabilities that DoD will need in the future, the best way to provide those capabilities, and the changes in human resources planning and programs that will be required. *In short, the Department's force concept – embodied in Joint Vision 2010 – needs to be linked to manpower requirements for the “total force.”*

A Strategic Plan

From the outset, a strategic human resources plan requires the ability to forecast the human resource needs of the Department. The expected personnel inventories can then be compared to the needs, and policies can be adopted and resources allocated to meet the needs. Shaping the force for the future entails changing the way in which human resources needs are defined and matching personnel inventories to the new approach.

Improving the ability to forecast needs is of increasing urgency and practical necessity. Quality people, both civilian and military, are becoming harder to attract and are a costly resource. Lead times for training increase as skill and technical demands increase. As technical skills become more specialized, it is harder to fill gaps with people trained in other skills. The technical and tactical complexity, the increasing pace of operations, and the need for joint and coalition operations combine to demand higher experience levels and in many cases a different force mix. The growing importance and repeated use of niche capabilities in deployments – such as C⁴ISR systems, smart weapons, and unmanned aerial vehicles – are putting great demands on a few people, as the high-demand, low-density unit program demonstrates. Humanitarian and peacekeeping operations also demand specific personnel, such as civil affairs specialists, that are in short supply and quickly become over committed.

Skill, experience, and organization of the workforce form the basis for forecasting human resource needs. At bottom, units are constructed to do specific functions that in turn generate requirements for work to be performed at some rate by skilled individuals. In some units, more can be accomplished by adding people. For example, higher aircraft crew ratios make more flight hours possible. More can also be accomplished by making people work longer or harder for certain periods of time. But this strategy can be counter-productive in the long run because people may choose to leave civil and military service if high operational tempo becomes the norm. In many areas the level of experience of the personnel is a factor in both the quality and quantity of work performed.

A strategic planning process also needs to account for manpower requirements that are external to the Services and are not fully accounted for in current manpower processes. These include both DoD and joint requirements and both permanent positions assigned to contingency locations and “borrowed manpower” deployed to support humanitarian, peacekeeping, and contingency operations. When external factors are not accounted for in planning, the result is that programmed end-strength is less than required to achieve programmed manning levels and in some cases the skill set of the workforce does not meet requirements. The Department then has to

make up these shortfalls by extending working hours and deploying individuals more frequently.

Beyond basic workload needs is the need for supervision. The civilian hierarchy and military chain of command both require trained and experienced people. As the missions become more complex and time-driven, there is no substitute for experienced and trained people to supervise and manage the force at all levels. Technology is greatly increasing the productivity of personnel supervisors. Yet the need for more joint and coalition operations and more interaction with other government agencies demands even more of these individuals.

Training is a growing necessity because of both technical and operational complexity. Training also generates a need for more people because people involved in training exercises are not available to perform regular tasks. Moreover, the training establishment itself needs highly skilled and experienced instructors as staff. Distance learning – which allows personnel to take advantage of educational opportunities while in the field – and other technologies may improve training quality and productivity.

Finally, there is an interaction between personnel policy and the forecasted needs for people. Some personnel policies generate a demand for more people because the policies themselves make some people in the inventory unavailable for certain duties. For example, a personnel policy that limits overseas deployments in length and frequency means that people who complete a deployment tour are not immediately available for another tour. Thus, there must be enough people of the needed skill and experience levels in the force to sustain deployments without over committing elements of the force. In the Balkans, for example, all of the Services have been experiencing problems of this sort. Family separation, incarceration, reassignment travel, and pregnancy also can make people unavailable for some duty assignments and need to be taken into consideration. Provision for wartime casualties and illness need to be included in forecasting needs as well, particularly for long lead-time skills.

By better forecasting skill requirements for the future civilian and military workforce, human resource managers will be able to make better decisions on how to provide needed capabilities from the most appropriate source – whether it be military or civilian, government or private, United States or host nation. Decisions to convert functions from military to civilian or to outsource functions to the private sector should be determined based on an integrated human resource plan.

Critical Needs

A strategic human resources plan should give the necessary priority to the key issues, needs, and concerns that will assure adequate numbers and quality of people in the future. Of particular importance is planning for specific skills and experience requirements for both the civilian and military workforce as described above, especially in periods when shortfalls are likely. The task force has identified the

key issues now evident in the force, many resulting from a lack of appropriate management tools. They include the following:

- Within the civilian workforce:
 - The insufficient number of properly trained candidates in the pipeline, an aging workforce with little turnover, limited professional development opportunities, and weak compensation and incentive systems for the Senior Executive Service and career civil servants
 - The lack of a continuing professional development program for most career civilian employees
 - The need for an integrated personnel management plan that includes accounting for the increasing use of private sector personnel
 - The long confirmation cycle, inadequate compensation, financial disclosure rules, and post-employment restrictions that create a limited, less qualified applicant pool, and extended vacancies for political appointee positions

- Within the military:
 - Recruiting challenges and training and first-term attrition in enlisted grades
 - Retention of experienced individuals to fill key leadership, specialty, and technical positions in the non-commissioned officer (NCO) corps
 - Improving job satisfaction, retention, and commitment to service within the junior officer grades
 - Retention and professional development of the “best and brightest” within the senior officer grades, including flag rank

With better information on requirements, the Department also needs to be able to measure and make timely adjustments in the execution of human resources plans and policies against the changing need. In some cases, this means understanding the lead time required to acquire certain skills and expertise and working with the private sector to forge cooperative solutions.

RECOMMENDATION

The Department of Defense should establish a strategic human resources plan encompassing all elements of the total force: military, civilian, and private sector personnel. This plan should

- Forecast human resource needs
- Forecast expected available personnel inventories
- Specify overarching goals, policies, and resources
- Propose necessary changes in legislation and directives
- Develop the necessary management tools to meet the specified goals

SHAPING THE TOTAL FORCE

The human resources strategic plan should identify the tools necessary to size and shape the force – to influence the quality, skills, training, and quality of life of the workforce. Such shaping requires tools for recruiting, attrition, retention, professional development, utilization, transition, and separation as well as for balancing and integrating all elements of the new “total force.”

Understanding the necessary characteristics of the future force is an important foundation for shaping the workforce. Also, civil sector changes in lifestyles, education, and career paths are having a significant effect on the Department’s ability to recruit and retain people. The roles played by each component of the new “total force” are changing, and these changes are likely to continue. DoD needs to respond to these changing requirements in a timely way, with tools and incentives that are different from those that were useful in the past, if it is to achieve its overall mission. Today’s force is “left over” from the drawdown; more deliberate civilian and military force shaping is needed.

Essential Force Characteristics

The long-run demands on the Department point to different requirements for its people and thus to new characteristics for the future workforce. The operational concepts being developed by the military Services, acquisition and technology activities, and basic functional business and support responsibilities will all require enhanced skills and leadership capabilities. Some of the most critical capabilities include

- ***Independence and Innovation.*** Tomorrow’s leaders will have to demonstrate high levels of independent judgment in carrying out missions and making business decisions. “School solutions” and “rule-based” thinking will not provide the flexibility needed to work in an increasingly commercial environment or to match the demands of higher operational tempo. Creativity and adaptability are necessary to get maximum advantage from advanced business practices, technology innovation, and new operational concepts.

- ***Continuous Learning.*** The rates of change in technologies and societies demand that future leaders continue to learn throughout their careers.
- ***Leadership and Business Management.*** Civilian and military leaders will have to deal increasingly with individuals outside their own organization – whether in coalition operations with military counterparts, foreign governments, non-government organizations, or in business settings with mega-corporations, small businesses, multi-national business partners, or the media. To handle this varied environment, the workforce will need skills in areas such as negotiation, advertising, contract management, and customer service.
- ***Languages and Cultural Understanding.*** The future workforce must have broader language skills and cultural understanding than exist today to work with military partners and a business community that is increasingly multi-national in character. Japanese, German, Spanish, French, Russian, Arabic, and Chinese are some core languages, but more exotic languages will also be required. Understanding cultural differences is important in dealing with business partners and in military missions where traditional tools do not suffice.
- ***Technical Competence.*** As more sophisticated technology is integrated into the nation's arsenal of weapons and command and control systems, and incorporated into new patterns of military operations, the soldier using and maintaining the equipment and the acquisition expert buying it need enhanced technical competence.
- ***Individual Sense of Commitment.*** Each individual in the Department's workforce must have a sense of commitment to service. This commitment is important not only in maintaining individual leadership, motivation, and dedication to the task, but it also serves as an example to younger members of the workforce.

Force-Shaping Tools

The Department has an opportunity to influence both its civilian and military workforce as well as the quality and capabilities of new recruits. The senior leadership for the coming decades is already in the workforce. The civilian political leadership – members of the National Security Council, Service secretaries, and senior political appointees – and senior civil servants are in government or the private sector today. The future Chairman of the Joint Chiefs of Staff, the Joint Chiefs, the operational Commanders-in-Chief, and their Service component commanders are on active duty today. The younger members of the workforce are somewhere in the pipeline, primarily in America's education system.

The Department has a wide range of tools with which to shape its workforce, yet many of those available today are either not used or are no longer as effective as they need to be. Many of these tools tend to reflect the "one-size-fits-all" approach that has evolved from a system in place for many decades and are no longer well

suitable to the current needs of the workforce. *The Department needs to recognize that "one size" does not fit all and to develop tools that allow flexibility for different career patterns, compensation expectations, and motivations particular to different occupations.*

Working to reshape the effectiveness of essential tools by building on many initiatives and programs already underway, DoD can better influence its future workforce. The needed tools include

- Human resources planning processes related to mission demands
- Leadership and management skills, attitudes, authority, and practices
- Job structure and professional work environment that encourages innovation, change, and learning and produces job satisfaction
- Recruiting and retention practices, organization, and resources to assure a continuous flow of high quality recruits
- Tasking management, authority, and responsibility that support both career development and readiness
- Assignment policies and practices that take into account both quality of life as well as readiness and training concerns
- Education and training programs to reflect future requirements for language training, business skills, and leadership and management capabilities
- Compensation structures and levels as well as retirement policies and practices that provide the right incentives to retain the right people in needed numbers

In the past, many of these tools were deemed too difficult to develop, given the vast amount of information that needed to be tracked in order to gain the desired flexibility. Complex assignment policies or flexible compensation structures and retirement systems that are tailored to individual career patterns or contain many variables involve large quantities of data and complex formulas. But the information technology revolution has produced commercial software that can service the needs of a flexible human resources program. Commercial software, widely used throughout private industry, relieves the Department of what once was a very real impediment and facilitates the development of tailored force-shaping tools.

The Department's human resources processes have not kept pace. The system is not responding rapidly enough to the needs and challenges of the current environment. Many current policies put the Department at a decided disadvantage in recruiting the best technical talent. Today's robust economy, declining number of veterans, lower propensity to enlist, as well as other social and demographic changes that vie for the attention of today's youth, create an environment where recruiting and retaining the needed quality force is increasingly challenging. Furthermore, these challenges will continually change. As a consequence, DoD

needs to more rapidly change and shape its policies to make public service careers attractive.

RECOMMENDATION

The Department of Defense should develop force-shaping tools that are appropriate for the 21st century. The task force has identified a number of priority areas for both civilian and military personnel that are discussed in the following two chapters.

SHAPING THE CIVILIAN FORCE

Shaping an effective future force – a total force that includes government and private sector civilians as well as military personnel – will require priority attention to the civilian workforce. The civilian personnel challenge is complex and difficult, but has attracted far less senior civilian and military leadership attention than the challenges of maintaining an effective military force. Hence, we have elected to address the civilian personnel issues first in this report. The DoD civilian workforce has gone through an extended downsizing and now faces severe challenges in attracting and retaining high-quality personnel. Managing the exodus of more than half the civilian workforce eligible for retirement in the next five years, is a critical concern that needs attention today. To create the proper civilian force structure for the future, a higher priority must be given to the management of this workforce by the Department of Defense.

Even after eliminating more than 400,000 positions, DoD civilian personnel strength still accounts for about 40 percent of all federal government civil servants. The DoD civilian workforce, including those in both military and civilian functions, has changed significantly over the past decade as a result of the drawdown, and the adjustment is not over. The number of civilian employees was cut from about 1.15 million in 1989 to approximately 730,000 at the end of FY 1999, a reduction of 36 percent overall that is spread across the Services, as shown in Figure 1. Table 1 shows how this workforce is distributed by grade level today. Furthermore, the Department plans additional reductions of 80,000 by the end of FY 2005 – a total downsizing from 1989 through 2005 of 41 percent, compared to an active duty military reduction of about 36 percent.

DoD achieved its force reductions primarily through separation incentives such as buyouts (known as Voluntary Separation Payments), voluntary early retirements, and priority placement programs to assist departing employees find other work. Fewer than nine percent of the employment reductions were by layoffs. Additionally, the downsizing occurred at the same time as, or in relation to, base closures, requiring further adjustments when many civilian jobs were moved to other installations. As expected, the drawdown affected some job categories more than others. The largest reduction was in clerical positions, as a result of changes in technology that eliminated the need for many clerical tasks, while blue collar jobs (wage grade employees) also experienced significant declines.

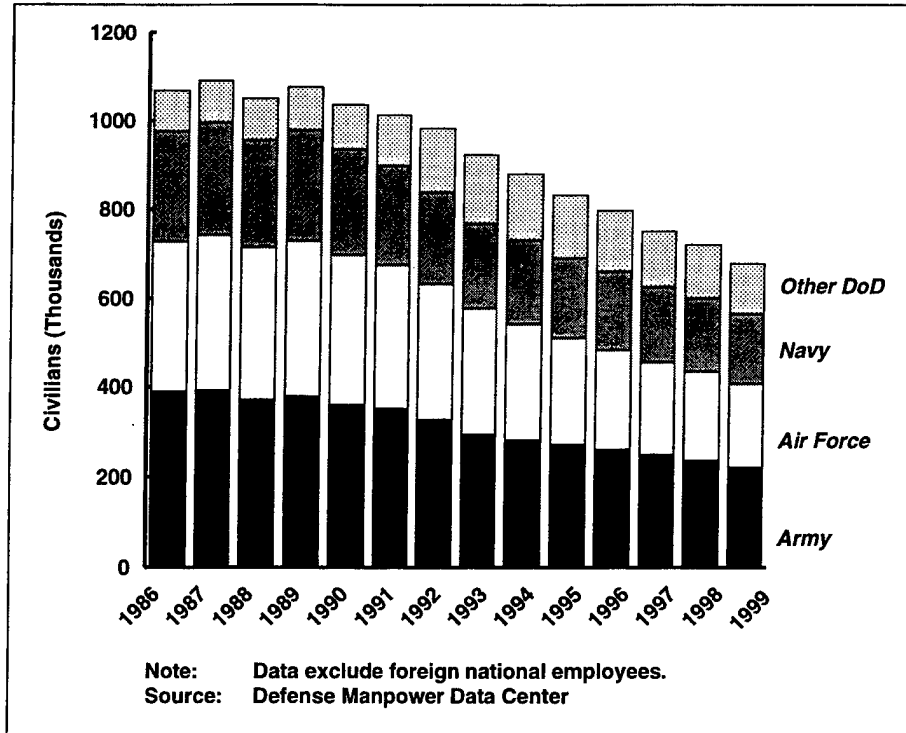


Figure 1. Drawdown of Civilian Workforce in DoD

Table 1.

*Number of Civilian Employees by Grade Level
(September 1999)*

General Schedule	
GS 1-4	42,195
GS 5-8	140,108
GS 9-12	237,617
GS 13-15	93,441
SES	1,341
Other White Collar	484
Subtotal White Collar	515,186
Wage Grade & Other Blue Collar	161,939
Other	434
Foreign Nationals	54,221
TOTAL	731,780

Note: SES includes senior leadership and senior technical positions. Data include only appropriated fund employees.

Source: Office of the Deputy Assistant Secretary of Defense (Civilian Personnel Policy) and Defense Manpower Data Center

The civilian workforce is essential to the DoD mission. Civilian personnel handle a substantial portion of the daily business of running the defense establishment, and civilian executives are indispensable in managing the Department's budgeting, legal, logistic, acquisition, information systems, research and development, and other programs. The "corporate memory" provided by career civilians is particularly important in DoD because of the frequent rotation of military personnel and the short tenure of the average political appointee. It is through the civilian workforce that DoD can bring in special scientific, technical, and business expertise to respond to specific challenges. With the reductions in military personnel strength, civilians are increasingly being called on to replace or augment military personnel in support duties on both the domestic and international scene and to perform both combat service support tasks and, increasingly, functions described in earlier times as combat or combat support tasks.

The Department needs a professional civilian force and the civilian workforce needs to be treated as a professional force in every respect. That the military Services tend to draw greater attention from both the Department and Congress is in part a result of the management structure for the civilian workforce. The Secretary of Defense and the defense committees in Congress have authority over military personnel while the Office of Personnel Management oversees the civilian workforce. This management arrangement makes it difficult to execute timely changes in civilian force-shaping tools; it is a situation that needs to be addressed.

ELEMENTS OF THE DOD CIVILIAN WORKFORCE

An overview of the elements that make up DoD's civilian workforce provides a useful context for discussion of the challenges and recommendations described later in this chapter. Although there are a number of categories that make up the civilian workforce in the Department of Defense, it is convenient to classify these employees into three broad groups: Competitive Service, Excepted Service, and the Senior Executive Service. In addition to those categories, there are many special hiring authorities such as the Outstanding Scholar and Presidential Management Intern programs. Nearly half of all new hires are processed through special hiring authorities.

Competitive Service

The 1883 Civil Service Act, known as the Pendleton Act, created the civil service to "remove partisan political influence from the selection and retention of civil servants." The act provides job protection when presidential administrations change. More than 80 percent of all federal civilian employees are in the competitive civil service, regulated by Title 5 of the United States Code.¹⁰ A newly

¹⁰ The competitive civil service comprises both General Schedule and Wage Grade employees. While blue-collar employees compete for federal jobs, they come under a different pay system than the General Schedule civil servants.

hired employee normally enters the civil service on the basis of a competitive process and initially is given *career-conditional* employee status. After three years of continuous service receiving successful performance appraisals, the person is automatically converted to *career-appointment* employee status. Such career employees have permanent reinstatement eligibility and can be considered for reemployment without reentering the competitive hiring process.

The 1999 Federal Personnel Guide summarizes the principles and protections of the Civil Service Act as follows:

- Recruitment representative of all society, with selection and advancement determined solely on the basis of relative ability, knowledge, and skills, after fair and open competition
- Fair and equitable treatment without regard to politics, race, color, religion, national origin, sex, marital status, age, or disability; and also with proper regard for individual privacy and constitutional rights, and protection against arbitrary action, personal favoritism, or coercion for partisan political purposes
- Equal pay for work of equal value
- Employee retention based on adequate performance, with inadequate performance corrected, and employees separated who cannot or will not improve their performance to meet required standards

Excepted Service

Employees in the excepted service do not receive the same civil service protection. They do not have reinstatement eligibility. The excepted service includes both specific agencies, such as the Nuclear Regulatory Commission, and certain positions in agencies otherwise covered by the competitive service, such as the Office of the Secretary of Defense. Nineteen percent of the total federal workforce is in the excepted service.

Employees in the excepted service include those in Schedule A, B, and C positions under the General Schedule up to grade GS-15.

- Schedule A are those positions for which it is not practical to conduct exams. They may be positions filled by executive civil service appointments made by the President with Senate confirmation; temporary positions that fill a critical hiring need or require professional accreditation, such as attorneys or Service academy faculty members; or positions filled by other special appointing authorities.
- Schedule B appointments, while not temporary, are positions where it is not practical to hold open competitive examinations, such as

Wage Grade pay scales are set by a separate system that equates pay to rates prevailing for like private industry jobs in the area of employment. The task force did not include wage grade employees in its assessment of the civilian workforce.

Treasury Department national bank examiners. Schedule A and B positions are not considered to be of a confidential or policy-determining nature.

- Schedule C covers positions that determine policy, are policy sensitive, or involve a confidential relationship with the head of an agency or key official. An example would be a confidential assistant to the Secretary of Defense.

Included in the excepted service are political appointees. Among these are appointees that require Senate confirmation (referred to as PAS positions). Individuals in PAS positions are by law “appointed from civilian life by the President, by and with advice and consent of the Senate.” Such employees serve at the pleasure of the President. There are currently 45 such employees serving in the Department.

Another category of political appointees is the group of non-career Senior Executive Service employees. An example is an individual at the Deputy Assistant Secretary of Defense level. The third group of political appointees is Schedule C employees. Figure 2 shows the number of political appointees from the end of FY 1986 to the end of FY 1999, including all three groups.

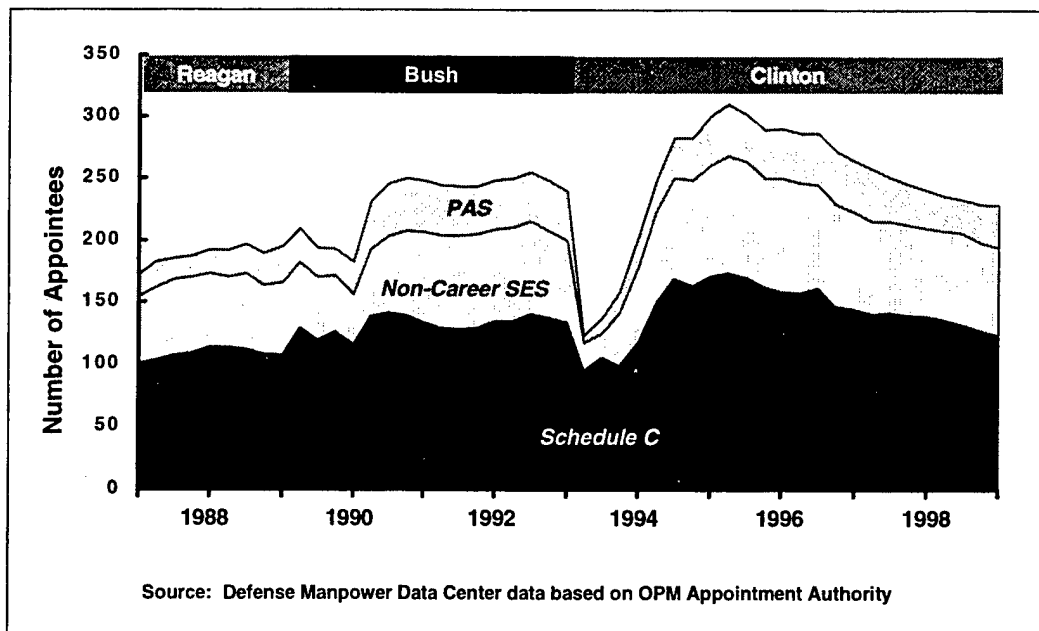


Figure 2. OPM Political Appointments for DoD

The Senior Executive Service

The Senior Executive Service (SES) members are the upper level managers and technical staff in the Department of Defense and advisors to political appointees. The SES assist top officials of the administration steer their departments and

agencies in the direction set by the President and, for the career SES, carry forward the institutional memory of the Department. In the federal government as a whole, one half of one percent of civilian employees are in the Senior Executive Service; SES employees make up just 0.16 percent of the DoD civilian workforce.

The SES includes both career and non-career employees. There are four types of SES appointments: career appointment, which is competitive; non-career appointment, which includes those who serve at the pleasure of the agency head; limited emergency, a one-time appointment of up to 18 months to meet an "urgent program need;" and limited-term appointment, a non-renewable appointment for up to three years to a temporary position such as director of a special project or study. An example of the latter was the appointee to lead the Defense Reform Initiative.

SES positions are categorized into two broad types: *career reserved*, which can be filled only by career SES appointees, and *general*, which can be filled by either career or non-career SES appointees. A federal statute designates a minimum of 3,571 federal government SES positions as career reserved, and another law mandates that no more than ten percent of all SES positions can be filled by non-career appointees. At the end of FY 1999, the Department of Defense had 1,220 SES employees, of whom 73 were non-career. Some non-career appointees may serve in technical positions, but like other non-career SES employees, they have no tenure and serve at the pleasure of the department head. There are also 121 individuals who serve in executive positions designated for senior level and senior technical employees, who do not serve in a supervisory capacity.

AN AGING WORKFORCE

A decade of downsizing has left in place an older civilian workforce in the Department.¹¹ The median age of this workforce has risen from 41 in 1989 to 46 in 1999, as illustrated in Figure 3, and DoD predicts it will go higher before the drawdown is completed. The number of DoD civilians under the age of 31 dropped by 76 percent from FY 1989 to FY 1999 while those aged 51-60 remained about the same. The force is aging across all occupational categories, as Figure 4 illustrates. Since the start of the downsizing, the median length of service has increased from 11 to 17 years. There has been a 69 percent drop in the number of civilians with less than five years of service but only a 4 percent drop in the number of civilians with 11-30 years of service.

11 These are U.S. citizen employees paid out of appropriated funds, as indicated in Table 1.

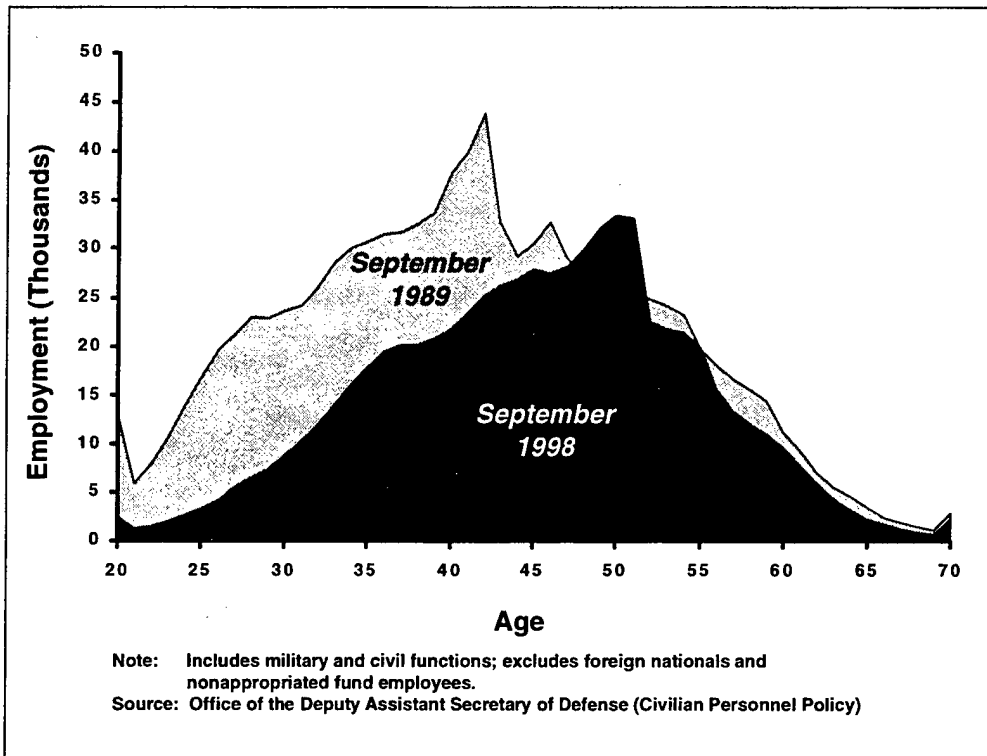


Figure 3. Aging Civilian Workforce

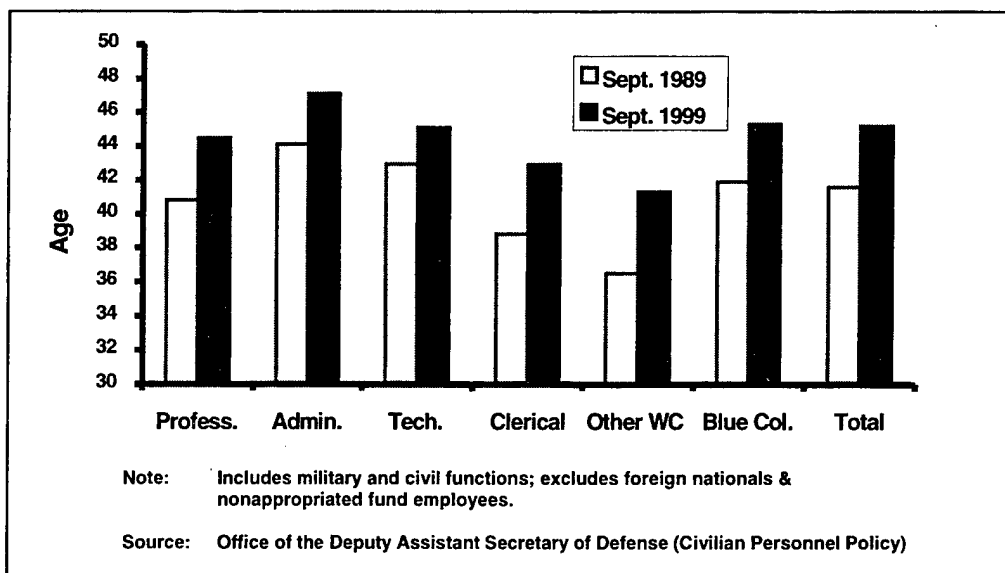


Figure 4. Average Age of Civilians by Occupational Group

A hiring freeze from January 1990 to March 1991 and a partial freeze (two new hires allowed for each five employees departing) that lasted until 1994 significantly limited hiring during the drawdown period. Even after the freeze was lifted, however, younger workers continued to enter the DoD workforce in insufficient numbers. The average age of accessions rose from 34.2 years in 1989 to 36.7 in 1999. Today's workforce is older and more experienced, and, not surprisingly, 58 percent of the workforce will be eligible for early or optional retirement in the next five years. Fully a third of current workers are aged 51 or older, as accessions have fallen from some 65,000 a year to about 20,000. Taken together, these factors present pressing problems in the transfer of institutional knowledge.

The failure of the Department to recruit a desirable number of employees in the younger age categories is due in part to salary competition in the private sector, where a robust economy provides many opportunities to outstanding young people. The lack of a clearly structured career path is also a detriment for those who might choose a civilian government career. DoD is expected to look to the private sector for more services in the future and should have the capability to bring in mid-level and senior-level management and scientific talent for limited periods when needed. Yet the Department needs to develop the bulk of the next generation of talented civilian leaders in-house. How to replace career civilians in the decades ahead with a workforce structured to the Department's future needs is a fundamental concern. Yet it is also a unique opportunity. With effective planning, DoD can rebuild its workforce to meet future requirements for specific skills and experience. But the process must begin today. The Department can also take a fresh look at how to best meet these needs using both government and private sector personnel.

As the workforce has grown smaller, it has undergone other changes as well – it is more professional, more educated, and the typical grade level is higher. The size of all occupational categories has gone down, but the sharpest drops have been in clerical (-66 percent) and blue-collar (-44 percent) occupations, as noted earlier. At the beginning of the 1990s, blue collar workers accounted for just over 29 percent of the civilian workforce; the share has fallen to just under 24 percent, primarily because of the base closure process. At the same time, the share in professional, technical, and administrative jobs has risen. The smallest percentage change in the workforce has come in professional jobs, which have fallen by 7.7 percent overall, but whose relative share has risen from 15 percent to 21 percent of the workforce.

In the area of education, only about 10,000 current employees entered DoD with less than a high school diploma in 1999; this figure is some 75 percent smaller than it was a decade earlier. For other educational categories, as the educational level rises, the percentage of decline falls. Among individuals known to have entered DoD employment with at least one advanced degree, the decline has amounted to only 3.5 percent across the decade.

The typical grade level of the workforce has also increased. In both white-collar and blue-collar positions, the losses have been greater at the lower grade levels, primarily because such positions lend themselves more readily to technological substitution and outsourcing. For example, positions at the GS-8 level

and below have fallen from 47 percent to 35 percent of the DoD workforce, while there has been growth in the relative share of higher-level positions, particularly at the journey levels (GS 11-13).

During the past decade, the Department saw a profound shift in the expectations it has of its workforce. Outsourcing, base closure, and technological advances have combined to reduce the number of positions requiring limited education and training. Simultaneously, advanced technology, contract oversight, and the more complex mission have generated the need for more advanced education and capacity. Reduced hiring and the aging of the baby boom generation have compounded the matter by increasing average age and grade level. Taken together, these factors have produced a workforce that is very different from its predecessor of a decade earlier, with skill imbalances and increasing age and retirement eligibility, posing particular challenges across the Department.

CAREER CIVIL SERVICE

Civilians have assumed an increasingly important role in the national defense. Today civilians are handling many assignments that only a few years ago were performed by military personnel. Civilians – both government and private sector – have been deployed along with military personnel to participate in operations such as Desert Storm, Bosnia, and Kosovo.

Despite these changes, a number of factors limit the effectiveness of the civilian workforce:

- A lack of clarity in the public mind regarding the role of civilians vis-à-vis political appointees and military personnel
- A one-size-fits-all core personnel management system with rules set by the Office of Personnel Management (OPM)¹²
- A requirements determination process that is decentralized to the point that civilian personnel funding is often used as a flexible fund by commanders, creating an impression that civilian positions are not essential to the mission

¹² In accordance with Chapter 13 of title 5, United States Code, the Office of Personnel Management aids the President of the United States in preparing the rules for the administration of the competitive service. The Office has the responsibility for prescribing regulations for examinations, to implement Congressional policy that preference be given to preference eligibles, and for the administration of the provisions of title 5. The Office also has oversight authority to ensure that personnel practices are carried out in accordance with the Merit System Principles and authority to administer the government's classification appeals and Fair Labor Standards Act programs.

The Office of Personnel Management has oversight authority over executive departments, Government corporations, and independent establishments as defined in chapter 1 of title 5. The Committee on Governmental Affairs and the Subcommittee on International Security, Proliferation, and Federal Services have jurisdiction over civilian matters in the Senate. In the House, jurisdiction is provided by the Committee on Government Reform and the Subcommittee on the Civil Service. In addition, civilian personnel matters for the Department of Defense are also reviewed by the four Defense committees.

- Limited tools for recruiting, sizing, and shaping the civilian force
- Inadequate funding for the professional development of the senior DoD civilian management force

DoD and the military Services have begun to recognize the importance of the civilian workforce and, under the leadership of the Under Secretary of Defense for Personnel and Readiness, have initiated worthwhile programs to better utilize this important resource. But the financial resources devoted to these programs are not of the magnitude necessary for the civilian workforce of the future. And the attention focused on these changes has not been of sufficient priority.

The task force commends the Department for its efforts in mitigating the impact of the drawdown on the civilian workforce during the past decade. The force sizing and shaping tools developed and employed during the past decade were useful in minimizing layoffs and maximizing voluntary separation. *It is now time for the Department to focus its attention on shaping an effective civilian force for the future and developing effective tools to support this effort.*

Creating a Professional Civilian Workforce

The Department of Defense needs to focus significant effort on building and maintaining a professional and effective civilian workforce. Essential to that process is the need for appropriate personnel management and professional development programs. Today the Secretary of Defense lacks the full range of authority and tools necessary to manage the civilian workforce as effectively and efficiently as is necessary. The task force recognizes this reality and recommends changes to remedy the situation.

Personnel Management

Historically, the Office of the Secretary of Defense, as was the case in other government agencies, had relatively little control over the personnel management of its employees compared to the private sector. Personnel actions had to be channeled through the Office of Personnel Management, a separate agency that oversees nearly all government personnel. OPM generally retained examining authority for new hires. Fortunately this constraint has been ameliorated by the OPM's delegation of examining authority to DoD for re-delegation as appropriate.

When DoD organizations recruit to fill vacancies, they are often handicapped in that they cannot directly negotiate an offer or even accept an employment application. Rather, they must encourage the potential candidate to apply to a specific vacancy announcement so that the individual receives an appropriate initial screening and eventually appears on a candidate list made available from their servicing personnel office. The servicing personnel office also verifies that the qualifications of the candidate are commensurate with the grade level and salary of the position. This process puts DoD and other government agencies at a definite disadvantage relative to private sector employers in two respects. Private employers

can make more timely offers to quality candidates and have more flexibility matching salary offers with candidate qualifications and competitive wage rates in the private sector. However, there are ways within the current systems that managers and personnel offices may reduce "pipeline" time, by working on some procedures in advance. The task force supports more widespread use of these procedures.

Moreover, within the Department of Defense, management of the civilian workforce is decentralized among the Office of the Secretary of Defense (OSD), the military departments, and defense agencies. And in general, there is great disparity among the Services in managing civilian personnel. Furthermore, Congressional oversight for civilian personnel is spread across several committees and is also reviewed by the defense committees, which have jurisdiction over military personnel. This decentralized and dispersed system has contributed to the fact that improvements to civilian force-shaping tools tend to lag those that focus primarily on military personnel. It also creates an environment where it is very difficult to make timely changes to civilian human resource policies in response to evolving DoD needs.

If the Secretary of Defense is to establish policies and develop force-shaping tools for an integrated "total force," that includes military *and* civilian personnel, it stands to reason that this job will be more effectively conducted if the Secretary has appropriate authority over the Department's entire workforce. To develop an overarching human resources strategic plan that has impact throughout the Department, the Secretary needs to have the authority to manage and shape a more integrated force. In this role, the Secretary should provide civilian personnel policy guidance and program design to the military Services, which will be responsible for implementing this guidance in their respective departments.

The task force recommends that DoD propose legislation amending, as necessary, appropriate provisions of the United States Code (title 10 and title 5) to transfer authority for the Department's civilian workforce from the Office of Personnel Management to the Secretary of Defense. This transfer would permit the Secretary to establish policies and develop force-shaping tools to meet changing DoD requirements.

Professional Development and Career Management

The Department of Defense needs to provide added resources to allow members of the civil service to reach their full potential. Professional development and training for civilian employees is far less robust than for their military counterparts. This disparity is in part the result of a difference in philosophy. The military, eschewing lateral entry, tends to "grow its own" and values early training as an investment in the future force. In contrast, it seems that civilians, who can enter at any level, are expected to be largely trained before entering government service. In fact, however, the Department is facing great challenges in attracting high quality civilian personnel, particularly in scientific and technical fields. The government also has difficulty attracting managers with broad business experience. Current

efforts to enhance professional development need to be expanded. In particular, the Department should develop workforce-shaping programs with an eye to creating a more professional civilian management corps.

DoD needs to develop a comprehensive professional development and career management program for its professional civilian workforce, grades GS 9 and above. This program would include training for the highest leadership positions in the Department as well as training for middle-grade employees to ensure that they have the breadth and depth to assume senior-level positions. The task force recognizes that the Department has demonstrated an accelerated interest in and commitment to workforce development and has made important strides in a number of career areas. Programs for professional enhancement developed for the acquisition and technology workforce under the Defense Acquisition Workforce Improvement Act (DAWIA) and the Information Technology Management Reform Act (ITMRA) are to be applauded. Yet the array of programs that has emerged has not evolved into a more structured program of civilian education and development. Thus the next logical step is to determine how the best of these programs can become part of a comprehensive professional development approach with DoD-wide application.

The Department needs an overarching professional development program for the civilian workforce that is comparable to the training received by military officers. The curriculum for the program could draw on existing training programs such as the Federal Executive Institute, Defense Systems Management College, senior Service schools, and others. A comprehensive program should focus on enhanced employee mobility, entry-level professional development programs, and continuous learning in response to increased knowledge demands and further technological challenges. Such a program should incorporate both general training and education as well as tailored coursework for specific occupational and skill categories. To ensure participation, the program should be linked to promotion opportunities.

Continuous learning programs can be very effective in a period of accelerated demands for new skills and capabilities. In 1999, the Under Secretary of Defense for Acquisition and Technology inaugurated a program of continuous learning that requires every Acquisition Corps member to complete the equivalent of 80 hours every two years to refresh acquisition skills and knowledge. The Department should consider exporting this program to other areas within DoD.

Overall, however, more structured strategies for investing in training, education, and professional development are imperative – much like the military approach to officer training and private sector investments in comparable level employees. What is most needed is a shift from the ad hoc and varied approaches that dominate civilian training today toward a more structured, systematic program.

Creating an expanded and standardized professional development approach will require substantial investment in both the improvement of existing programs and the development of new ones. This investment is necessary to attract and maintain top-quality employees. How much the Department currently spends on civilian training

is difficult to estimate. Resources are drawn from many accounts and, when funding is tight, civilian training budgets are often the first to be cut. And there are cases where training budgets go unspent as well. A 1994 study calculated that, "a conservative estimate of upwards of \$500 million" is spent on civilian training.¹³ With 730,000 civilian employees, this amount appears to fall short of the training investment made by major aerospace companies, which spend about \$1,000 per employee per year, on average, and more for senior manager-level training. According to the 1999 American Society for Training and Development State of the Industry Report, the information technology industry spends a comparable amount on employee training – averaging \$943 per employee per year. These are appropriate benchmarks for much of the Department's workforce, given the increasingly technological and information-dominated nature of the work. Effective investment in training and professional development is important in retaining top-quality personnel.

The task force recommends that the Department develop a comprehensive professional development and career management program for scientific, management, and administrative fields, centrally developed and funded, but implemented by the military Services. This program would draw on and build from many successful, ongoing programs implemented throughout the Department. An element of this approach would be to implement the planned expansion of the Defense Leadership and Management Program (DLAMP), which is essential for developing the broadly based, competent managers and leaders needed for the future. In addition the task force supports the creation of a DLAMP Preparatory Program for GS 9-12 employees, as described below.

DLAMP. Prior to 1997, leadership and management development for DoD civilians was a random process. The offerings that did exist were component- or unit-specific, with inconsistent content, participant selection criteria, and employee awareness. There was also considerable variation as to quality. Nevertheless, tradition dictated that responsibility for such professional development programs remain decentralized.

As the civilian drawdown continued, the Department realized that its employees had to be prepared for broader responsibilities in the future. With diminished numbers, DoD could no longer afford to permit civilians to continue to focus on narrow technical specialties. It needed a systematic approach to leader development, much like that resulting from the Goldwater-Nichols Act for the military. Such was the reasoning of members of the Commission on Roles and Missions, as well as officials in a range of functional communities within the Department.

Implementing those recommendations, DoD created the Defense Leadership and Management Program in FY 1997 as a systematic program of "joint" civilian leader training, education, and development within and across the Department of

¹³ This estimate is based on a March 1994 study, "DoD Civilian Training: Source, Content, Frequency, and Cost," Defense Institute for Training Resource Analysis.

Defense.¹⁴ The program provides the framework for developing civilians with a DoD-wide capability for approximately 3,000 key leadership positions. In addition, DLAMP fosters an environment that nurtures a shared understanding and sense of mission among civilian and military personnel.

The program has three key requirements:

- A year-long developmental assignment outside one's occupation or component
- At least three months of senior-level professional military education (focusing on national security decision making)
- Completion of at least 10 specially designed, advanced-level graduate courses in areas important to defense – similar to a defense-focused MBA curriculum

In addition, participants are expected to complete any occupation- or component-specific course requirements. Participants are selected through application of the executive core requirements developed for selecting SES members along with defense-specific requirements, and are guided by assigned mentors.

Currently, the program has about 860 participants (all at the GS 13, 14, or 15 level), and was recruiting for 350 more by the end of 1999. Completing the program will typically require six to eight years, as it blends work experience with academic rigor, theory with practice. The Department plans to increase enrollees by 300 per year over the next six years to reach a steady state that will produce at least one DLAMP graduate for each of the 3,000 key positions as they become vacant in the future. In addition, the curriculum will continually need to be updated, with new case studies and developmental materials designed.

DLAMP Preparatory Program. While some employees enter DoD's high grades from outside the Department, the likelihood diminishes through successive GS ranks. For example, over 92 percent of those at each grade GS-12 through GS-15 in September 1995 had been in the Department five years earlier. In some occupations, the top three General Service levels are essentially closed to anyone outside the Department. This reality calls for investments in developing people for those senior positions, both in terms of occupational skills and leadership and management skills.

Currently there are no uniform standards across the Department for introducing civilians to supervision and management. Some intern programs require mobility, but these include no more than 2,000 people at grades below GS-13 and generate only a few hundred moves of any kind per year. Further, there is no set curriculum nor has there been any cross-Department agreement on what set of experiences would appropriately prepare people for the rigors of DLAMP. For instance, there is a very high likelihood that Air Force employees reaching the GS-14 level will have

¹⁴ The DLAMP program is described in DoD Directive 1430.16.

master's degrees; at the same time, there is considerable variation across defense agencies in terms of the relative value attached to education and experience.

A DoD-wide DLAMP Preparatory Program would provide a solid grounding in defense knowledge, supervisory skills, and general management principles. Such a program could be conducted on an open-admissions basis for as many as 9,000 individuals in professional, technical, and administrative fields at the GS-9 level, with competitive requirements developed for advancement on the pre-management track. The program should be managed centrally, with component support as is done with DLAMP, and should supplement that education and training provided by individual components on component-specific culture and issues.

Recruiting

One of the unfortunate results of downsizing is that DoD now has about 75 percent fewer employees in the 20-29 year age group than it did in 1989. The Department also has nearly 50 percent fewer employees in their 30s, while the number in their 50s has remained constant. In 2001, the oldest baby boomers will begin turning 55, and the number of retirements can be expected to increase even if the rate remains constant. The Department, therefore, has a narrow window for succession planning.

Support for DLAMP and development of a comprehensive professional development and training program will be helpful in meeting the emerging leadership vacuum. But much more needs to be done for the wide range of vacancies likely to occur. Many people eligible to retire in the next five years have specialized science and technology skills developed over many decades – skills not easily replaced and ones that will require a significant period of mentoring and training for younger personnel. It is critical that these skill areas be identified, through the strategic planning process described earlier, so that steps can begin to identify the next generation of technical talent and leadership.

Historically, the Department has used intern programs to find promising young people who are then acculturated and developed for positions at the journeyman level and higher. Budget pressures and manpower constraints, however, have combined to force reductions in these efforts in recent years. The Air Force, for example, hires approximately 300 interns each year. The Navy's Financial Management Program enrolls about 50. The Army's central intern allocation has fallen from 3,300 to less than 700 over the past decade. And virtually none of the Defense Agencies has more than 10 at any given time. These numbers are clearly insufficient for the necessary talent pool, particularly in light of the Department's needs to grow many of its own employees.

The Department needs to build upon successful recruiting programs such as the Outstanding Scholar Program and the Presidential Management Intern (PMI) Program. The Outstanding Scholar Program provides special hiring authority for specific jobs in GS-5 and GS-7 entry-level positions. A career intern program,

based on this model, should be developed to allow the Department to directly hire outstanding college graduates into all occupational categories.

The PMI program is designed to attract outstanding graduate students from a wide variety of academic disciplines to federal service. In DoD, the program offers an excellent opportunity to help reshape the workforce by attracting talented people who have an interest in a career in the analysis and management of public policies and programs. Managed by OPM, the program provides a myriad of challenging career opportunities, but DoD has underutilized this excellent recruiting and career development program. In FY 1996, DoD selected only 7 PMIs and converted only 5 to permanent positions. In FY 1997, the numbers rose to 15 selected and 10 converted; another 14 were selected in FY 1998 and 11 in FY 1999. In the past four years, OSD has selected 48 PMIs; the Army 18; and the Navy 11. The Air Force has not participated in the program.

The Department needs to develop accelerated hiring programs and streamline the hiring process to enable the Department to compete with the private sector in extending potential employees offers and bringing them on board once an offer is accepted. In the science and technology area, DoD should consider expanding the newly acquired authority in the Defense Advanced Research Projects Agency (DARPA) to hire directly from the private sector. This program allows DARPA to make quick offers and bring private sector scientists and engineers into the Intergovernmental Personnel Mobility Assignment (IPA) program to serve as program managers for a period of two to four years. This tool drastically reduces the post-employment difficulties often faced by individuals in the private sector who consider positions in the Department. This hiring authority would be especially useful at the mid- and upper-grade levels.

Remedying the recruiting shortfall will require the development of a centralized marketing and recruitment plan and the establishment of department-wide development standards for use by all components. Explicit funding for intern recruitment and development and revision of hiring and promotion rules and practices to make DoD a competitive employer are also necessary.

Civil service laws and regulations are designed to promote merit and equity. However, they do not provide for rapid responses to changing market conditions or for flexibility in dealing with internal situations. For DoD to become an employer of choice, the Department needs to reinvigorate its efforts at civil service reform, with focus on ways to simplify and accelerate hiring as well as link pay to performance more closely.

The task force recommends that the Department expand its efforts to recruit and develop interns, both those on specific occupational tracks and the Presidential Management Interns at higher levels. Over the next five years, at least 25 percent of outside hires should enter intern programs for formal development within the Department. In addition, the Department should continue to pursue legislative changes to permit payment for degrees and certificates in relevant fields of study.

Compensation

Improvements have been made in civilian benefits and retirement systems, particularly in such inducements as the Thrift Savings Plan and in personnel demonstration projects and compensation initiatives. These reflect positive steps toward introducing much needed flexibility into the civilian compensation system. But the system as a whole is still designed too much around reward for longevity, making it difficult to attract mid-level professionals who might be interested in coming into government service for a short period. Single-employer careers for technical and other professionals are largely a thing of the past, so further flexibility to respond to this reality is clearly needed. The vesting period for the retirement system is a disincentive for young professionals. Yet pay tends to be top heavy, so there is little incentive for senior professionals to leave. Failure to change can be expected to lower the quality of the civilian workforce.

In particular, the compensation system

- Fails to allow salary offers to be made at market salary rates and in a prompt fashion in highly competitive fields
- Fails to permit evaluation of scientific and engineering personnel properly and to award salary increases in proportion to employee contributions
- Fails to provide timely mechanisms to terminate unsatisfactory employees¹⁵

Specific DoD units have undertaken some interesting and effective pilot programs to modernize human resources management, and demonstrations for science and technology personnel are underway at a number of laboratories, for example, to test new initiatives. Managers in the DoD laboratories are beginning to worry about whether the mix of skills in the pipeline is appropriate to replace the large numbers of individuals eligible to retire. The demonstration process provides an opportunity to pilot innovative recruiting and compensation tools and evaluate the value of wider implementation. Initiatives being tested in the laboratory experiments include pay and staffing initiatives such as broadbanding, pay for performance, accelerated hiring, modified term appointments, and probation and reduction-in-force modifications.

Broadbanding establishes pay bands within occupational groups that are based on recognized career ladders. Effective broadbanding provides managers with more flexibility for progression within pay bands based on personnel performance, but also requires them to be more selective in promotion and salary increases. The pay-for-performance initiative – which ties increases, bonuses and awards to performance assessments – is receiving significant attention. Accelerated hiring allows waiving the rule of three and categorical rankings and provides options for managers to select from a larger number of qualified candidates.

¹⁵ These issues are also discussed in the report of the *Defense Science Board Task Force on Defense Science and Technology Base for the 21st Century*, June 1998.

But some demonstration programs have been underway for years. The task force is concerned that, while many of these initiatives show promise, the demonstration process appears to be ponderous and leads to changes that are being implemented more slowly than the current environment demands. Moreover, there is evidence that the demonstrations have become a vehicle to “work around” the current system, rather than change it as new mechanisms are proven effective. For example, the China Lake experiment, which was implemented in 1980, did not become permanent until 1995 – 15 years later. Moreover, it is unclear how the results of these experiments can be applied to the broader personnel system – both in implementing permanent reforms and in sharing lessons that are learned. It is time for the Department to infuse greater discipline into the demonstration process – to start extending successful reforms across DoD and converting them into personnel policies and programs.

Private Sector

DoD must turn increasingly to the private sector for many services. One reason for this necessity is the increasing complexity and rapid turnover of technology for war equipment and its operation and maintenance. Technical support from the private sector, including in certain cases, direct operation of war and support equipment, is presently in practice, and the requirement for such support will increase in the future. Moreover, the private sector has a large inventory of skilled personnel who can be made available, on short notice, for service in the Department to assist in meeting the peaks and valleys of DoD’s operating requirements.

To properly attract and manage the use of private sector personnel, DoD needs a human resources planning and management system that takes explicit account of future requirements and the source of meeting those needs, which should include the private sector as discussed previously. Decisions to provide personnel resources “in house” or to draw from the private sector should be based on a number of factors including cost savings and the nature of the task – all of which must be balanced in making these decisions. Moreover, there is a need for policy instruments that deal with the relationships among military, civilian, and private sector personnel – in part, evaluating potential inequities from both the government and private sector employee viewpoints. As government and private sector personnel increasingly work side-by-side on tasks in support of the Department’s mission, effectively managing these working relationships will grow in importance. This will involve dealing with factors such as responsibilities for administering security clearances, defining Geneva Convention considerations in the event of hostilities, and ensuring adequate benefits for deployed civilians.

In addition to drawing from the private sector for services and personnel, the Department should continuously study evolving private sector management practices, concepts and methods that may have application to DoD. For example, during the past twenty-five years, industry has “flattened” its organizations, delegated more to subordinates, and increased the number of personnel reporting to a superior – all of which reduced layers of management, clarified responsibilities,

and improved decision making and effectiveness at lower cost. During this same period, commercial industry has also studied the question of outsourcing – evaluating total operations to determine which functions must remain “in house” and which functions can be cost-effectively subcontracted to outside sources. Such studies have resulted in a growing number of subcontracting relationships, lower cost, faster turn-around time, less investment, and greater flexibility in introducing new products. The Department should learn and apply lessons from the private sector to its own internal operations.

The task force recommends that the Department review the requirements and implications of expanded participation of government civilians and private sector personnel throughout the force, including direct support in contingency operations.

POLITICAL APPOINTEES

Although political appointees make up a very small percentage of the total DoD civilian workforce, they hold key leadership roles that support the Secretary of Defense and help carry out the administration’s program. Thus the appointment process and the ability to attract high-quality individuals into these positions is extremely important. But the political appointment process has a combination of problems that make it increasingly difficult to find outstanding people for these key policy-making positions. Moreover, many appointees to senior positions, particularly those coming from private industry, face a substantial reduction in pay, possible loss of retirement benefits, family dislocation, and in some cases higher living costs.

The Appointment Process

Over the last 30 years, the number of political appointments requiring Senate (PAS) approval government-wide has increased from 196 to 786, with the largest growth at the assistant secretary level. In the Department of Defense today there are 23 positions in the Office of the Secretary of Defense requiring Senate confirmation and 22 in the military departments – 45 in all – as shown in Figures 5 and 6 respectively.

More important, for a variety of reasons the confirmation process, from nomination to eventual approval, is taking considerably longer – from almost two and one-half months for a nominee in the early 1960s to eight and one-half months, on average, today.¹⁶ Furthermore, the “fishbowl” nature of the appointment process, the intrusiveness of the financial divestiture requirements, and the difficulty of dealing with conflict-of-interest rules increasingly deter individuals from considering appointments to public service.

¹⁶ Annex D contains further details on the appointment process.

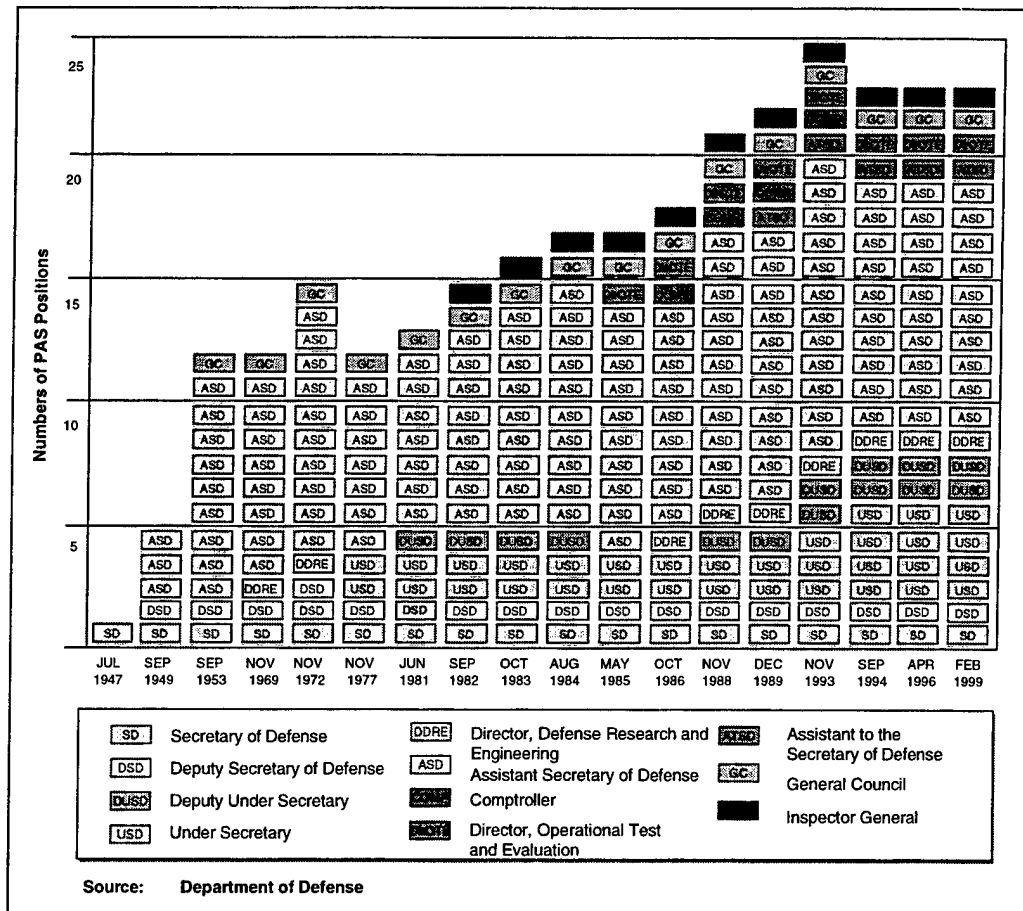


Figure 5. Growth of Political Appointments Requiring Senate (PAS) Approval in OSD

During the long process of department clearance, White House clearance, and Senate approval, candidates have to complete an extensive amount of duplicative and tedious paperwork; there are forms for the White House, forms for the Senate, and forms for the Federal Bureau of Investigation (FBI) background check. The candidate often has to provide the same information several times on different forms and in different formats. In addition to an FBI investigation, there is a report from the Internal Revenue Service (IRS). Although the Privacy Act limits access to the paperwork an individual presents and to information provided by the FBI or IRS to the White House Counsel, nominees might be concerned about potential leaks which, while rare, unfortunately do occur. During this long clearance and approval process the candidate is in limbo, unable to do useful work. The length of the process itself deters some potential appointees from allowing themselves to be considered. *Thus the task force recommends that the confirmation process be expedited by simplifying and standardizing requisite paperwork.*

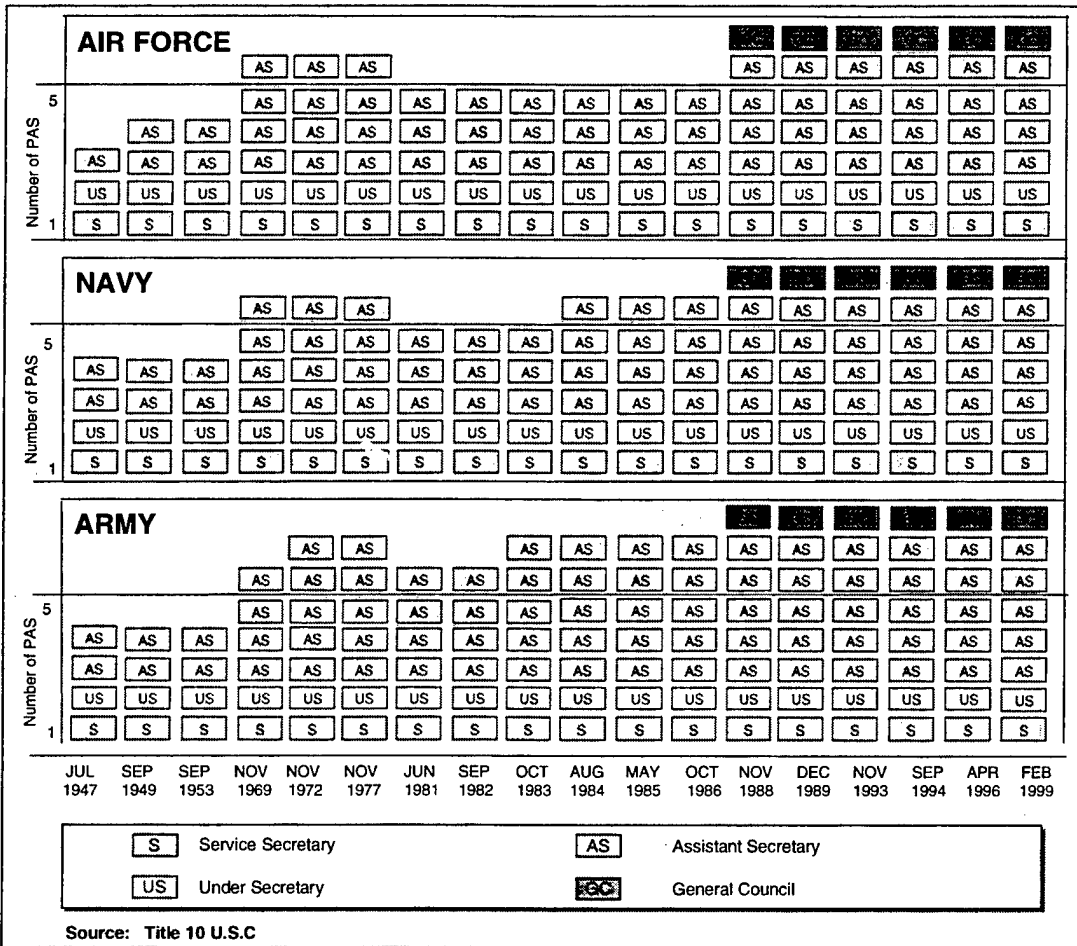


Figure 6. PAS Positions in the Military Departments

Number of Political Appointees

The Office of the Secretary of Defense, in its early years, had a Secretary of Defense, a deputy secretary and three assistant secretaries. Over time the Congress, sometimes at the executive branch's urging, added PAS positions at or above the assistant secretary level. The Carter administration added two under secretaries of defense, the Reagan administration established a deputy under secretary of defense, and a second deputy under secretary was added under the Clinton administration.

The task force recognizes that some of these additions accompanied changes in law that centralized more control in the Office of the Secretary of Defense and the Joint Chiefs. And certainly the intention in adding layers was generally to allow the Secretary of Defense to better manage and control the Department. The increased number of PAS positions, though, may be one reason it is hard to attract individuals into some of these positions. An assistant secretary post may be less attractive buried several layers below the secretary than as a number two or three job.

The task force, on the other hand, recognizes and emphasizes the value and benefits of public service. In this regard a survey of former appointees from the Bush administration noted that most voiced "great satisfaction" with their PAS positions. They spoke of many positive aspects of their work: the chance to work for the public good, the opportunity to "make a difference" and serve the country, the opportunity to work with interesting co-workers – especially career employees – the intellectually interesting and exciting work, and the chance to carry out presidential policies as well as their own agendas. The task force believes these sentiments are typical of most former appointees and that if the obstacles were removed or mitigated, the benefits of public service would gain the upper hand. Then DoD and other federal agencies would be better able to attract outstanding individuals to pursue and accept political appointments.

On balance, with the difficulty in attracting highly qualified individuals to DoD, the task force recommends that the Department examine the number of PAS positions and reduce that number to the level essential to implementing administration policy. Furthermore, the political appointee positions below the assistant secretary level should also be examined and the number reduced. Doing so would allow more upward career mobility for Senior Executive Service employees and provide greater continuity and corporate memory in conducting the day-to-day business affairs of the Department during the transition between administrations.

Post-Employment Restrictions

Post-employment restrictions are a significant impediment to luring managerial, scientific, and technical talent from industry to all levels in the civil service. The problem is particularly acute for political appointee positions. To ask an individual to leave a high-paying job for government service and then bar him or her from returning to his former career for a period of five years, as in current regulation, is a major disincentive to serve and unnecessary as an ethical safeguard. Coupled with conflict-of-interest regulations that require divestiture of financial holdings, post-employment restrictions are a strong deterrent to potential appointees. Under present conditions, potential appointees tend to be drawn largely from the academic, legal, and congressional communities, where individuals do not face as drastic career limits upon leaving a politically appointed position. This circumstance limits the skills upon which DoD can draw in filling appointed positions, which has an impact on the operations of the Department.

Potential appointees who are military retirees have, until recently, been faced with the "double-dipping" prohibition. Under the Dual Compensation Act, a retired military officer accepting a civilian federal position, including a PAS or non-career SES position, gave up a portion of retirement pay. Last year, Congress repealed the dual compensation restriction, an action supported by the task force.

The task force believes that having employees from industry enter DoD service for set periods of time brings business and technical expertise to the Department and should be encouraged. Over time, this interaction provides a better understanding of government needs to the industries that deal with defense. Individuals with experience in both government and industry are often the most well-qualified candidates for many senior DoD positions. Thus the task force recommends rescinding Executive Order 12834, thereby reducing post-employment restrictions from five years to one year.

RECOMMENDATIONS

The Department of Defense should develop civilian force-shaping tools that are appropriate for the 21st century. These tools will build on many ongoing initiatives within the Department and must continuously evolve in response to changing needs to be effective in the long run. Overall, however, for the Secretary to manage the DoD workforce as it should be – as a total, integrated force – and develop needed force-shaping tools, the Department needs to have appropriate management over the entire civilian workforce. The task force has identified a number of priority areas for civilian personnel.

- The Secretary of Defense should provide civilian personnel policy guidance to the military Services, which will be responsible for implementing this guidance in their respective departments.
- Propose legislation to amend, as necessary, the appropriate provisions of the United States Code (title 10 and title 5) to transfer authority for the civilian workforce from the Office of Personnel Management to the Secretary of Defense. This change will permit the Secretary to establish policies and develop force-shaping tools to meet changing DoD requirements.
- Develop a comprehensive professional development and career management program for scientific, management, and administrative fields – based on OSD policy guidance and funding, with Service implementation. As part of this program
 - Implement planned expansion of the Defense Leadership and Management Program to 3,000 participants.
 - Create a Preparatory DLAMP for GS 9 to 12.
- Provide resources and take necessary steps to recruit a more age-balanced workforce and increase the leadership pool for career civil service. Increase intern programs, vigorous recruiting on college campuses, and direct accessions of military personnel.
- Conduct a thorough review of the requirements and implications of expanded participation of government civilians and private sector personnel throughout the force, including direct support in contingency operations.

- Fill political appointments promptly in view of their essential role in implementing administration policy.
 - Reduce the number of political appointee positions requiring Senate confirmation to those essential to implement policy.
 - Expedite the confirmation process by simplifying and standardizing paperwork.
 - Rescind Executive Order 12834, thereby reducing post-employment restrictions from five years to one.
- Reduce the number of political appointments below the Assistant Secretary level to provide upward career opportunities for career Senior Executive Service personnel.

SHAPING THE MILITARY FORCE

THE CHALLENGE

The military establishment, like the nation, was caught unaware by the sudden demise of the Soviet Union. Moreover, the past decade has been an extremely busy period for the military. Not only has it been almost continuously involved in operations abroad, but it has been trying to develop a military strategy that is appropriate for the new world order while dramatically reducing the size of the force. Therefore, it is no surprise that the military has not revamped its personnel system to conform to the needs of the future. And because the armed forces were in a period of downsizing during most of the decade, the need to adjust the personnel system to the new era went unnoticed. But, with the end of the downsizing, the Services have begun to experience significant recruiting and retention problems.

Shaping and sustaining a total force of flexible capabilities will require a creative, thoughtful, and dynamic approach. Unless the Department makes changes in its personnel and compensation systems, the force will be unprepared for 21st century needs; quality people will not stay in sufficient numbers, and those who do will lack necessary skills and experience. A new system is needed – one unlike any DoD has had before. It must take into account certain factors. They are as follows:

- The force will be manned on a volunteer basis.
- Units will be engaged in a wide variety of tasks around the globe.
- The military will increasingly require individuals with skills very much in demand by the private sector.
- Young people will have multiple careers.
- The All-Volunteer Force will continue to have a high percentage of married people.
- Dual career families will continue to be common.
- Resources will be constrained.

The military personnel system must provide the needed numbers, skills, quality, and dedication of men and women to meet Service requirements. The system must be flexible enough to respond to the changing skills and capabilities that will evolve along with the nature of military missions and forces, technology, and demands from the nation's political and military leaders. Personnel requirements must be planned a decade or more in advance of expected needs in order to train and prepare the force at all levels. This includes the technicians who must keep pace with technology, the non-commissioned officers who serve at the heart of the armed

forces, the officers at each echelon of responsibility and command who give the force direction, and the flag officers who shoulder the ultimate responsibility for leading these forces. All this must be done while creating a different environment that encourages innovation, joint operations, responsiveness, and responsibility.

The changing demographic trends between now and 2020 must be reflected in the future force. The decline in the population growth of 17-21 year olds ended in 1995, and the size of this cohort is expected to increase steadily until 2010, increasing by 4.5 million alone from 1995 to 2010. However, the racial composition of this group will change substantially. The percentage of whites will decline, while the minority percentage will grow, particularly the Hispanic minority that is expected to comprise 27 percent of 17-21 year olds in 2020, compared to 8 percent today. These changes will present a host of new challenges for DoD.

The All-Volunteer Force has been an extraordinary success. It has provided a framework in which the Services recruit on the basis of aptitude and offer various incentives to meet their goals. The result has been a force of exceptionally high quality. But indicators have shown that the quality has begun to edge downwards, and the challenges of the recruiting market are increasing. *As a consequence, the Department needs to be prepared to adjust its recruiting practices in order to assure continued quality accessions.*

A fresh look at military personnel must address the internal "pushes" that induce people to shun the Service, or leave it having joined, together with the external "pulls" that tend to draw them away. These affect both enlisted and officer grades. Studies have shown that junior officers and enlisted personnel view their military careers with less and less satisfaction. Factors that influence these views include frequent unplanned deployments, responsibility without authority, a zero-defects environment, micro-management and excessive inspection cycles, and quality-of-life concerns.

The attractiveness of military service must be enhanced for all categories of military personnel, but particularly among the enlisted ranks and young officers. The Services can take steps internally to provide more satisfying careers by delegating and decentralizing more responsibilities. The importance of quality-of-life concerns – such as housing, health care, and family services – as well as military pay, retirement, and the demands of today's operational deployment and personnel reassignments, must be recognized if the nation is to continue to have a strong, capable, dedicated military force.

The highest priority of the new system must be recruiting and retaining high quality men and women for combat forces, earning and obtaining from them their commitment to the needs of service. If we do not get this right, nothing else matters.

The 21st century force must be manned and supported by an occupational system that integrates active and Reserve components as well as uniformed and civilian personnel. This force must be recruited, trained, utilized, rewarded, and compensated on the basis of concepts that are different from those of the current

system. The task force is recommending new ways to conceptualize and manage human resources in the national security arena. These recommendations must be driven by a strategic plan, as discussed previously, which allows policy-makers to define alternative paths toward strategic manpower objectives and to evaluate innovations in human resource management. In many areas, the task force recommendations build on progress already underway in the Department and focus on the next steps that are needed to develop tools that will be effective in shaping the 21st century force.

A SEAMLESS MILITARY FORCE

Changes in the global geopolitical situation, changes in missions and skill requirements for America's armed forces, changes in the nature of warfare, omnipresent budgetary constraints, and the need to keep the armed forces – which are becoming a smaller and smaller percentage of the population – firmly tied to the American people, call for revolutionary thinking in the way the United States organizes and uses its military force, including both active duty and reserve components.

DoD's ongoing transformation of logistics and support systems provides the opportunity to make fundamental changes in the balance of military manpower and resources in the armed forces. The logistics transformation can present the opportunity to shift a large number of military personnel from more generalized support functions into direct combat and combat support positions. The ultimate goal of a new approach should be a drastic reduction in both overhead and infrastructure and the allocation of a larger percentage of military manpower to the fighting battalions, squadrons, and ships at the spear-tip of America's military capabilities.

Increased emphasis on better active-reserve integration is providing significant benefits and sets the stage for further initiatives. Progress is perhaps most evident in the increased participation of reserve personnel in Department of Defense missions, both at home and abroad. The Department has been more effectively using reserve forces in contingency operations, drawing on and blending the capabilities resident in National Guard and Reserve forces. The recently completed Reserve Component Employment 2005 Study suggested additional opportunities for the Reserves to contribute to DoD operations – in homeland defense by helping civilian authorities manage the consequences of weapons of mass destruction and in joint operations by exploiting civilian-acquired information technology skills, for example.¹⁷

The individual Services are also making significant advancements in integrating the reserve components. The Army has shown expanded commitment to integration. For example, recent deployments to Bosnia have illustrated the Army's

¹⁷ This discussion is drawn from Charles L. Cragin, Principal Deputy Assistant Secretary of Defense for Reserve Affairs, "Milestones on the Road to Integration," *The Officer*, January-February 2000 (Volume LXXVI, No. 1), pp. 32-38.

increased reliance on and trust in reserve forces. Naval reserve units are becoming an integral part of many mission areas. The air expeditionary forces – an Air Force concept to respond to the increasing demand for worldwide deployments – is to integrate all the Air components into cohesive, deployable force packages. And the Marines continue to make refinements to their ongoing and successful utilization of reservists.

The task force believes that the Department has made and is continuing to make important improvements in active–reserve integration. With this progress, it is now timely to take additional steps to further increase the effective use of the reserves in the total force of the future. The new military force should be a more seamless structure. A next step should be eliminating the separate personnel, administrative, logistics, and support structures now burdening the reserve components. Further in the future, the more seamless force would include the integration of the Army and Air Force Reserve units with their respective National Guards, resulting in a single reserve component for each of these two Services. The merger of the Reserves and the National Guard would be challenging and require statesmanship and vision in both the Congress and the Administration. The payoff, however, would be important movement toward the needed “seamless” military force along with savings in overhead.

More specifically, the benefits of a more seamless military force, with an integrated Reserve component, include:

- An organization that supports the way the Department operates and deploys
- A more simplified relationship between the active and reserve components
- Reduced overhead from the separate administrative and support structures that exist today
- Stronger ties with the communities of America

As discussed, DoD is increasingly using the reserve components to meet the demands of today’s missions, both to relieve the deployment tempo of active units and to leverage needed specialties in the reserves. The force is now organized so that frequently the active force cannot deploy without reserve support. However, the separation of the two components means that each time the reserves deploy – particularly on joint active and reserve component operations – the force goes through a process of relearning how to manage the joint configurations.

The new military force concept envisions substantial changes in the way the force is organized. Many units would have both active duty and reserve members assigned. The percentage of people from each component would vary with the probability of the particular unit being deployed. Those units not expected to have frequent or short-notice deployments could consist of a large proportion of reservists, while those units with a high probability of deploying frequently or on very short notice would be composed primarily of active duty members. New

training concepts will be required to adapt to a mixture of active duty and reserve personnel in the same unit. New developments in distance learning will need to be exploited. New command chains will need to be developed, as currently active commanders have no authority over National Guard troops who are not on active status.

As the world situation changes, the Department will be able to adjust the mix and number of active and reserve members in each unit to adapt to changing probabilities of deployment. However, the adjustments should be made with care, recognizing the disruptive nature of frequent reorganizations, particularly for reservists. This new force concept should permit individuals to move more freely from active to reserve and back to active status. This more seamless force will enable the Department to meet its changing needs more effectively and to take advantage of changing educational and career expertise of individual members.

A more seamless force will also require changes in the way the Department recruits, trains, retains, compensates, and retires active duty and reserve personnel. Certain career paths that are now almost exclusively active duty could become a more healthy mixture of active duty and reservists. The new force concept would give the Department the flexibility to improve the management of a variety of critical skills, such as pilots and electronic technicians. For example, the task force was informed that about fourteen years is the average time for which a fighter pilot is needed on active duty. Under this new concept, the service commitment for fighter pilots could be 14 years of service for the training received with the understanding that they would then be available for hire by civilian employers and have portable vested retirement benefits. Some could stay on active duty longer while others might move to reserve status.

The new system will have to pay particular attention to rewarding long service in skills where experience has a high payoff in performance. For example, it might well serve the Department better to reward well qualified chief NCOs operating critical weapon systems for staying in the job rather than reward them by promotion out of the job and then have to replace them with a less experienced person. Providing reservists with both monetary and psychic remuneration for long service will also require special attention. In these cases the compensation system should be designed to keep the service member in a position which serves the overall readiness of the force.

Merging the reserves of the Army and Air Force into the National Guard will require additional study and careful planning. Changes in law may be required, and the militia requirement of the states must be accommodated. There are pros and cons to integration of the reserve components. Still, the benefits described above seem to make the effort worth its cost. The constraints of the geographic immobility of reservists would need to be addressed. The fact that the reserves are a Federal force and therefore less complicated for the active force to deal with than is the National Guard is a complex issue. The Guard belongs to the respective States, under the jurisdiction of the governors, until federalized by the President. On the other hand, the National Guard, with its rich historical ties to the communities from

which it recruits, provides a broad base of public support for the Nation's defense establishment. The nation is, after all, a nation of "United States," joined to, among other things, "... provide for the common defense...."

Political, administrative, legal, and psychological hurdles will have to be overcome to build a *more seamless military force*, but changes to the current system are needed to ensure a force capable of assuring America's future security.

The Department should move to a more seamless integration of active and reserve components with a single, integrated personnel and logistics system. The task force recommends that the Secretary of Defense constitute a special task force to make specific recommendations to move toward a single reserve component for the Army and Air Force. However, the task force emphasizes that the move to a more seamless military force should not be delayed awaiting the integration of the reserve components, but should be undertaken as a high priority project under the current active duty and reserve organization.

RECRUITING AND RETENTION

Today's military may be called an All-Volunteer Force, but it is, in reality, an all-*recruited* force.¹⁸ Without accessing a high quality enlisted force and officer corps, the All-Volunteer Force will fail. While yearly officer commissioning goals are generally being met for all Services – though with some difficulty – the annual enlisted goals have presented more of a challenge. As a result, the task force focused much of its attention on recruiting the enlisted force.

Both the Army and Navy missed their accession goals in FY 1998 – the Navy by nearly 7,000 (or 12 percent). For FY 1999, the active Army fell 6,300 short of its accession goal, and the Air Force experienced a shortfall of 1,700 – the first time it has missed its enlisted recruiting targets since 1979. In the Reserve components, the Army and Air National Guard and Marine Corp Reserve achieved their FY 1999 accession goals. However, the remaining Reserve components missed accession goals by a significant number – the Army Reserve by 20 percent, the Navy Reserve by 25 percent, and the Air Force Reserve by 36 percent, a total of nearly 20,000 reserve accessions. All the Services are feeling the effects of a more challenging recruiting market with lower interest in the military among the nation's youth, more young people opting to attend college right out of high school, limited recruiting resources, and competition for employees in a sustained robust economy.

18 See Maxwell Thurman, "On Being All You Can Be: A Recruiting Perspective," in J. Eric Friedland, Curtis Gilroy, Roger Little, and W. S. Sellman, *Professionals in the Front Line: Two Decades of the All-Volunteer Force* (Washington, DC: Brassey's, 1996), 55-65.

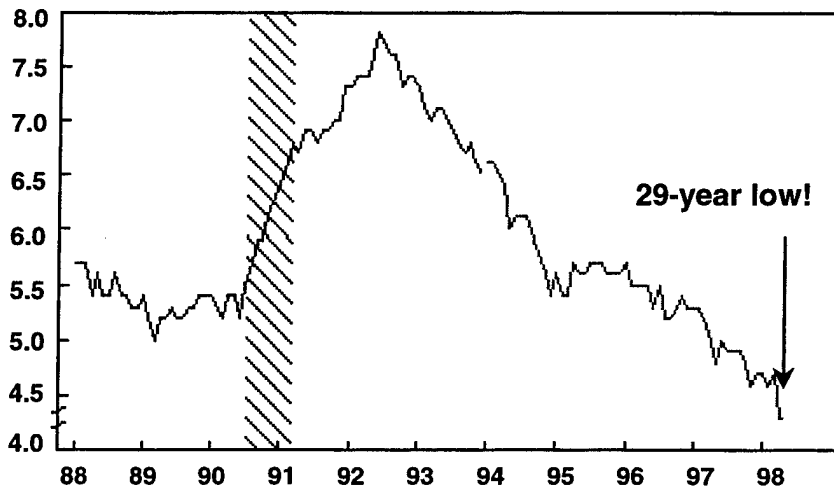
Enlisted Recruiting

Since the inception of the All-Volunteer Force in 1973, recruiting success for the enlisted ranks has varied as a result of two principal factors: the level of recruiting resources and environmental factors including economic conditions, demographic trends, public interest in the military, and the government's perceptions of military needs. Economic conditions, in particular, have a major influence on recruiting. Recruiting becomes easier when unemployment is high and more challenging when economic conditions improve and unemployment falls. Today, unemployment is at a 29-year low, as shown in Figure 7, which has made recruiting especially challenging. Although the youth population reached its lowest level in 1995 and will rise steadily through 2010, labor markets remain very competitive as today's youth have many alternatives to military service open to them – including post-secondary education as well as lucrative employment options. As the figure below also shows, the number of young people going to college has increased over the past two decades.

Furthermore, America's young people are becoming less interested in joining the military, as shown in Figure 8 by the decline in "propensity" for military service over the decade. The decline in propensity is important because it means recruiters have to work much harder than in the past to get the number and quality of accessions the Services need. Recruiting resources – advertising funds, educational benefits, enlistment bonuses, and recruiters and recruiting support – are critical to the Services' efforts in meeting their annual enlisted accession targets. These resources are even more important today in counteracting the increasingly difficult recruiting environment. Moreover, as the largest "employer" of youth in the nation, DoD should be an expert on the youth population and labor market. This can only occur if the Department expands its market research program. Adequate recruiting resources combined with effective market research must be sustained, as today's indicators suggest that recruiting could be a challenge for the foreseeable future.

To meet this challenge, DoD and the Services must first develop a strategic plan as described previously in this report. The plan needs to address such issues as the number of accessions required to sustain turnover levels based on realistic retention patterns and quality standards that are needed to operate high-tech military equipment in many different and demanding world situations. Key to making this plan a success is for DoD to fully fund the stated requirements and avoid the funding "peaks and valleys" that have occurred in the past few years, as Figure 9 illustrates.

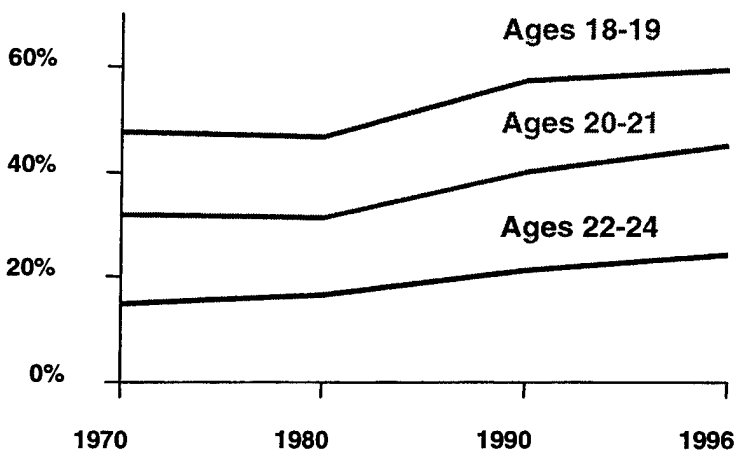
Unemployment Rate, Seasonally Adjusted



Note: Shaded area represents recession.

Source: Bureau of Labor Statistics, Current Population Survey

College Enrollment Rate By Age



Source: Statistical Abstract of the United States, 1996

Figure 7. The Recruiting Challenge

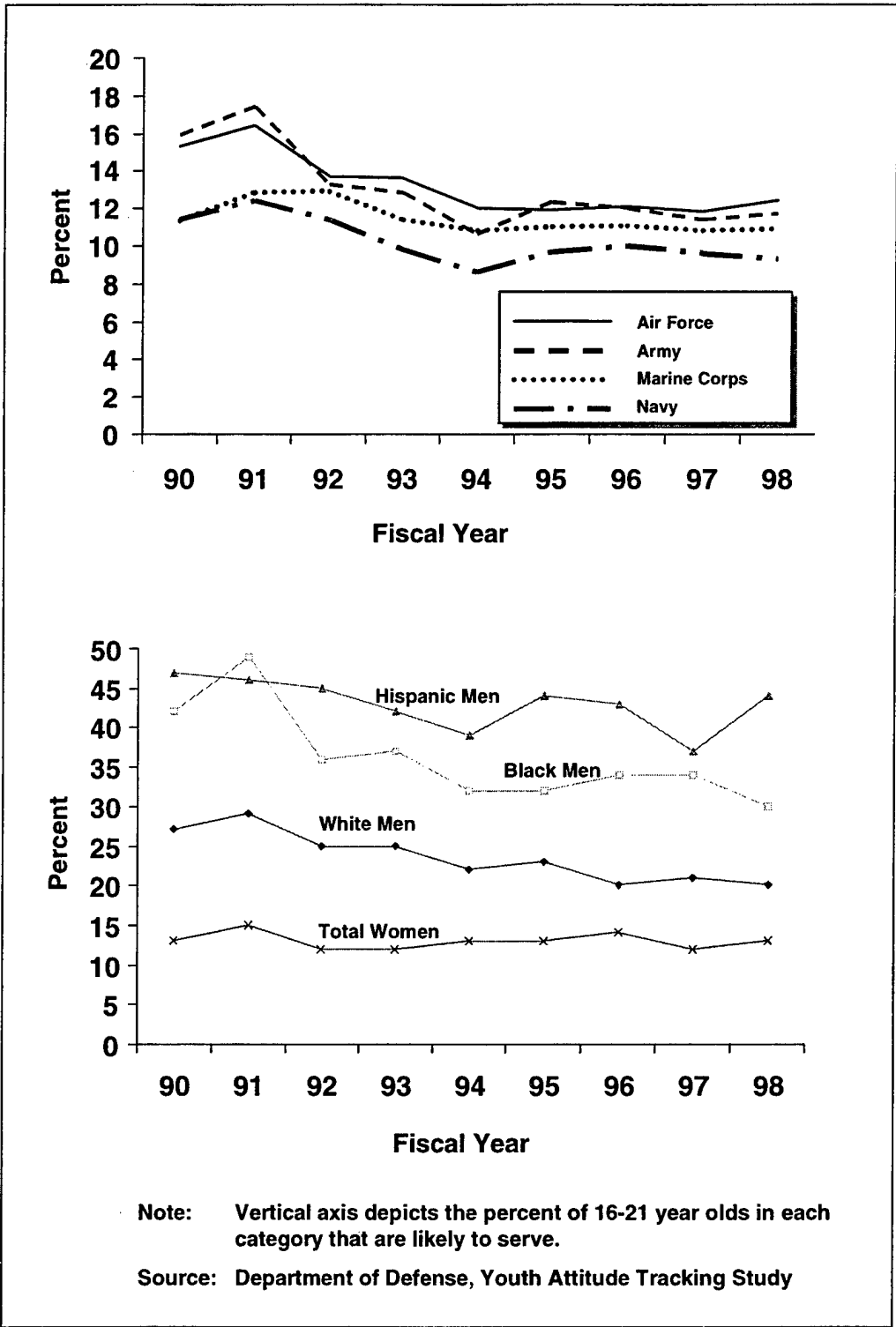


Figure 8. Propensity for Military Service

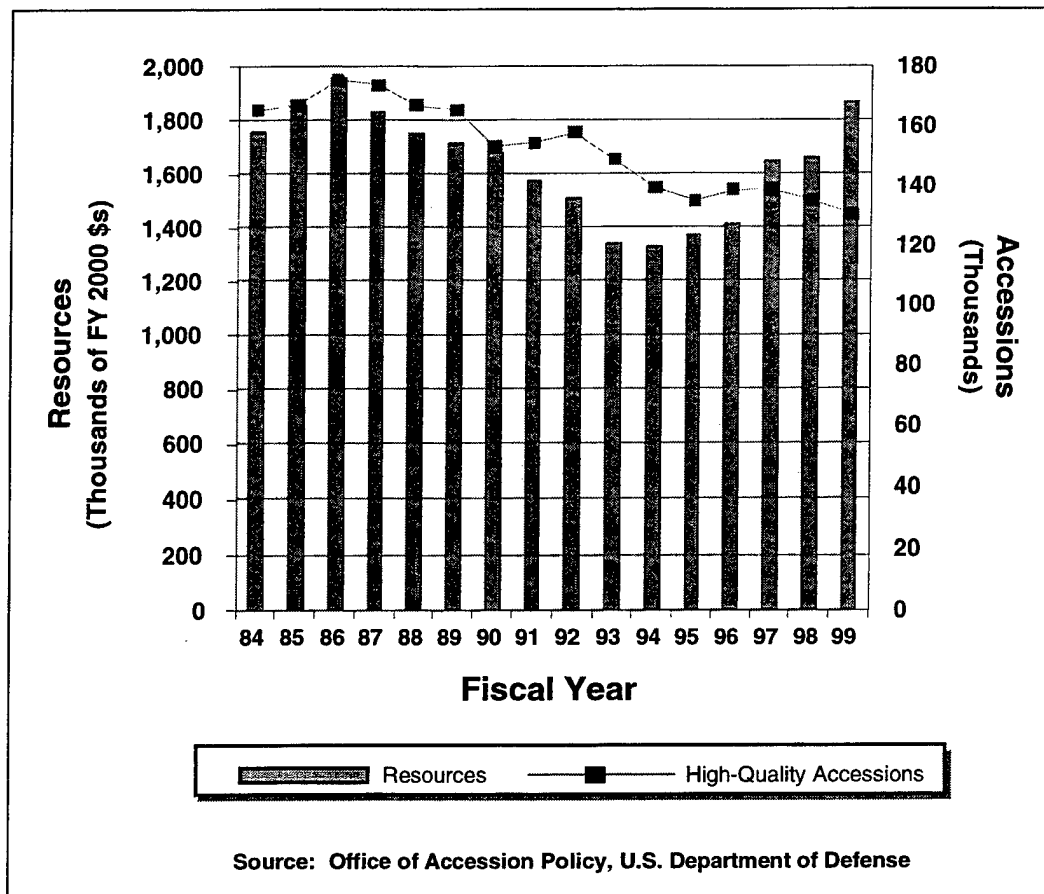


Figure 9. Recruiting Resources and High Quality Accessions

Successful recruiting depends on adequate resources.¹⁹ During the 1984-1994 period, the relationship between resources and accessions was generally close, but in the last several years, the correlation has broken down. Recruiting is much harder today, resulting in a higher cost per recruit, as depicted in Figure 10. And once accessions begin to fall it takes several years to catch up to increases in recruiting resources. To combat a difficult recruiting environment, DoD and the Congress must increase recruiting budgets significantly now and begin to think in the long term, recognizing the need to apply a generous baseline funding level for recruiting. This measure will eliminate the need for the stop-gap supplemental budget requests that have characterized military personnel planning and budgeting in recent years. Attempts at precise resource management for recruiting frequently result in undershooting the need, with adverse effects on personnel quantity and

19 This has been well-documented in the literature. See for example, Cyril Kearn, David Horne, and Curtis Gilroy, "Army Recruiting in a Changing Environment," *Contemporary Policy Issues*, VIII (4), October 1990, 68-78; Murray, Michael, and Laurie McDonald, *Recent Recruiting Trends and Their Implications for Models of Enlistment Supply*, MR-847-OSD/A, Santa Monica, CA: RAND Corporation, 1999; and Warner, John T. "Military Recruiting Programs During the 1980s: Their Success and Policy Issues." *Contemporary Policy Issues*, VIII (4), 46-67.

quality. Resource allocations for this critical need should err on the side of higher quality recruits since there is no desired ceiling on quality, only a desired floor.

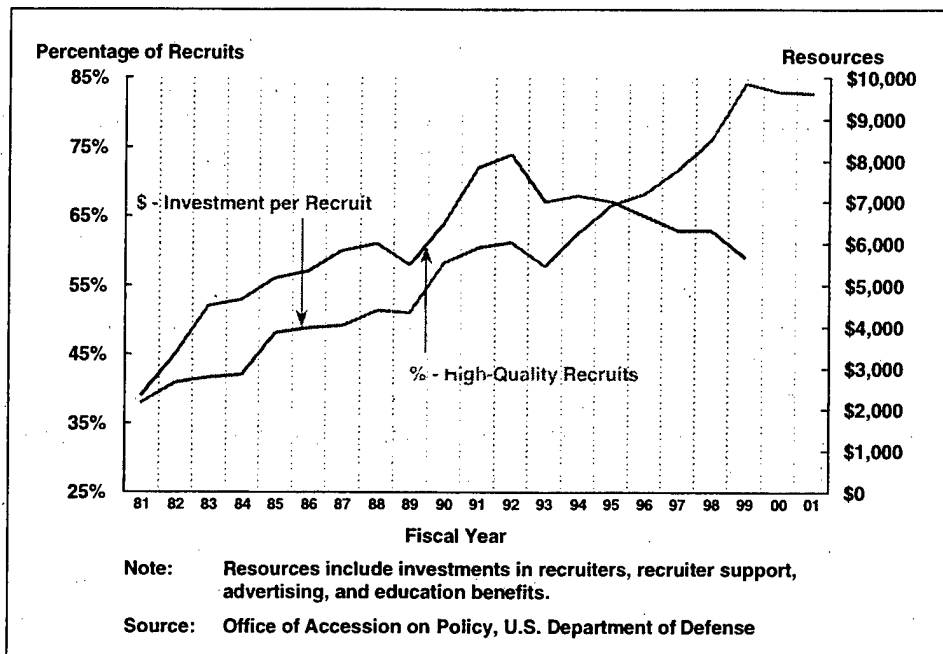


Figure 10. Recruiting Resources and High-Quality Accessions

Funding the required number of recruiters and appropriate recruiting support is an important resource requirement. Serious consideration should be given to providing support to recruiters (such as generating “leads”) so they can focus on core recruiting tasks – such as making contacts with young people, their parents, and other centers of influence and working with recruits in the Delayed Entry Program. Administrative and transportation support should be added as additional staff or through outsourcing. Hiring recent military retirees to work in recruiting offices may be another effective way to accomplish needed support.

Although providing an adequate level of resources is a necessary condition for recruiting success, it is not sufficient. Public awareness and appreciation of the roles and missions that the military performs for the country are the foundation upon which the recruiting program needs to be built. Support for military service must be built through a sustained national campaign to engage the American public as described in Chapter 3. Furthermore, it should be remembered that the attitude of peers who enlist and return home on leave or after discharge can go a long way toward shaping the attitudes of young people who might be considering military service.

Because the future military force will be high tech and will operate in complex environments, DoD and the Services must avoid lowering recruiting standards below today’s benchmarks in order to meet recruiting goals. Figure 11 identifies the current benchmarks, which require at least 90 percent of recruits be high school

diploma graduates and that 60 percent score in the upper half of the enlistment test, categorized as I-III A. High-quality recruits are a cost-effective investment and essential to the readiness of the military Services. Data show that about 70 percent of high school graduates will complete their three-year tours, while only 50 percent of non-graduates will. Also, high-aptitude recruits are easier to train, learn faster, and perform better on the job than their lower-aptitude peers.²⁰ In contrast, evidence from the 1970s, when standards were lowered, shows that the resulting force had not only high attrition rates but significant behavior problems.

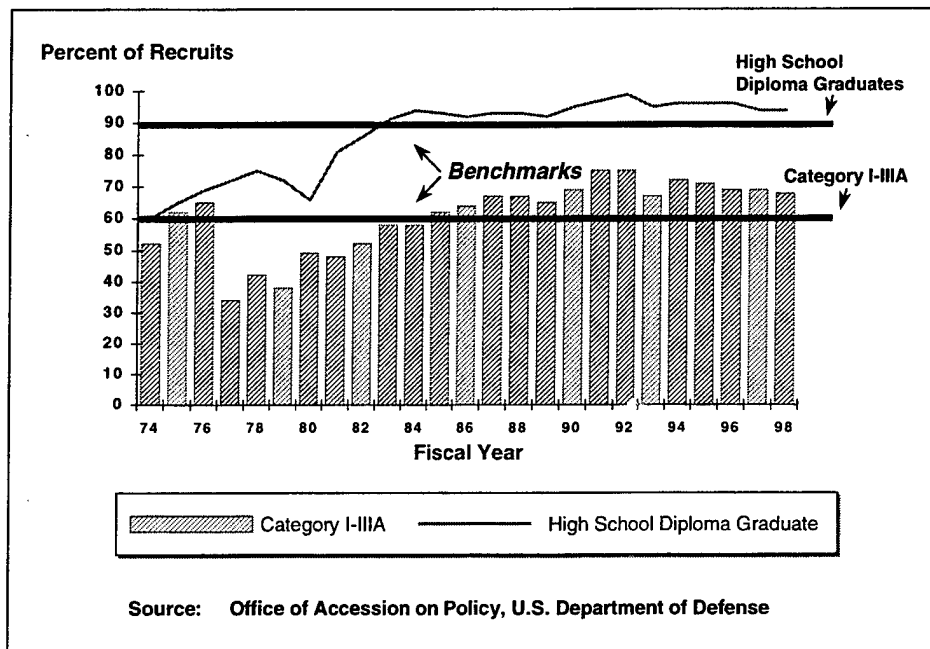


Figure 11. DoD Recruit Quality As Compared to Benchmarks

To maintain these standards in a difficult recruiting environment, additional indicators of trainability and survivability need to be explored. For example, more young people are being home schooled or are completing high school through the GED program. The Hispanic population – the fastest growing minority group in the United States – has a relatively strong preference for military service as a group, yet a history of low rates of high school graduation. DoD needs to reach these communities to determine the extent to which some of these young people could be successful enlistees – scoring well on the enlistment test and having a high probability of completing their enlistment tour. The task force, however, emphasizes that a high school diploma and scoring in the top half of the Armed Forces Qualification Test are critical for the vast majority of the force.

20 U.S. Department of Defense, *Joint-Service Efforts to Link Military Enlistment Standards to Job Performance*, Report to the House Committee on Appropriations (Washington, DC: Office of the Assistant Secretary of Defense, Force Management and Personnel), April 1992; Wigdor, Alexandra K. and Green, Bert F., Jr., eds. *Performance Assessment in the Workplace*, Volumes 1 and 2 (Washington, DC: National Research Council/National Academy Press), 1991.

Proven recruiting efforts focused in the high schools should continue, but new approaches are needed. Since over 65 percent of high school graduates pursue some form of advanced education, recruiting efforts need to also turn to vocational schools and universities, particularly junior or community colleges. Today, "the community college has replaced the GI Bill. ... It has made higher education available to anybody and everybody."²¹ To break into this market, the Services should consider offering education incentives for young people to complete some portion of college-level schooling before coming on active duty. These incentives would be tailored to the educational requirements of the specialty for which the individual is being recruited.

Education completed prior to service would provide a better-educated force and help break into the advanced education markets. It may even be possible for the Services to directly use the skills these people have learned and reduce the amount of time they spend in training. For example, a young person who learns how to be a cook or a dental hygienist in a vocational school should not require as much initial skill training once entering active duty. Prior service education could also help to reduce first term attrition because of the need to "pay back" the Service for the benefits. Lateral entry, in which the Services access people with needed skills at higher pay grades based on the amount of experience they have upon entry, should also be a recognized option – as long as sufficient numbers of Service members have the leadership experiences gained by progressing through the military ranks. Initiatives such as these need to become a new way of doing business in recruiting. They need to be adopted for the long run, not merely as a short-term correction to today's recruiting concerns.

The Services should make more use of an authority they have for shorter enlistment tours. The Army, for example, in the past has made imaginative use of the two-year enlistment option to attract high quality college-bound youth.²² This served the Army very well as a market expander. Today, only 2 percent of the Army's accessions are accounted for by two-year tours; under the current authority the Army could go to 7.5 percent. Two-year enlistments make up only one half of one percent of all enlistments in the Navy. Depending on career field and specific Service needs, enlistment terms of between two and six years can be used more than they presently are.

DoD and the Services should also consider accessing people for *different lengths of service based on different skills*. For example, the infantry requires young enlisted men in peak physical condition, but may only need some of them for three to seven years. In contrast, an aircraft mechanic does not become a highly qualified technician until gaining three to five years of experience, and can serve as a highly productive service member for many years after that. Individuals in this specialty should not be forced into retirement solely on the basis of years of service.

21 John V. Ehle Jr., "Higher Ed: Super NOVA," *The Washington Post Magazine*, November 14, 1999, p. 14.

22 Robert Phillips, Curtis Gilroy, John Blair, "The All-Volunteer Force: Fifteen Year Later," *Armed Forces and Society*, 16(3), Spring 1990, 329-350. See also Morris Janowitz and Charles Moskos, "Five Years of the All-Volunteer Force: 1973-1978," *Armed Forces and Society*, V(2), Winter 1979, 171-218.

Accordingly, the Services should offer variable enlistment periods based on career area rather than trying to standardize a few options to cover everyone.

DoD must also recognize that some military skills are in such demand in other public and private sectors that those skills must be managed as national assets in cooperation with other interested agencies to ensure that the supply meets the overall demand. Air traffic controllers and, among the officer corps, pilots are two good examples of such skills. More innovative programs are needed. The Army, for example, has a new program in which it partners with industry to guarantee jobs with specific firms after soldiers who sign up leave the Army. Finally, the opportunities to move between the active and the Reserve forces, described in the previous section, can be used to the Services' advantage in recruiting.

Not only is recruiting a challenge because of environmental factors and recruiting resources, but also because a relatively large percentage of new recruits fail to complete their initial term. Attrition within the first 36 months of enlisted service is troubling because it has remained high – at about 30 percent – despite a record number of high school graduate accessions. Congress, as well as DoD, has been concerned about this trend, and the Services have instituted a variety of panels to study it. Attrition is costly; not only does it represent the loss of a service member in whom DoD has made an investment, but resources must be spent to recruit another individual to fill the position. The Department estimated that about \$35,000 is spent to recruit and train each enlistee during the first term. The General Accounting Office calculates that the military spent \$1.3 billion, or about \$18,000 per recruit, on the 73,000 recruits that entered the Services in FY 1993 and left prematurely.²³

Selective Retention

Every Service needs to retain on a selective and differential basis officers and enlisted personnel who are qualified, committed individuals necessary to meet organizational requirements. There are a number of factors indispensable to building and sustaining America's armed forces. Among the most important are reducing the losses in the junior enlisted grades, retaining dynamic young officer leaders and tested NCOs with leadership skills and proven competence, developing leaders for positions of high military responsibility, and providing a strong, well-structured system of continuing professional education and training.

Just as in recruiting, the retention climate for all Services has become more challenging, as the nation continues to experience the strongest economy since the inception of the All-Volunteer Force. A robust economy together with significant growth in technology and related sectors has opened up a range of opportunities in the private sector for highly trained men and women in uniform. The discipline associated with military service, the level of responsibility placed on today's members, and the technical training they possess, all serve to make military experience a valuable commodity in the civilian labor market. Attractive salary and

²³ General Accounting Office. *Military Attrition: Better Data, Coupled with Policy Changes, Could Help the Services Reduce Early Separations*, Report NSIAD-98-213, Washington DC, September 1998.

benefits packages, coupled with greater geographic stability and a more predictable lifestyle, are key influences in the pursuit of private sector jobs by service members.

Although overall retention indicators – among both enlisted members and the officer corps – are generally on target, they mask significant shortfalls in specific skills as well as changes in attitudes among junior officers. A recent survey published by the General Accounting Office indicated that the number of service members in retention-critical specialties who are dissatisfied with the military ranged from 36 to 65 percent across the four Services.²⁴ For enlisted personnel, 37 to 64 percent reported dissatisfaction. These data are an indication of the kind of retention concerns observed by the task force.

Enlisted Force

Addressing retention has proven difficult and expensive in several areas. The Army, for example, increased its overall retention goal for enlisted personnel by nearly 3,000 between FY 1998 and FY 1999. This relieved some of the pressure on recruiting efforts; but, in order to achieve that goal, the Army had to boost its selective reenlistment bonus budget by \$24 million. The Army exceeded its retention goal of 65,000 enlisted personnel by approximately 6,100.

The Navy finished below its first- and second-term reenlistment goals for FY 1999 by about 2,100, but made up a portion of the shortfall with third-term reenlistments. The number of sailors opting for short-term *extensions* rather than long-term *reenlistments* has risen steadily since FY 1996. This alternative should be examined by the other Services to enhance retention.

Although the Marine Corps met its FY 1999 reenlistment target, it is closely watching career fields with troublesome loss patterns – signal intelligence, information technology, avionics, and maintenance.

The Air Force missed retention goals in all categories in FY 1999, with the aggregate shortfall totaling about 1,400 personnel. The Air Force has more than doubled funding for selective reenlistment bonuses since FY 1995 and, sensing difficulties ahead, is now offering bonuses totaling \$63 million in more than 130 career fields.

Officer Retention

For officers, the Marine Corps is the only Service that achieved its aggregate end-strength while the Army, Navy, and Air Force experienced shortfalls in total end-strength of about 700, 700, and 2,000, respectively.

One particular community that continues to present a major concern to the Department, particularly in the Navy and Air Force, is pilots. The dilemma for the Air Force is that for every two pilots who enter the force, three currently leave. At this pace, the Air Force expects to be short at least 2,000 pilots by FY 2002. In the

²⁴ General Accounting Office. *Military Personnel: Perspectives of Surveyed Service Members in Retention Critical Specialties*. Report GAO/NSIAD-99-197BR, Washington DC, August 1999.

Navy, current shortages are limiting the flow of aviators to vital Department Head billets. This will require officers in those billets to extend sea duty tours – already running 7 to 9 months beyond the 36-month standard – to even longer periods. Keeping pilots at sea longer is likely to have a negative effect on retention. The Marine Corps is monitoring its aviator requirements closely, and is concerned about the recent decline in officers taking the bonus in the fighter/attack and electronic warfare communities – a leading indicator of pilot retention behavior. The number of pilots accepting bonuses in those specialties for FY 1998 was about half of what it was a year earlier. For the Army, the aviation challenge is among warrant officers who fly the Apache helicopter and special operations warrants who fly the Chinook. Because the Army began FY 1999 nearly 15 percent short of pilots, it offered a pilot bonus for the first time in its history.

While pilot retention remains a critical concern, other career fields present challenges as well. Since 1993, the Navy's Surface Warfare Officer Community has fallen short of its required retention rate. This shortfall has forced the Navy to extend sea duty for an additional 8 to 10 months. In response, the Navy implemented several initiatives that they project will return sea duty to normal lengths. The Army also reports growing concern over an unexpectedly high loss-rate for captains. This shortfall in inventory is reduced by the Army's overage in lieutenants, which is historically what is expected. However, the increase in captain attrition is significant. Captain is the rank at which officers most often make career decisions, having completed their initial active duty service obligations. Captains also tend to be representative of the views of a growing cadre of junior officers across the Services and from whom the future senior leaders of the military will be drawn.

Survey data for the Army suggest that retention losses among junior officers in general are due to perceived reductions in pay and benefits, excellent private sector employment opportunities, and increased deployment tempo.²⁵ Not only is there a feeling that military pay and retirement benefits have eroded considerably over the last decade, there is also a perception that conditions in the military today compare unfavorably with the civilian sector in several areas. Among the most important are overall quality of life, overall standard of living, overall satisfaction among spouses, and personal freedom. Also, there is considerable dissatisfaction with the amount of time spent away from home each year, and concern over the degree of control over the timing of trips and assignments away from home. These are important issues not only for those O-3s who are leaving, but also for those uncertain as to whether to leave, those past their current obligation (but with no intention to stay until retirement), and those planning to remain for a full career.

25 Survey of Officer Careers, Special Report, "Relationship of Officers' Attitudes and Attrition Behaviors by Source of Commission," Alexandria, VA: U.S. Army Research Institute, September 1998.

An informal survey of junior officers suggests that retention difficulty is directly linked to

- A lack of confidence in leadership
- Decreased job satisfaction
- Confusion about the purpose and importance of missions
- Frequent and unpredictable deployments
- Apparent low priority given to quality-of-life initiatives and programs by senior leadership²⁶

Military and civilian leaders must communicate more effectively, to a sophisticated junior officer corps, that military service is public service and must articulate clearly that what the military does is important. Leaders must acknowledge the problems brought about by the increased pace of deployments and its effects on quality of life and retention. Officers must report readiness honestly and be forthright in acknowledging which forces are "being stretched." Reiterating the words "doing more with less" is not a morale booster. Micro-management must be minimized and the "zero-defect" mentality eliminated. Training must be realistic and training cycles should make sense and be related to the mission. Finally, leaders must recognize that quality of life is an important factor in officer retention.

The impact of senior officer leadership on the attitudes of junior officers and NCOs should not be minimized. When these Service members perceive their leaders as preoccupied with preserving effectiveness ratings and caught up in a system where a "zero-defects" mindset prevails, it becomes a significant factor in their view of military service. When senior officers micro-manage to protect themselves, this is transmitted down the chain of command as a loss of job satisfaction and loss of enthusiasm for seeking higher levels of command. Experience shows that well-led people are less likely to find reasons to be unhappy. Within the military, ineffective leadership causes Service members to focus on problems associated with pay, operational tempo, and quality-of-life issues. A culture that recognizes the true leadership qualities of senior officers, and does not penalize reasonable risk taking, is an essential ingredient to assure the vibrancy, dynamic leadership, and esprit the military future demands.

The commissioning system itself is another factor that may affect retention. This system should be modified as quickly as possible to supersede the statutory provision that has recently come into effect providing a *reserve* rather than a *regular* commission to career officers for periods that vary by Service but may extend from nine to twelve years. This provision may be adding to the pressure to leave active service immediately on completion of obligated tours (predominantly after five

26 Natter, Rear Admiral John T., U.S. Naval Reserve (Retired), Lieutenant Alan Lopez, U.S. Navy, and Lieutenant Doyle K. Hodges, U.S. Navy. "Listen to the JOs: Why Retention Is A Problem," *U.S. Naval Institute Proceedings*, October 1998.

years). Different commissions work against the sense of commitment and devotion to a calling that are central to commissioned officer service and have characterized America's career officer corps throughout its history. *All active duty officers should be commissioned as regular officers regardless of the source of their commission.*

The task force recommends that the Department place priority focus on attracting and retaining the needed military personnel who are motivated and qualified to serve and lead. One element of this task involves communicating more effectively to the force about the importance of today's diverse military operations and why these operations are the proper business of the military. But equally important is the need to institute changes and provide the resources necessary to meet recruiting and retention goals and reduce training base and first-term attrition. Some recommended changes were discussed in this section, others will be addressed in the remainder of this chapter.

DEVELOPING KEY FORCE-SHAPING TOOLS

Moving toward a more integrated military force will require revolutionary changes in personnel management systems. But the Department cannot wait to complete such a significant transformation to improve its force-shaping tools. The following section suggests improvements to these tools that will not only help DoD in the near term, but put in place processes that will support the integrated military force of the future. Two particular areas are critical to recruiting and retaining a high-quality force and to the vitality, health, and readiness of service members and units: quality of life and military compensation. Each of these is discussed in the following sections.

Quality of Life

A good quality of life is an essential component of military morale. Quality of life is about choice and control over critical areas of one's own life and one's family life. Unfortunately, military work does not always allow for much choice. The challenge is to ameliorate the mission demands of military life with strong community support programs that provide needed respite, build morale, and develop a strong sense of community.²⁷ Living near people of like circumstances enhances military identity and builds informal support networks. The goal is to build strong communities that create cohesion as well as career and service commitment.

The military recruits individuals, but retains families. More married members and dual career families generate a greater need for family services such as childcare, education, fitness facilities, financial management assistance, and youth

²⁷ See Colette van Laar, *Increasing a Sense of Community in the Military*, Report MR-1071-OSD (Santa Monica, CA: RAND Corporation), 1999.

programs, in addition to housing and health care. Sixty-eight percent of the members of the armed forces are under 35 years of age. Sixty-five percent of spouses are also in the workforce and 75 percent of their children are under age 12. Even with the growth in families, however, there should be as much concern shown toward the single service member as his or her married counterpart.

Although there has been much attention paid to quality-of-life issues and the Department has made progress, there is a perception that more can and should be done to enhance quality of life. Service members and their families feel that improvements that have been promised are slow in coming. Among the many important factors that contribute to quality of life, three stand out as disincentives to retention: the state of military housing, the military health care system, and the pace of operational tempo.

How best to provide suitable housing and adequate medical care for military personnel and their families are complex and long-standing problems and, because of the numbers of people affected, involve substantial cost. For example, in 1998 DoD budgeted \$9.6 billion for active-duty military family housing; that included \$3.9 billion for base housing and \$5.7 billion in tax-exempt cash housing allowances. Although time prevented the task force from reviewing the health care and housing problems in depth, the task force would like to comment, briefly, on solutions being considered in these areas.²⁸

Housing

Military personnel are provided with housing on base or, in lieu of housing, a tax-free cash allowance, known as basic allowance for quarters. The Services would prefer to have their personnel living on base. The convenience of living on base, the availability of family support services, and the sense of community that is gained by living among other military personnel usually makes on-base housing the desired place to live when it is available. And availability can be particularly tight for junior enlisted members – those who could benefit the most from on-base housing. But quality of housing is also a factor. Some personnel decline to live on base when the quality of housing is poor. Others accept poor housing because of financial considerations.²⁹

For many years the Services have regularly reported a shortage of on-base family housing. Over time the quality of existing housing has deteriorated due to age. Last year the Deputy Under Secretary of Defense for Industrial Affairs and Installations testified before Congress that approximately 200,000 units of the military's existing family base housing were inadequate. To renovate or construct new housing to meet the demand would take 30 years and cost some \$20 billion in appropriated funds. To address the situation, Congress passed the Military Housing Privatization Act, an initiative originally proposed by former Secretary of Defense William Perry. The Act authorizes the Department to leverage DoD funds with

28 Annex E contains supplemental information on the housing and health care issues discussed here.

29 A law that has been in effect for nearly 30 years provides that people assigned substandard housing on base can live there and still receive a portion of a housing allowance.

private investments by entering into several types of agreements with private contractors to provide housing. There are a number of attractive features of the privatization initiative:

- Housing would be constructed to commercial standards, which is considerably less expensive than building to military construction standards and would shorten construction time.
- Housing could be on base or off base.
- DoD would have the flexibility to manage the lease agreements. It could convey or lease land or facilities or enter into partnership agreements with contractors.
- Private contractors would maintain the housing.
- DoD has authority under the Act to contract for renovating existing on-base housing.

Until 1996, with few exceptions, military housing construction has been financed by annual appropriations. The long history of a backlog of housing requirements and use of substandard units has shown that the old approach does not solve the problem. *Thus, the task force believes that the construction and maintenance of military housing should be privatized.* The new program has started slowly, which is perhaps to be expected when instituting an innovative government program. While acknowledging concerns about whether the lease agreements are sufficiently flexible and whether there are sufficient cost savings, the task force believes the privatization initiative should proceed. Calls for relying on off-base housing fail to recognize that there is almost always a lack of affordable housing close to military bases for service member families. However, developing an effective referral system for off-base housing and paying adequate allowances might meet the needs of most families. The Department needs to accelerate the privatization program and to remove institutional obstacles that hinder successful implementation. It should be a priority goal for DoD to eliminate all substandard housing as soon as possible.

Finally, while DoD of necessity puts great emphasis on providing family housing, the task force believes that single personnel who chose a military career should be provided with suitable housing as well. There has been a tendency in the past to neglect the housing needs of single service members and this tendency should be promptly corrected.

Health Care

Health benefits are provided to military personnel through the TRICARE program, which includes three plan options – TRICARE Prime, TRICARE Standard, and TRICARE Extra. All options offer care at military treatment facilities and by civilian providers, but the beneficiary cost shares and the arrangements for

accessing care differ. All active-duty personnel are automatically enrolled in the Prime plan and the military treatment facilities are responsible for their care. DoD covers all the costs. Currently, the other beneficiaries eligible for TRICARE include individuals who are under age 65 and in one of the following groups: families of active duty, retirees, families of retirees, and survivors. TRICARE was tested in California and Hawaii between 1988 and 1992. Full implementation was then phased in by region and completed by 1998.

Complaints about TRICARE are reported by the defense press, by the military retiree associations, and by senior DoD officials and congressional members who have talked to military members and retirees. Inadequate health care is consistently cited both for families, where it becomes a factor in retention, particularly among those personnel who deploy frequently, as well as for retired personnel and spouses, where present uncertainties reflect back in the job satisfaction and retention of NCOs and officers. The DoD health care system, especially for family members and retirees, clearly needs to be fixed.

One long-standing complaint concerns health benefits for beneficiaries who reach age 65, at which point they become eligible for Medicare and lose their TRICARE eligibility, although they can continue to use the military treatment facilities when space is available. Test programs have been implemented to respond to these complaints, but it is too early to evaluate their outcome. One test program establishes TRICARE Prime as a Medicare HMO; the other offers plans from the Federal Employees Health Benefits Program. Many of the system-wide problems, such as accessing care when travelling or moving outside a region, difficulty obtaining information about rules or service coverage, and gaps in contractor coverage have become apparent, and changes have been made to remedy these concerns.

Affirmative efforts are needed to overcome the perception that promises have been broken and such efforts are beginning to take shape. Recently Secretary Cohen and Chairman Shelton testified before Congress, both indicating a focus on health care and a recognition that the current system is far from user friendly. The Service Secretaries have also indicated that health care is a priority. Included in the FY 2001 DoD budget are a number of initiatives designed to improve the TRICARE program for active duty family members and the Department is studying options to improve health care benefits for over-65 military retirees.

The task force recommends that the TRICARE experience be monitored carefully for quality and cost control, as well as beneficiary satisfaction. Special attention should continue to be paid to the test programs for over-65 beneficiaries. Where possible, TRICARE outcomes should be benchmarked against the outcomes of the better private-sector employer plans. Should TRICARE fall short after it is fully operational and all participants have adapted to it, then other possibilities should be explored. For the next several years, the TRICARE program should be stabilized so that the military health care system can focus on making it work as well as possible.

Operational Tempo

The frequency of overseas operations and deployments has led to very high operational tempo in recent years. This high tempo is exacerbated by the unpredictable nature of many deployments and by the fact that certain elements of the force are routinely over committed. The strain of higher operational tempo and the length of tours are reducing enthusiasm for remaining in the military. Moreover it has led to a decline in family satisfaction with the military and has thus become an even more relevant factor in retention. Some personnel tempo is good for morale and retention, but too much can be detrimental.³⁰ Deployments need to be predictable whenever possible, not too long, and more evenly distributed across units and individuals. High operational tempo in combination with other financial and quality-of-life factors, are leading young officers and enlisted personnel to separate earlier and in greater numbers.

When deployment schedules are fraught with uncertainty, it is difficult for family planning – for a spouse to hold down a job, participate in educational programs, and even care for children. Families in assignments where deployments are more predictable are generally happier and able to deal more easily with family separations. Moreover, as operational tempo increases, the need for certain family services grows, such as family and financial counseling. When these services are reduced or located further away, as has happened with attempts to regionalize many services, it is difficult for families to access and benefit from support services designed to ease the challenge of family separation.

The task force urges the Department to develop effective ways to manage operational and personnel tempo that recognize the anticipated operating patterns of the force and the family-oriented interests of service members. Suggestions in this chapter to reform force-shaping tools and to develop a new military force offer new alternatives to help make deployments more predictable and less burdensome on service members and their families. The Services should structure the existing force and crew-manning assumptions to alleviate personnel tempo problems for individuals in units with high operational tempo. The Department is clearly taking steps to address these concerns in evolving force structure concepts designed to address the more frequent, world-wide deployments that are now more commonplace. In conjunction with this restructuring, it is also critical for the Services to maintain needed family support and transition services to mitigate the impact of family separations that arise during periods of high operational tempo. Maintaining these services for the intended recipients is an important element of managing the effect of operational tempo. These services cost very little but have an important impact on retention.

30 James Hosek and Mark Toten, *Does Perstempo Hurt Reenlistment?* Report MR-990-OSD. (Santa Monica, CA: RAND Corporation), 1998. See also, Paul J. Sticha, Robert Sadacca, Ani S. Di fazio, C. Manzi Knerr, Paul F. Hogan, and Diana Marissa. *Personnel Tempo: Definition, Measurement, and Effects on Retention, Readiness, and Quality of Life.* Alexandria, VA: Human Resources Research Organization, Report FR-WATSD-99-43. August 1999.

Military Compensation

The military's compensation system is made up of a complex patchwork of active-duty pay, allowances, and retired pay.³¹ The system dates from the post-World War II period and even with recent reforms lacks the full flexibility needed for the future. Moreover it has failed to keep pace with private industry pay and retirement systems, which have changed radically over the last 20 years, offering a wide range of benefits, flexible savings plans in place of traditional retirement programs, and increased emphasis on employer-paid education. Many of these changes have been facilitated by changes in law. For example, early vesting and portability of retirement benefits through the Employee Retirement Income Security Act (ERISA) is now the law of the land and has altered the nature of the private sector workforce. No longer are one-company careers the norm. Tax laws have also changed to favor investment savings plans such as the 401K. *The Department needs to take further advantage of the opportunities available in the federal civil service and private sector and restructure its military pay and retirement systems with the flexibility needed to accommodate manning requirements for different skills and to manage careers of varying lengths. In doing so, the Department can provide valuable additional retention incentives.*

Purposes and Principles of Compensation

The military compensation system has four purposes: to attract, retain, and motivate personnel, and to separate them on good terms when it is the interest of the Service to do so. It thus needs to be clearly coupled with the system of selective retention.

To achieve its purposes, five principles should guide the design of the military compensation system. First, the system must be *competitive* with the external economy. If it is not, the Services will lose valuable, trained personnel to the private sector and will find it difficult to attract new talent. Second, personnel must perceive the compensation system to be *fair*. A system that is not perceived to be fair will ultimately be a source of recruiting and retention problems and will cease to motivate personnel. Third, the compensation system must *reward performance*. Fourth, the system must be *flexible* enough to accommodate manning requirements in different skills and to accommodate different career lengths. It must also be able to accommodate movement between the active and Reserve forces. Fifth, the system must be simple and *easily understood*.

The Active Duty Compensation System

The current active-duty compensation system is about fifty years old, during which time it has remained virtually unchanged. Although there was a substantial pay increase for junior officers and enlisted personnel at the inception of the All-Volunteer Force, only incremental changes have been made to the system since. There exists marginal differentiation in pay (e.g., bonuses and special and incentive

31 A discussion of the compensation system can be found in Beth J. Asch and John T. Warner, *A Theory of Military Compensation and Personnel Policy*, Report MR-439-OSD (Santa Monica, CA: RAND Corporation), 1994.

pays) usually to meet specific retention needs. There is also some use made of promotions to provide more compensation for particular career fields, such as physicians. In reality, however, the Department has a system in which "one size fits all" and where longevity has been a primary factor in pay levels. Because there is little flexibility in the system, it does not deal well with providing retention incentives at key career decision points.

The Department recently recommended a change to the military compensation system consisting of three components

- An across-the-board pay raise of 4.4 percent, the largest since 1983
- A new pay table with targeted raises for the more senior personnel and greater reward for performance
- A roll-back of the current retirement benefit to the pre-1986 plan that provides 50 percent of basic pay after 20 years

The task force believes these are important improvements and reflect the strong and effective focus of the Secretary of Defense, the Joint Chiefs, the Under Secretary of Defense for Personnel and Readiness, and the Service Secretaries. Congress endorsed and enhanced the pay package. The Fiscal Year 2000 National Defense Authorization Act increased the across-the-board raise to 4.8 percent. In addition, Service members have a choice of returning to the pre-1986 retirement system or staying with the post-1986 system (with retirement calculated at 40 percent of basic pay) and taking a \$30,000 cash bonus. The legislation also authorized military members to participate in a Federal Thrift Saving Plan (TSP), subject to the development of some offsetting legislation. The TSP is an excellent 401K-type plan, and members should be given the opportunity to participate.

These improvements to the military compensation system are an important step in addressing critical concerns: a perception that military pay was falling further and further behind comparable civilian pay; a perception that the Department had reneged on a public commitment concerning retirement pay and broken faith with the troops; and a perception that the pay system did not adequately compensate people for skills, education and experience. While the added rank differentials that the new pay table includes are modest, these changes will add extra incentive for personnel to stay and seek advancement to higher rank.

The Department now needs to build on these initiatives through a process of continuing change – a series of incremental steps, over a few years, to craft a compensation system that will serve the purpose of shaping the force for the long run. Achieving this end will require moving beyond a "one-size-fits-all" approach to compensation and providing the Services with more flexibility to deal with recruiting and retention problems. The task force recommends a number of initiatives including restructuring the military pay system to further emphasize pay for performance and skills and restructuring the retirement system to provide earlier vesting, a 401K-type option, benefit portability, and multi-point retirement options. These initiatives are discussed in the remainder of this chapter.

Pay for Skill

Targeted pay raises in the new pay table, while important, are unlikely to fully solve future recruiting and retention challenges. The skill requirements of the U.S. armed forces have become increasingly diverse over time, and forces are no longer concentrated in the combat arms. Much of the increase in the diversity of skill requirements has been driven by technology and technological changes have created a need for skills not required 20 or 30 years ago. Technology has arguably also increased the need for more educated and more able personnel in many skill areas, particularly computer systems and information technology.

A long-standing tenet of the military compensation system – which the task force acknowledges – is to equally reward all personnel who hold the same rank and level of responsibility regardless of skill. This goal can be accommodated without excessive cost when skills are not widely differentiated, but becomes increasingly costly as skill levels become more differentiated and opportunities for military personnel in the private sector increase. Thus, the task force believes that changes are necessary in the military pay system to accommodate continuing technological changes that increase the diversity of skill requirements which will inevitably lead to the need for more differentiation in pay by skill.

Just how to implement distinctions in pay by skill is another matter. Private sector firms have been successful in developing separate pay tables for different skills. Without ruling out separate pay tables based on skill, the task force believes that skill-based distinctions in pay can be introduced more simply and with greater flexibility to adapt to conditions in the external labor market, by expanding the use of existing tools. These tools include attraction and retention (A&R) pays (which include enlistment and reenlistment bonuses) and special and incentive (S&I) pays. In FY 2000, these pays combined totaled \$2.67 billion. Still, this amount was only eight percent as large as outlays for basic pay. The task force believes that market forces will require more differentiation of pay in the future and that A&R and S&I pays must grow relative to basic pay.

As these special pays grow in relative importance, DoD will need to address several problems that currently exist in the system. First, because bonuses are a discretionary compensation budget item, budgeting for bonuses has been uncertain in periods of austerity. Uncertain levels of bonuses create uncertainty among personnel about what they can expect at future retention decision points, which in turn hurts retention. Bonus budgets need to be set based on long-term recruiting and retention needs and not so subject to temporary budgetary exigencies. Second, many special pays are modest in amount and their effects are sometimes difficult to measure. The task force recommends reducing the number of special pays and increasing the relative value of the ones that remain. Third, many of these pays have been fixed in nominal dollar terms and their values eroded by inflation. These pays should be set at appropriate levels relative to the external market and Service needs. Furthermore, due to inflation they should be indexed to basic pay and increased as basic pay is increased.

Pay for Performance

The military compensation system provides incentives for performance mainly through the extra compensation associated with promotion. Promotion incentives work well in the current system, which is characterized by well-defined promotion gates and an “up-or-out” system that prevents grade stagnation. While the “up-or-out” system served the country well during the Cold War era – a period in which the services required large, relatively youthful forces – it may not serve the country well in the future for certain specialties. Changes in technology will increase requirements for experienced operators and maintainers of complex equipment and will reduce the need for youth and vigor in parts of the force. Improvements in health and longevity will have the same effect. Continued difficulties in, and rising costs of, attracting new recruits will also increase the need to keep some experienced personnel longer.

These changes will require the relaxation of current “up-or-out” rules in some cases. Because of restrictions in existing grade tables on the fraction of the force occupying the senior officer and enlisted ranks, the relaxation of “up-or-out” rules implies an increase in the mid-ranks and longer times in grade before promotion. Absent other policy changes, however, increasing the number of personnel in the mid-ranks and slowing promotion timing will reduce promotion opportunities to the senior ranks, and thereby dilute the incentive to perform well. New ways of compensating personnel other than through promotion will need to be developed. The private sector has implemented innovative pay-for-performance systems for its workers. Although pay-for-performance is more difficult to implement in the military setting for a variety of reasons, the task force strongly urges that DoD study these private sector systems to see which might work in the military of the 21st century.

The task force recommends that the Department restructure the military pay system to emphasize pay for performance and skills and modify the “up-or-out” requirements for selected skill personnel.

Retirement

As an element of compensation, retired pay helps attract, retain, and motivate personnel. A distinctive purpose of the military retirement system is to manage the grade and experience distribution of the force by controlling career lengths. To keep the force young and vigorous, older personnel are required to separate well before the date of their full withdrawal from the labor market. Furthermore, many, if not most, retirees suffer a “second-career” earnings loss when transitioning to the civilian sector in their 40’s or 50’s. Retired pay reduces the financial penalty associated with the transition to a second career. Retired pay is therefore an essential element of military compensation.

Current Military Retirement System

The current retirement system actually compensates only the small fraction of personnel that stays long enough to qualify for retirement benefits either through active service or some combination of active and reserve service. The lack of a system of tax-deferred retirement savings for military personnel stands in contrast to the wide availability of 401(k) and 403(b) plans in the private sector and the Thrift Saving Plan for federal employees. The hurdle of offsetting legislation as a provision of participation in the Thrift Saving Plan should be overcome, allowing service members to participate in this program as now authorized.

The military retirement system has been the focus of a number of past commissions and study groups, in which the current system has been accused of being expensive, inefficient, inflexible, and unfair.³² In terms of its cost, the FY 1999 retirement accrual charge is \$9.7 billion, about 50 percent of FY 1999 outlays for basic pay. The high cost derives principally from the relatively young ages at which personnel separate and the large number of expected years of benefit payments. Although the system is expensive, it is not necessarily inefficient. A recent study suggests that if the goal is to support and maintain the existing force structure across the wide spectrum of military skills, the current system does so about as cheaply as alternative compensation systems.³³

However, the primary problem with the current military retirement system is its inflexibility. The system imposes similar patterns of retention and retirement across the four Services and across the wide spectrum of military skills. The system is a "one-size-fits-all" system that permits personnel managers little flexibility to shape different rank-experience structures in different Services and different skills. Jobs such as those in the combat arms require "youth and vigor."³⁴ In contrast, other jobs involve high training costs and are learned over fairly long periods of time. Future automation and substitution of capital for labor will increase the need for skilled labor relative to unskilled labor and will, on balance, reduce the need for "youth and vigor." It seems unlikely that 20 years is the optimal career length across the whole spectrum of military occupations.

The task force has heard testimony from the Service manpower chiefs and other personnel experts that suggests that the Services would manage their forces quite differently if they had the tools to do so. The Services were very successful in managing the drawdown using such temporary tools as Voluntary Separation Incentive, Special Separation Benefit, and the Temporary Early Retirement Authority. These tools were invaluable in achieving voluntary separations and essentially shortening career lengths.

32 For instance, see: Asch, Beth J. and John T. Warner, "Should the Military Retirement System Be Reformed?," in J. Eric Fredland et. al., eds, *Professionals on the Front Line: Two Decades of the All-Volunteer Force* (Washington, DC: Brassey's, 1998), 175-206, and Gansler, Jacques S., *Affording Defense* (Cambridge, MA: MIT Press, 1989), 297-299.

33 Details can be found in Asch, Beth J., Richard Johnson, and John T. Warner, *Reforming the Military Retirement System*, MR-748-OSD (Santa Monica, CA: RAND, 1998).

34 Only about 30 percent of Army and Marine Corps enlisted forces are in combat arms occupations and the fraction of Navy and Air Force personnel in such positions is less than 10 percent.

As mentioned earlier, the task force learned that the optimal career length for the majority of Air Force pilots is about 14 years, and that the Army probably keeps more combat arms personnel to the 20-year mark than it would prefer. On the other hand, the Services lose many personnel at the 20-year mark who are in specialized occupations – such as doctors, nurses, and computer specialists – and for whom separation in order to maintain youth and vigor or in order to provide command opportunities to other personnel is irrelevant.

A particular problem exists with the 20-year career in the context of managing the officer corps. Serious selection of officers does not occur until the O-4 promotion point, around 11 years of service. But even here, the promotion rate is about 80 percent. Officers who are promoted to O-4 are guaranteed a 20-year career. Because so many officers are retained to the 20-year mark relative to the command billets that are available, the Services experience pressures to rotate personnel quickly in an effort to give all qualified personnel the experiences required for promotion to more senior billets. An alternative to this is a system in which serious screening occurs earlier (at around the current O-3 promotion point), but those who are selected for promotion are kept for longer careers and given longer assignments at each step of the way. Longer assignments would reduce personnel turbulence, promote skill development, and increase readiness.³⁵

The current retirement system does not provide any incentive to the large bulk of personnel who separate before 20 years of service. Only about 12 percent of enlisted entrants and 25 percent of officers stay for a 20-year career. A solution called for in some previous proposals is to vest personnel earlier in a retirement annuity (that is, after 5 or 10 years of service). DoD has resisted proposals for earlier vesting in the past on the grounds of cost and because of a belief that it would hurt second- and third-term retention. But the opposite seems to be increasingly the case. The recent survey of junior officers referenced earlier revealed that the lack of retirement benefits for those who serve for less than 20 years is a source of discontent in the Navy junior officer corps.³⁶ The survey also revealed that junior officers clearly understand one of the incentive effects of the current system: it forces individuals to decide at a fairly early career point whether to stay for a 20-year career or leave immediately. *The task force believes that some form of early vesting in a retirement system would increase overall retention rates.*

Further Modernizing Military Retirement

The current military retirement system does not adequately recognize the two distinct purposes of a retirement system identified above – helping individuals accumulate resources for retirement and managing the size of the force by

35 Defense Manpower Commission. *Defense Manpower: The Keystone to National Security*. Report to the President and the Congress, 1976; Chu, David, "The American Military's Response to a Changing World Order: What Does It Imply For Manpower Requirements?", in J. Eric Fredland et. al., eds, *Professionals on the Front Line: Two Decades of the All-Volunteer Force* (Washington, DC: Brassey's, 1993), 290-302. Under Secretary of the Army, Bernard Rostker, voiced similar views in his appearance before the task force.

36 Natter, Rear Admiral John T., U.S. Naval Reserve (Retired), Lieutenant Alan Lopez, U.S. Navy, and Lieutenant Doyle K. Hodges, U.S. Navy. "Listen to the JOs: Why Retention Is A Problem," *U.S. Naval Institute Proceedings*, October 1998.

separating personnel on good terms. The task force recommends dividing the military retirement system into two distinct parts that better serve these two purposes.

Accumulating for Retirement. DoD has a responsibility to help personnel accumulate for retirement in a manner that is not being met with the current retirement system. The task force endorses the authority in the FY 2000 Authorization Act authorizing military members to participate in a Thrift Savings Plan, including deposits of S&I pays and the limited program of matching funds as a reenlistment incentive. The Department should implement this program and seek broader opportunities for providing matching funds. Defined contribution plans now have more appeal than defined benefit plans (the current system), and there is a strong trend in the private sector away from the latter. *The task force recommends a system of defined contributions that are vested early and funded by DoD contributions.*

In a system of defined contributions, contributions would be placed into a family of mutual funds similar to the Thrift Savings Plan in the Federal Employee Retirement System. Individuals could supplement the DoD contributions and, like federal employees, determine the broad investment categories for their money. Annex F provides estimates of the retirement benefits which individuals could receive under alternative assumptions about both the DoD contribution rates and rates of return to their investments. This analysis demonstrates that, under very conservative assumptions about rates of return, a contributory system with a cost of about \$4 billion per year would be sufficient to provide individuals who retire with more than 20 years of service larger retirement benefits than they receive under today's annuity system. The cost is about 40 percent of the current DoD retirement accrual.

By vesting early, a contributory system treats those who separate with less than 20 years much better than they are treated under the current system, wherein an individual who chooses to separate before reaching 20 years of service leaves with no retirement benefits whatsoever. Early vesting in a defined contribution system will reduce the "winner-take-all" aspect of the current 20-year retirement system and will provide stronger retention incentives for junior personnel. This early vesting is the part of the retirement system that DoD provides for the *good of the individual*, and it treats all personnel the same. An integrated defined contribution system for the active forces and reservists alike will facilitate more effective management of the new military force. The current retirement system for Reserve personnel, which is based on the 2.5 percent per year of credited service, is essentially an annuity-based system. *The task force recommends that the defined contribution system also be extended to reservists, such as the authority for reserve participation in the Thrift Saving Plan as provided in the FY 2000 Authorization Act.*

Separation Benefits. The second part of the proposed retirement system is a separation payment managed *to meet the needs of the Service*. This part gives DoD the flexibility to manage different skills separately if it so chooses; that is, the

Services could redefine the career length for different fields to be less or greater than 20 years. As a minimum, the temporary tools used during the drawdown should be made permanent. Enhancements to these programs, along with a post-20-year retention bonus program, would go even further to providing needed flexibility. ***The task force recommends that the separation benefit be an annuity based on the current retirement system formula and received from separation until age 62.³⁷ At that time the individual will begin to receive retirement benefits based on accumulations in the defined contribution plan described above.***

Separation payments in a particular skill would only begin at the year of service at which a Service wishes to encourage the voluntary separation of personnel in that particular skill, which may or may not be the current 20-year point. Thus, the Army might want to separate personnel in some combat arms specialties prior to the 20-year mark while retaining other specialties, such as computer programmers, to the 30-year mark. In either case, personnel would be eligible for the "second-career" annuity at their point of separation.³⁸ Permitting the Services to voluntarily separate individuals in different skills at different experience points will provide much needed flexibility to the military compensation system and will reduce costs by eliminating the incentive to retain some skill groups of personnel to the 20-year mark.

Two examples help explain the two parts of the plan. Suppose DoD made pilots eligible for separation after 15 years of service. Upon completion of 15 years, pilots would be eligible to receive an annuity equal to 37.5 percent of three years' average basic pay ($0.025 \times 15 = 0.375$) from the time of separation until age 62. At that age the annuity would cease. They would then be able to use the amounts accumulated in their defined contribution funds for their retirement income. As another example, DoD might not want some physicians to separate prior to completion of 30 years of service and, to discourage earlier separation, would not permit doctors who separate prior to the 30-year mark to receive the separation annuity. Doctors who leave upon completion of 30 years would receive an annuity equal to 75 percent of high three years' basic pay ($0.025 \times 30 = 0.75$) from the time of separation until age 62. At age 62, the separation annuity ceases and retirement support would be based on accumulations in the defined contribution fund. Those who did leave prior to 30 years would still receive benefits based on their defined contribution fund accumulations, assuming they served long enough to be vested.

37 Specifically, the task force assumes implementation of annuities based on the formula $.025 \times$ "years of service" \times "high-3 years' average basic pay."

38 Some will argue that differing years of service eligibility for the separation payments is unfair to individuals in skills requiring longer service. The task force notes that the proposal does treat personnel in different skills differently, but rejects the argument that the plan is unfair. The skills in which personnel are likely to be eligible for earlier separation payments are typically the "youth and vigor" skills. The skills with delayed separation payments are likely to be skills with high training costs and long "learning curves." The youth and vigor skills tend to be military-specific skills in which individuals have difficulty transferring their training to the civilian sector at similar rates of pay. Skills with high training costs and long learning curves tend to be more easily transferable to the civilian sector at comparable rates of pay. Requiring the same years of service for the separation payments, as the current system does, is in fact unfair to those receiving training in non-transferable, military-specific skills.

The task force recommends one additional feature to the separation payment system – that is to allow individuals the choice between an annuity based on the 2.5 percent formula or a lump-sum payment. The success of the military drawdown of the early 1990s provided considerable evidence that some individuals would prefer annuity payments while others would prefer lump-sum separation payments.³⁹ Permitting choice between an annuity and a lump sum offers the opportunity to reduce the cost of the separation payment program, add even more flexibility to the system, and enhance retention.⁴⁰

The task force recommends that DoD continue to restructure the military retirement system to create a system with the needed flexibility to effectively shape the future force. This would include changes to provide earlier vesting, a 401K-type option, benefit portability, and different service lengths and retirement points depending on military needs.

SUMMARY

A recruiting and retention strategy that emphasizes commitment to patriotic service and that has sufficient flexibility to reward performance and to manage by skill should enable DoD to field an effective force in the 21st century. In addition, restructuring the personnel systems and related programs to bring needed flexibility in shaping the force is essential. This restructuring should include improvements in the programs dealing with selective retention, quality of life, and military compensation. These programs need to be fair and demonstrate respect for those who serve.

RECOMMENDATIONS

Developing new force-shaping tools is a significant challenge for the Department. The task force has identified a number of priority areas for military personnel:

- Move to a more seamless integration of active and reserve components with a single, integrated personnel and logistics system.

39 For an analysis of separation payment choices of military personnel during the drawdown, see Warner, John T. and Saul Pleeter, "The Personal Discount Rate: Evidence From Military Downsizing Programs," Draft Report, Department of Economics, Clemson University, November 1999 (Forthcoming in American Economic Review).

40 Evidence from Warner and Pleeter (1999) shows that many personnel have personal discount rates well in excess of 10 percent. In calculating the actuarial cost of the military retirement system, the DoD Actuary uses a real discount rate of 2.5 percent. Individuals could therefore be offered a choice between an annuity and a lump-sum payment equal to the present value of the annuity constructed at some intermediate discount rate (i.e., one between 2.5 percent and, say, 10 percent). In contemplating retention decisions, personnel with high discount rates will place a higher value on the prospective lump-sum payment than on the prospective annuity discounted at their own personal discount rates. Their retention will therefore be higher than it would be if an annuity were the only separation payment choice. The government would gain because the cost of the lump-sum separation payment would be less than the present value of the annuity discounted at a rate of 2.5 percent.

- Shift military personnel from general support to direct combat and combat support, leveraging the transformation of the logistics and support systems.
- Constitute a task force to study and develop a plan that will merge, over time, the Army and Air Force reserve units with their respective National Guards.
- Effectively explain to the force why today's diverse military operations are essential to the nation's security and the proper business of the military, and explain how they contribute to development of individual leaders and warriors.
- Place priority focus on attracting and retaining the needed military personnel who are motivated and qualified to serve and lead.
- Institute changes and provide the resources necessary to meet recruiting and retention goals and reduce training base and first-term attrition.
- Place added emphasis on improving quality of life, overcoming problems with job satisfaction and retention, and strengthening commitment to service.
- Restructure the military pay system to emphasize pay for performance and skills. Modify the "up or out" requirement for selected skilled personnel.
- Continue to restructure the military retirement system to provide earlier vesting, a 401K-type option, benefit portability, and different service lengths and retirement points depending on military needs.

CONCLUDING COMMENTS

The Department must place renewed emphasis on the importance of people in enabling DoD to accomplish its mission. It cannot be assumed that the necessary human capital will be available without adequate planning and resources. Previous chapters have identified specific steps that the Department of Defense should take to better align its human resources management systems with the future security environment and resulting workforce demands. These recommendations will go a long way toward improving DoD's ability to shape its civilian and military workforce well into the 21st century.

At the outset, the task force identified three overarching issues that have an important impact on maintaining the high quality force that the Department has today and needs in the future. They serve as a framework for the task force recommendations, described in the previous chapters.

- *The American public is increasingly less involved and less inclined to serve in the Department of Defense.* DoD draws its workforce from a public increasingly disenchanted with the virtues of public service – both civilian and military. While the Department cannot single-handedly change public attitudes, it can play a leadership role and take steps to engage the American public in better understanding DoD's roles and missions in the future.
- *A strategic plan is needed for future human resource requirements for a fully integrated DoD force.* Without an overarching framework that specifically identifies human resources needs, strategies, and policies, the Department is at risk of falling short in shaping the quality and skilled workforce that will be essential in the future. It is time for DoD to elevate strategic planning for human resources department-wide and to do so in a way that integrates all elements of the force – military and civilian, government and private sector.
- *The Department does not have the authority and tools necessary to integrate the management of its human resources.* The Secretary of Defense needs the authority to size and shape the entire DoD workforce. Moreover, current force-shaping tools will not meet the needs of the 21st century force. A “one-size-fits-all” approach will not provide the incentives necessary to attract and retain the best people. The Department's workforce reflects America's changing social values. Flexible systems that allow for different career patterns, compensation expectations, education, training, and motivations in different occupations are essential.

Implementing the task force recommendations will require the Department of Defense to increase its annual resource investment devoted to addressing current and future human resources concerns. Based on estimates from the Department and

other sources, the task force believes that approximately \$800 million in additional investments will be required each year to fund the recommendations discussed in the previous chapters, as detailed in Table 1.

Given that the Department spends more than half its \$270 billion budget for pay and allowances alone, the additional resource investment recommended by the task force results in an increase of less than one percent over current spending. Moreover, it is expected that future savings will offset many of these costs. Higher retention, better trained senior managers, and the elimination of unneeded administrative and logistics units, for example, will lead to considerable savings in the long run. The magnitude of the personnel challenges facing the Department suggests that only a well-funded, continuous effort will be successful in reversing current problems and establishing a new path for the future. Fully funding such an effort is a relatively modest price to pay to avoid greater problems in the long run from continuing "business as usual" in defense human resources planning and management.

The task force recommendations will also require legislative and regulatory changes for full implementation, principally modifications to titles 5 and 10 of the United States Code. Specifically:

- Amend the Defense Officer Personnel Management Act (DOPMA) as codified in title 10, United States Code, to increase flow between the active duty and Reserve components throughout a military career and modify the "up or out" system.
- Amend the Reserve Officer Personnel Management Act (ROPMA) as codified in title 10, United States Code, for the same purposes.
- Amend titles 5 and 10, United States Code, to give DoD authority over the civilians in the Department's workforce.
- Amend title 10, United States Code, to restructure the military retirement system.
- Rescind Executive Order 12834 to reduce post-employment restrictions from five years to one year.

Today's human resource challenges represent an urgent concern for the Department of Defense – one that deserves attention at the highest levels. The task force recommendations attempt to respond to the urgency of this challenge as well as to suggest a longer-term approach to shaping the Department's workforce after the near-term concerns abate. These recommendations build on current Department efforts and focus on shaping the force for the long run. It is not sufficient to adjust DoD policies and practices in temporary measures to meet the most critical shortfalls identified today. A sustained transformation in the character and management of the human element of the force is needed – one that keeps pace with the rapid changes in the national security environment and in society at large. Successful transformation is essential to acquiring, nurturing, and maintaining the needed force for the 21st century. Leadership is key to achieving that success.

Cost Impact of Task Force Recommendations

Initiative	Cost
Continue to reform the military retirement system to a defined contribution system, vested after 5 years of military service, and establish a separation pay system.	Costs are the same as the FY 1999 retirement accrual charge already in the DoD budget. While costs to DoD are neutral, federal government outlays will increase by \$3.4 billion per year in the short run. In the long run, these costs will be more than offset by budgetary savings from lower federal government outlays for retirement annuities.
Extend the defined contribution system to non-active duty personnel.	Costs not estimated, but should be offset by eliminating the retirement accrual charge for these personnel.
Increase recruiting resources to better meet objectives. (Estimates reflect annual increases over current funding levels.)	<ul style="list-style-type: none"> - Joint Recruiting Advertising Program -- \$150 million (from \$300 million), including an additional \$50 million for a new corporate advertising campaign, \$25 million for advertising focused on centers of influence such as parents, and \$25 million for advertising with a citizenship message for young people ages 10-14 - Recruiter support such as expanded training, lap top computers, cellular telephones, and other modern communication and information processing equipment -- \$40 million - Clerical and administrative support for recruiters -- \$60 million - Joint Recruiting Facilities Program to locate recruiting offices at more effective sites -- \$50 million - Montgomery GI Bill and separate Service college funds -- \$300 million, including \$135 million to expand current college funds and create an Air Force college fund. - ROTC programs to include additional scholarships, larger stipends, and expanded cadet training -- \$50 million - Special Duty Assignment pay for recruiters -- \$30 million - Recruiter productivity/incentive pay program -- \$20 million
Merge the Air Force and Army Reserves into their respective National Guards over the next 3-5 years.	Costs remain to be estimated; however, costs should be partially offset by savings from eliminating separate leadership, administrative, personnel, management, and logistics infrastructure.
Increase the size of the JROTC Career Academy program from 30 to 60 academies.	Additional \$15 million in FY 2001.
Expand the Defense Leadership and Management Program to 3,000 participants over the next 3-5 years. Create a DLAMP preparatory program for GS 9-12.	DLAMP: FY 2000 budget level of \$46.8 million funds 1,200 participants and includes development costs for facilities and coursework. Pre-DLAMP: \$16 million in the first year; \$36 million in the second; and \$53 million in the third, for a total of \$105 million over three years to fund 9,000 participants.
Expand the Presidential Management Intern Program to 30-50 selections a year over the next decade.	Additional salary and benefit costs would grow from about \$5.2 million in FY 2001 to \$7.4 million in FY 2010 .

ANNEX A. TERMS OF REFERENCE



ACQUISITION AND
TECHNOLOGY

THE UNDER SECRETARY OF DEFENSE
3010 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-3010



SEP 15 1998

MEMORANDUM FOR CHAIRMAN, DEFENSE SCIENCE BOARD

SUBJECT: Terms of Reference-Defense Science Board Task Force on Human Resources Strategy

You are requested to form a Defense Science Board (DSB) Task Force to review trends and opportunities to improve DoD capacity to attract and retain civilian and military personnel with the motivation and intellectual capabilities to serve and lead in civilian and military capacities. As a consequence of its findings, the Task Force is requested to provide recommendations to enhance the attractiveness of the DoD and the capabilities of those who would serve.

The challenge to the DoD to formulate and act on a human resources strategy is greater than ever. With the end of the Cold War it is increasingly difficult to attract "the best and the brightest" to national security service. As more and more civilian and military positions come to be high technology jobs, DoD is increasingly drawing on the same pool of talent and skills as private sector firms which can offer greater economic rewards, as well as the opportunity to work on "the coolest stuff." And, public's interests through legislation and regulation to reduce real or perceived conflicts of interest is an increasing disincentive for Government service.

In considering DoD's human resources strategy, it will be appropriate for the Task Force to examine the perceptions, practices, and laws which govern relationships within and between the DoD, the White House, the Congress and the public; to examine the implications of outsourcing and privatization; and to consider both the perception and nature of the DoD's mission to assure national security in the 21st century. To achieve a proper balance in addressing the relevant issues, the Task Force membership will include individuals who have dealt with issues of human resources, military recruitment and operations, technology and program management, having served in the Congress, the White House, and the DoD.

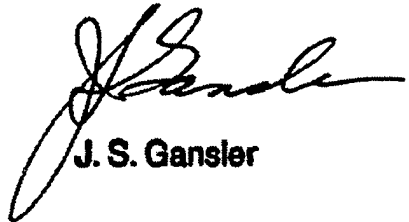
The Co-Chairman of the Task Force will be Dr. Johnny Foster and Gen. Larry Welch, USAF (Ret.). The USD(A&T) and the USD(Personnel & Readiness) are the co-sponsors of this study.



SUBJECT: Terms of Reference-Defense Science Board Task Force on Human Resources Strategy

The Co-Executive Secretaries will be Dr. Curtis Gilroy of the office of the Under Secretary of Defense for Personnel and Readiness and Lt Col Brandy Johnson of the office of the Deputy Under Secretary of Defense for Acquisition Reform, USD(A&T)/AR. Secretariat representative.

The Task Force will be operated in accordance with the provisions of P.L. 92-463, the "Federal Advisory Committee Act," and DoD Directive 5104.5, "DoD Federal Advisory Committee Management Program." It is not anticipated that this Task Force will need to go into any "particular matters" within the meaning of Section 208 of Title 18, United States Code, nor will it cause any member to be placed in the position of acting as a procurement official.



J. S. Gansler

ANNEX B. TASK FORCE MEMBERSHIP

TASK FORCE MEMBERSHIP

CO-CHAIRS

Dr. John Foster
Gen Larry Welch, USAF (Ret)

MEMBERS

Mr. Norm Augustine	Mr. Peter Lennon
Gen Billy Boles, USAF (Ret)	LtGen Michael McGinty, USAF (Ret)
Mrs. Beverly Byron	Mr. Stan Pace
Dr. Ash Carter	Dr. David Segal
MG Arthur Dean, USA (Ret)	Mr. Frank Sullivan
Dr. John Deutch	Mr. Chase Untermeyer
Mr. John Ford	GEN Jack Vessey, USA (Ret)
GEN Andrew Goodpaster, USA (Ret)	Dr. John Warner
Dr. Patricia Ingraham	Dr. John White
ADM David Jeremiah, USN (Ret)	Mr. Kim Wincup
Dr. Larry Korb	

EXECUTIVE SECRETARY

Dr. Curtis Gilroy

GOVERNMENT ADVISORS

Ms. Judith Fernandez
LtCol Brandy Johnson, USAF

DSB REPRESENTATIVE

LTC Scott McPheeters, USA

STAFF

Ms. Barbara Bicksler
Ms. Julie Evans
Ms. Susan Hosek
Ms. Lauren Sager
Dr. Harry Thie

ANNEX C. TASK FORCE BRIEFINGS

TASK FORCE BRIEFINGS

POLICY

Honorable Caspar Weinberger Chairman, Forbes Magazine and Former Secretary of Defense	General Remarks
Honorable William Perry Former Secretary of Defense	General Remarks
Honorable Jacques Gansler Under Secretary of Defense for Acquisition and Technology	Recruiting in the Acquisition Workforce
Honorable Rudy DeLeon Under Secretary of Defense for Personnel and Readiness	Manpower Concerns in DoD

PUBLIC OPINION

Mr. Kenneth Bacon Assistant Secretary of Defense (Public Affairs)	Engaging the American Public
Dr. David King Associate Professor of Public Policy Harvard University	Public Attitudes Toward Government

MILITARY ISSUES

Honorable Bernard Rostker Under Secretary of the Army	Recruiting and Retention Challenges in the Army
Honorable P. T. Henry Assistant Secretary of the Army (Manpower & Reserve Affairs)	Army Personnel Issues
Honorable Carolyn Becraft Assistant Secretary of the Navy (Manpower & Reserve Affairs)	Navy Recruiting and Retention Issues

Honorable Ruby DeMesme Assistant Secretary of the Air Force (Manpower, Reserve Affairs, Installations and Environment)	Today's Recruiting Environment and Related Concerns to the Air Force
VADM Patricia Tracey, USN Deputy Assistant Secretary of Defense (Military Personnel Policy)	Human Resources for the 21 st Century
LtGen Jack Klimp, USMC Deputy Chief of Staff for Manpower and Reserve Affairs, U.S. Marine Corps	Building the Corps of the 21 st Century
GYSGT Journet, USMC	Marine Corps Recruiting Issues
VADM Daniel Oliver, USN Deputy Chief of Staff of Naval Operations (Personnel)	Navy Recruiting and Retention Issues
NCC Gary Foster MM2(SW) Cristoral Ascencios	Navy Recruiting Issues
LTG David Ohle, USA Deputy Chief of Staff for Personnel, U.S. Army	Quality Soldiers: The Essence of America's Army
MSG Houle, USA	Army Recruiting Issues
LtGen Donald Peterson, USAF Deputy Chief of Staff (Personnel), U.S. Air Force	Air Force Personnel Challenges
CMSgt Jay Markus, USAF SMSgt Paul Ransom, USAF	Air Force Recruiting Issues
LtGen Russell Davis, USAF Director, National Guard Bureau	National Guard Recruiting: An Overview
BrigGen Patrick Adams, USAF Director For Manpower and Personnel (The Joint Staff)	Joint Manpower Requirements
COL Greg Parlier, USA U.S. Army Recruiting Command	Manning the Army of the Future

Dr. W. S. Sellman Director of Accession Policy, Office of the Secretary of Defense	Status of Military Recruiting
Col James Holaday, USAF Deputy Director, Accession Policy Office of the Secretary of Defense	Selected Recruiting Issues
RADM John Natter, U. S. Naval Reserve (Ret)	Junior Officer Retention and Military Culture
Mr. Kim Wincup SAIC	Summary of the Report of the Congressional Commission on Servicemembers and Veterans Transition Assistance
Ms. Susan Hosek RAND Corporation	Selected Personnel Issues
Mr. John Tillson Institute for Defense Analyses	Reducing the Impact of TEMPO and Summary of the Boyd Conference
Ms. Judy Fernandez Office of the Under Secretary of Defense (Personnel and Readiness)	Observations on the Army National Guard
Ms. Joyce Raezer National Military Family Association	Challenges for the Military Family
Dr. William Taylor LTG Walter F. Ulmer, USA (Ret.) Dr. Joseph J. Collins Center for Strategic and International Studies	Findings from the Study on Military Culture

CIVILIAN ISSUES

Mr. David O. Cooke Director, Administration & Mangement, Office of the Secretary of Defense	Recruiting and Retention in the Civilian Workforce
Mr. Charles Cragin Acting Assistant Secretary of Defense (Reserve Affairs)	Recruiting for the Reserve Components

Dr. Frank Fernandez Director, Defense Advanced Research Projects Agency (DARPA)	Recruiting Programs in DARPA
Dr. Diane Disney Deputy Assistant Secretary of Defense (Civilian Personnel Policy)	Civilian Workforce Issues and DoD Study on Recruiting and Retaining Scientists and Engineers & Personnel Demonstration Procedures
Honorable Steve Potts Director, Office of Government Ethics	Ethics Considerations and Public Service
Ms. Janice Lynch Chair, DoD Laboratory Quality Improvement Program (Personnel Subpanel)	Findings from the Demonstrations on Laboratory Personnel
Mr. J. Michael Carmichael Employment Service, Staffing Reinvention Office, U.S. Office of Personnel Management	Employment Service, Hiring Tools, and Strategies
Mr. Walter Morrow Director Emeritus, MIT/Lincoln Laboratories	Hiring and Retaining Scientists and Engineers in DoD
Mr. Arnold Punaro SAIC and Former Staff Director, Senate Armed Services Committee	Government Service Minefields
Dr. George Abrahamson Senior Technical Advisor, SRI International; Principal Consultant, CCS Leadership Enterprises	A New Pay Strategy: Contribution- Based Compensation System

ANNEX D. POLITICAL APPOINTMENT SYSTEM

POLITICAL APPOINTMENT SYSTEM

This annex describes several aspects of the political appointment system: position vacancies, the appointment process, and deterrents to service.

APPOINTEE VACANCY AND RATES

Since DoD's establishment 52 years ago, vacant positions at the top level of the Department have been quite rare. The Secretary of Defense position has only been vacant three times. Secretaries of Defense have served for an average of 30 months. Deputy Secretaries of Defense have served for an average of 23 months. Most Secretaries and Deputy Secretaries of Defense have served for periods of 11-20 months, as Figure D-1 illustrates.

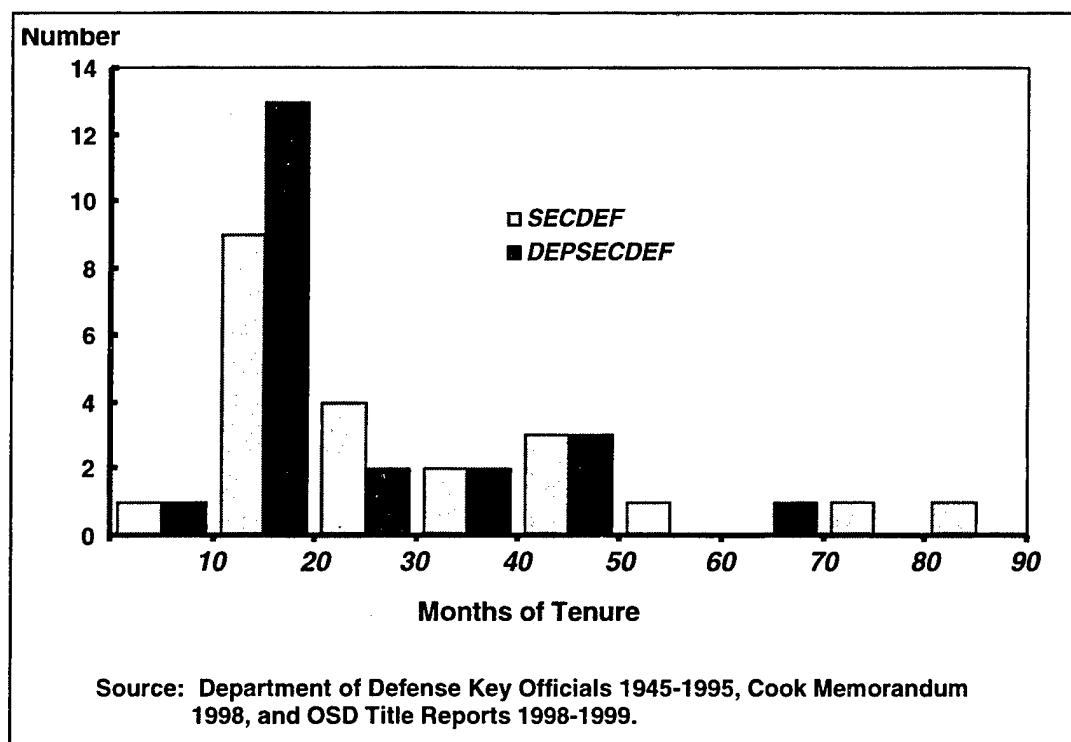


Figure D-1. Distribution of Tenure for Appointees Serving in Secretary of Defense and Deputy Secretary of Defense Positions

According to a General Accounting Office (GAO) study, the median tenure for political appointees requiring Senate (PAS) confirmation in all federal agencies is 2.1 years. Within DoD, the GAO found that the median tenure for Air Force PAS appointees was 2.5 years; for Army PAS appointees 2.3 years; for Navy PAS appointees 1.8 years; and for OSD PAS appointees 1.7 years.

DoD data illustrates that while the number of PAS positions has increased over the years, the amount of time all PAS positions are filled has decreased (Figure D-2). At the same time, the fill rate decreased (Figure D-3). Each PAS candidate now waits an average (executive branch-wide) of 8.5 months to be appointed, whereas during the Kennedy administration the typical wait for a candidate was only 2.4 months. As a result of these trends, today PAS candidates wait longer to assume positions, typically serve less than two years, and the now-more-plentiful positions sit vacant more often. For example, during the Truman administration, 99 percent of the time all DoD PAS positions were filled (Figure D-4). During the current administration, DoD PAS positions are filled only 80 percent of the time.

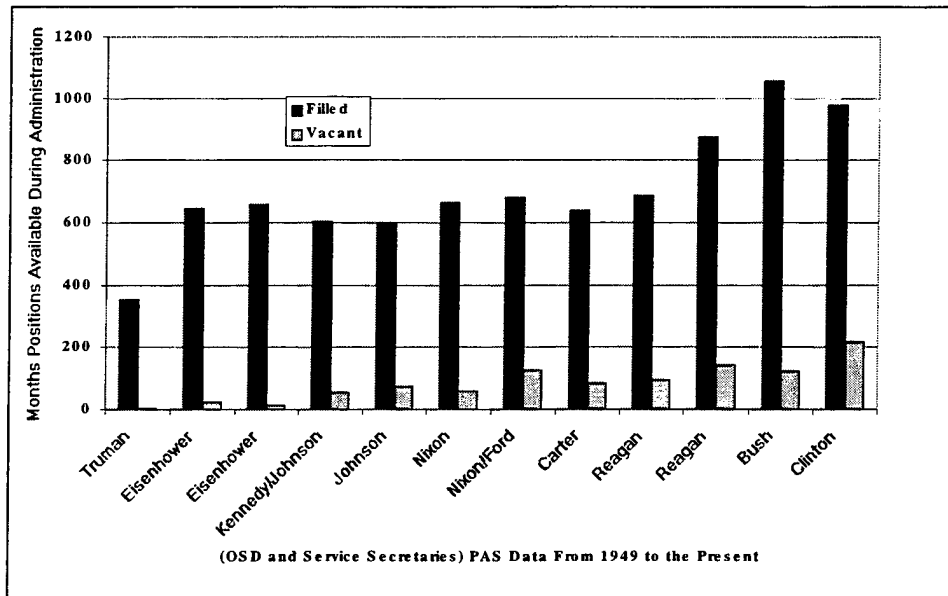


Figure D-2: Number of Available Months PAS Positions Are Filled and Vacant

Source: All DoD Data (OSD PAS and Military Department Secretaries 1947 to Present; All Military Department PAS Positions from 1993 to Present.).

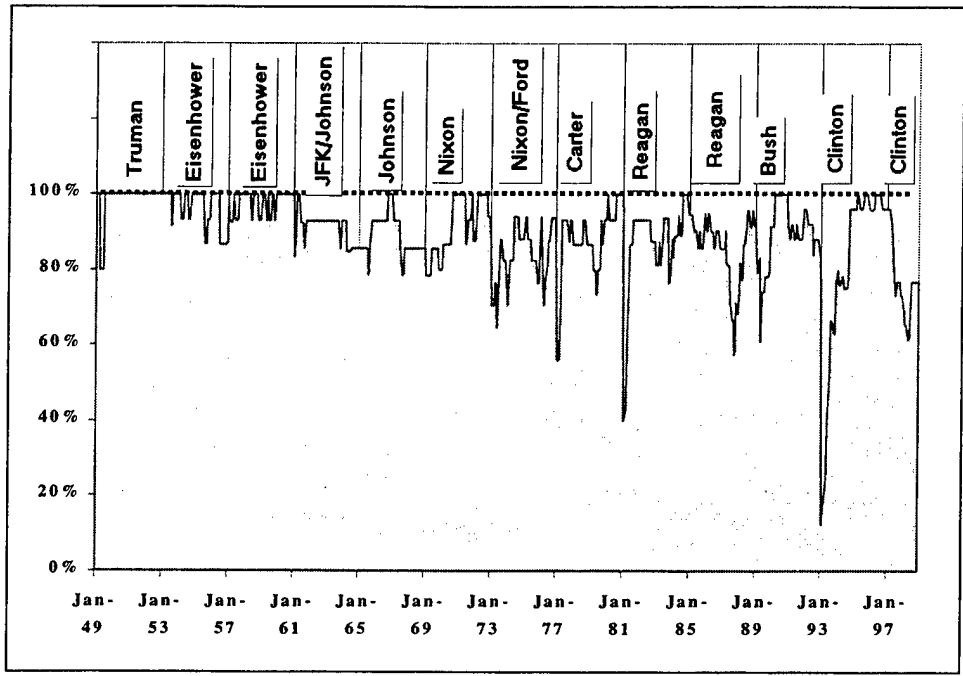


Figure D-3. Length and Depth of PAS Position Vacancies, 1949-1999
DoD (OSD and Military Department Secretaries) PAS Data From 1949 to Present

Source: All DoD Data (OSD PAS and Military Department Secretaries 1947 to Present; All Military Department PAS Positions from 1994 to Present).

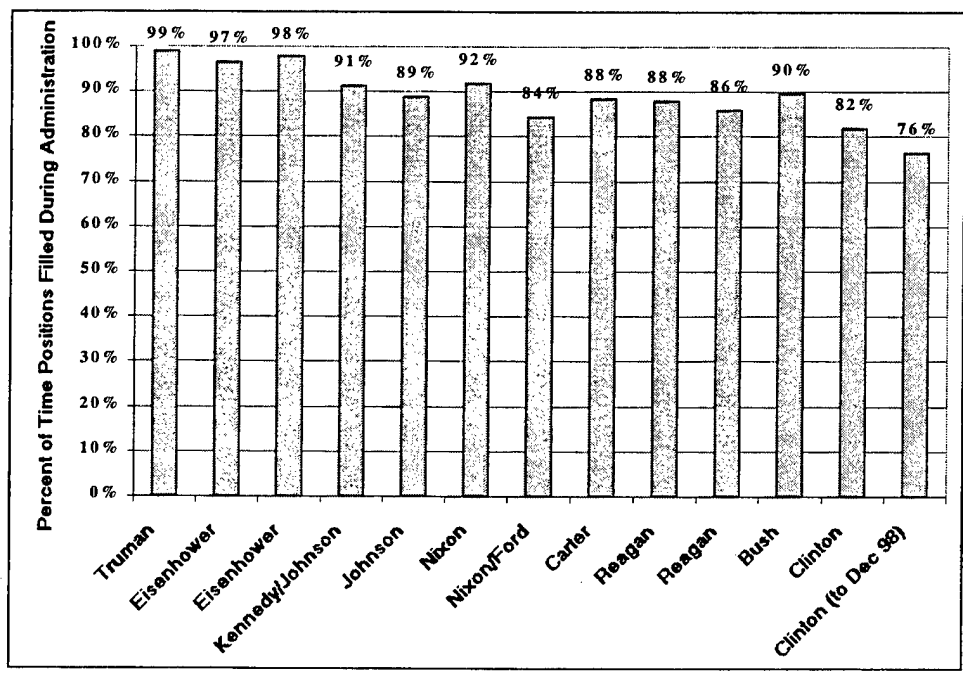


Figure D-4. Percent of Available Time PAS Positions Are Filled Has Decreased

Source: All DoD Data (OSD PAS and Military Department Secretaries 1947 to Present; All Military Department PAS Positions from 1993 to Present).

THE APPOINTMENT PROCESS¹

*"Ideally, the appointment process should ensure a steady and reliable flow of leading Americans, from all over the country and all walks of life, to staff the top positions in the federal executive branch and the federal judiciary. It should encourage the most talented Americans to serve and to stay in their positions long enough to permit full utilization of their talents and skills. It should move these people swiftly and efficiently into their federal jobs to prevent long vacancies in critical positions and painful disruptions and uncertainty in individual work lives. Qualifications of potential appointees should be carefully, but fairly, considered, with primary attention to those matters that affect their ability to serve the public skillfully and honestly.... The recent evolution of the presidential appointment process has steadily weakened its capacity to do any of these things."*²

The first stage in the appointment process is the identification of candidates for appointment to PAS and non-career SES positions.³ Identifying potential appointees for a new administration occurs just after election of a new president. Volumes of names and résumés rush in. Additionally, congressional members, politicians, interest group leaders, and old presidential friends may clamor for their designees (or themselves) to be appointed.

The White House Office of Presidential Personnel and the federal agencies conduct vigorous searches for potential candidates. In the case of the DoD, the OSD Office of Executive Resources (OER) plays a central role in identifying potential candidates. When a PAS or non-career SES position becomes vacant, the OER attempts to find the candidate who possesses the most technical expertise, management skill, and knowledge of administration policy.

Once the White House and the DoD approve the candidate, the vetting process begins and the candidate is presented with forms that ask for numerous details about the individual's background and finances. The OER advises candidates to expect a background investigation by the Federal Bureau of Investigation (FBI), Internal Revenue Service (IRS) investigation, and the financial review to take three to four months. OER instructs the candidate not to tell anyone about the candidate's consideration for an appointment during this time.

The candidate must resolve any conflict-of-interest issues. The individual is required to file an SF-278 Public Financial Disclosure Report Form on his or her holdings and holdings of his or her spouse and dependent children. Once the

1 Sources helpful in understanding the presidential appointment process include: Mackenzie, G. Calvin (ed.) *Obstacle Course: The Report on the Twentieth Century Fund Task Force on the Presidential Appointment Process*. (New York: Twentieth Century Fund Press), 1996; Mackenzie, G. Calvin. *Starting Over: The Presidential Appointment Process*. (New York: The Century Foundation), 1997; Macy, John W., Adams, Bruce and J. Jackson Walter; senior consultant, G. Calvin Mackenzie. *America's Unelected Government: Appointing the President's Team*. (Cambridge, MA: Ballinger Publishing Co), 1983.

2 Mackenzie, G. Calvin. *Starting Over: The Presidential Appointment Process*. (New York: The Century Foundation), 1997.

3 Schedule C appointees will not be discussed in this annex as they are assistants to the higher-level non-career SES and PAS appointees.

nominee submits the SF 278, the White House Counsel reviews and assists the individual in finalizing the form. Next, the DoD's designated agency ethics officer (DAEO) reviews the form, with the nominee if he or she prefers, and determines whether there are any additional DoD-related conflicts. The DAEO officer notifies the nominee in writing of the asset issues that must be resolved and provides a prescription for settling the conflict, with a date by which the nominee must complete the stipulation. If the nominee is unwilling to resolve the conflict of interest, then the nominee drops out, removing himself or herself from consideration.

Once the nominee eliminates potential conflicts, the DAEO officer certifies the SF 278 and sends it to the Office of Government Ethics (OGE). OGE reviews and signs the report, and if the candidate is nominated for a non-career SES position, OGE files the report. The non-career SES appointee may then begin serving in his or her position.

For a PAS position, the OGE sends the report to the Senate Committee with jurisdiction – for DoD appointments the Senate Armed Services Committee. To begin the formal Senate confirmation process, the President sends a message to the Senate, publicly announcing that the candidate is being nominated for the position.

Each Senate committee has its own forms that the nominee must complete prior to the committee hearing. The committee reviews the completed Senate forms, along with the financial information from the SF 278. In some cases the committee may ask the nominee to respond to additional written inquiries.

Each committee has the power to set its own rules and policies regarding nominees. The Armed Services Committee imposes very strict constraints on candidates that other Senate committees do not necessarily impose. The Armed Services Committee does not tolerate activities that *presume the outcome of the confirmation process*.⁴ Therefore, during the months of vetting prior to his or her confirmation hearing, a DoD candidate for political appointment may not serve as a consultant to the Department nor attend meetings in the Pentagon or elsewhere if the candidate's action would appear to presume confirmation. This prohibition applies to officials currently serving in other DoD positions as well as to external nominees. It does not, however, proscribe current DoD officials from fulfilling the duties of their current position.⁵ The key is that the individual must refrain from engaging in any activity that might be perceived to presume the outcome of the confirmation process.

The appropriate committee then holds a hearing, which usually results in the recommendation of approval for the nominee. After the committee rules on the nomination, it reports the vote, whether positive or negative, to the full Senate. The floor leader schedules the nomination for a Senate vote. If the committee vote is

4 Interview with Senate Armed Services Committee Staff Official, May 19, 1999.

5 Prohibited "presumption of confirmation" activities still apply in the case of a principal deputy to a vacant PAS position temporarily serving as the "acting" PAS and who is nominated for the PAS position. In this case, the principal deputy's normal responsibilities require attending meetings and making decisions that substitute for the vacant PAS. Therefore, this activity is not considered to presume confirmation.

positive, "nearly all [nominations] are approved by the Senate, usually with little debate and by unanimous consent."⁶

DETERRENTS TO SERVICE

There are a variety of factors that deter highly qualified citizens from offering themselves for a political appointment to public service. The task force believes that the principal deterrents are the long and complex approval process, conflict-of-interest considerations, and post-employment restrictions. There are other deterrents as well. The detailed review above of the appointment process illustrates the frustrations the vetting and confirmation procedure present for a political appointee. The length of the process alone sometimes leads candidates to withdraw from consideration.

Conflict of Interest

The specter of having to resolve complex conflict-of-interest issues will deter some nominees, especially if the potential nominee (spouse or dependent children) has financial interests in the defense industry.

According to the Senate Armed Services Committee and the OER, the committee has a strict interpretation on what constitutes appropriate conflict-of-interest resolutions for individuals being considered for DoD PAS positions.⁷ The committee does not have a written policy regarding resolution of conflict-of-interest and considers each conflict-of-interest situation on a case by case basis. However, the OER reports that the committee's preferred method is complete divestiture of holdings related to the defense industry, rather than the implementation of blind trusts, waivers, or recusals to resolve conflicts of interest.

Nominees historically avoided divestiture as a means to resolve conflict because they would have been taxed on the capital gains earned from the investment.⁸ An option to defer taxation was adopted in the Ethics Reform Act of 1989. The tax-deferral provision permits nominees who are forced to divest holdings for conflict-of-interest reasons to roll over the proceeds from the sale of those holdings to an approved investment – a U.S. bond or a diversified investment fund approved by OGE. The individual does not pay capital gains taxes on the investment until he or she cashes out from this approved fund.

6 Mackenzie, G. Calvin (ed.). *Obstacle Course: The Report on the Twentieth Century Fund Task Force on the Presidential Appointment Process*. (New York: Twentieth Century Fund Press), 1996.

7 Interview with Office of the Secretary of Defense official, February 11, 1999. Interview with Senate Armed Services Committee Staff official.

8 Roberts, Robert N. and Doss Jr., Marion T. "Recruitment of American Presidential Nominees and Appointees: Divestiture and Deferred Taxation of Gain," *Journal of Social, Political & Economic Studies*, vol. 21, Spring 1996, pp. 49-76.

While the introduction of a tax-deferred divestiture may blunt the sharp deterrence of an immediate tax penalty, any forced divestiture may be an economic deterrent to some individuals.

Post-Employment Restrictions

A plethora of post-employment restrictions apply to individuals departing government service.⁹ The restrictions depend on the level of the position held while working for the government. The following restrictions apply to all government employees leaving their office:

- A lifetime prohibition against “knowingly mak[ing], with the intent to influence, any communication to or appearance before any officer or employee of any department, agency, court, or court-martial of the United States or the District of Columbia, on behalf of any other person (except the United States or the District of Columbia) in connection with a particular matter...in which the person participated personally and substantially as such officer or employee” (18 USC §207(a)(1)(B))
- A two-year restriction on any former Government employee’s acting as a representative (as defined above) “concerning particular matters under official responsibility” (18 USC §207(a)(2))

These prohibitions do not prevent an individual from accepting employment from a company that does business with the government. The restrictions prevent the ex-government employee from making a formal appearance in reference to the “particular matter” in which the ex-employee “participated personally and substantially” or a matter that was under the ex-employee’s “official responsibility.”

PAS appointees paid at the EL-V or EL-IV level and non-career SES appointees whose salaries are at or above the EL-V (\$110,700 in 1999) i.e., executive service levels 2 through 4 – (ES-2 through ES-4) have to agree to the following commitment in addition to the previous restrictions:¹⁰

- A five-year restriction against lobbying the employee’s former agency: “I will not, within five years after the termination of my employment as a senior appointee in any executive agency in which I am appointed to serve, lobby any officer or employee of that agency” (Executive Order 12834)
- A lifetime restriction against acting as a representative for a foreign government or foreign political party: “I will not, at any time after the termination of my employment in the United States Government,

9 Additional restrictions apply to individuals who participated in trade or treaty negotiations (18 USC §207 (b) and Executive Order 12834). We are assuming, for purposes of this discussion, that ex-DoD employees did not participate in such negotiations.

10 This assumes that the non-career SES is working in Washington D.C., and does not take into account variations in pay due to locality pay rates.

engage in any activity on behalf of any foreign government or foreign political party....” (Executive Order 12834)

Non-career SES appointees paid at the levels of ES-5 and ES-6 and PAS appointees paid above the EL-IV level, in addition to the previous restrictions are subject to the following:

- A one-year restriction against lobbying the employee’s former agency regarding any official action. (18 USC §207(c))
- A one-year restriction against ”represent[ing] a foreign entity before any officer or employee of any department or agency of the United States with the intent to influence a decision of such officer or employee in carrying out his or her official duties, or [aiding or advising] a foreign entity with the intent to influence a decision of any officer or employee of any department or agency of the United States.” (18 USC §207(f))

At first review, these restrictions may seem to overlap, creating redundancies. However, Clinton’s executive order is considered a contract regarding post-employment issues. It is more stringent than 18 USC § 207, but the executive order is a civil agreement, whereas 18 USC § 207 is a criminal statute. OGE administers 18 USC § 207 and does not enforce the executive order.

**ANNEX E. MILITARY HOUSING AND HEALTH
CARE ISSUES**

MILITARY HOUSING AND HEALTH CARE ISSUES

HOUSING: PRIVATIZATION

DoD budgeted \$9.6 billion for active-duty military family housing in 1998, offering \$5.7 billion in tax-exempt cash housing allowances and providing \$3.9 billion for base housing.¹ DoD noted a link between the quality of housing and the likelihood of remaining in military service, stating that the propensity of active duty personnel to remain in military service is 15 percent higher among those personnel who are stationed in locations with high-quality housing (versus low-quality housing).

In March 1998, John Goodman, Deputy Under Secretary of Defense (Industrial Affairs and Installations), testified to Congress that approximately 200,000 units of the military's existing family base housing were inadequate. He reported that it would cost \$20 billion to renovate or construct new housing to meet the need and estimated that such construction would take more than thirty years to complete.² Overall, the average age of most base housing is 33 years, one-quarter of all housing is over forty years old, and 60 percent of all on-base housing is substandard. The age and poor condition of base housing combined with a high demand for on-base housing and a shortage of close, affordable off-base housing led the DoD to request Congress' assistance in addressing housing concerns.

Consequently, in 1996 at DoD's solicitation, Congress passed the Military Housing Privatization Initiative within the 1996 Defense Authorization Act (PL 104-106 110 Stat 186). This act authorizes DoD to leverage DoD funds with private investment by entering into several types of agreements with private contractors to provide housing. Essentially, this law allows DoD to enter into lease agreements with private contractors who would construct and maintain housing for active duty military families. DoD has the authority from Congress to set many of the terms of these lease agreements. DoD can convey or lease land or facilities (not to exceed 45 percent of the capital cost). DoD also has the authority to enter into partnership agreements with contractors investing up to 1/3 of capital costs for the project as "seed money." The law has a sunset clause after five years.

1 1998 National Defense Budget Estimates from DoD Office of the Comptroller.

2 In addition, a July 1998 General Accounting Office Report noted that DoD reports an additional 400,000 unaccompanied barrack spaces need upgrading, at an estimated cost of \$9 billion.

This housing, which can be on or off base, would be constructed to commercial standards, which DoD reports are considerably cheaper to satisfy than military construction standards. However, the floor area and room patterns of the privatized military housing must be similar to existing military housing.

The program has started off slowly, which DoD attributes to inevitable complications when instituting an innovative government program. (As of January 1999, only 589 units had been fixed.) As a result of the slow startup pace, DoD has revised its expectations, extending the projected completion date from 2006 to 2010. However, DoD has announced an early milestone: by the end of fiscal year 2000, DoD plans to renovate, build new, or replace 60,000 housing units.

As of May 1999, projects had been awarded to contractors in the following locations: NAVSTA Everett, WA (completed); NAS Corpus Christi and NAVSTA Ingleside/Kingsville, TX (completed); and Lackland AFB (slated to be completed in late 1999). At that time, the services had issued a total of seven more requests for proposals (RFPs) and Request for Qualifications (RFQs) for other sites.³ There were thirteen more RFPs and RFQs under development, and twenty-one more projects under consideration.⁴

The Military Housing Privatization Initiative offers some new tools to DoD for renovating existing on-base housing and developing new housing for military families. Though the DoD has taken a considerable amount of time in finalizing the specifics of the program, once the details have been resolved and the contractors begin the projects, there may be significant cost and time savings. Contractors will build to commercial standards, which the DoD believes will result in less-expensive housing constructed more quickly than if the military were to traditionally finance the housing. The privatization initiative also enables DoD to rely on private investment in funding the housing improvements. Additionally, the contractual nature of these agreements ensures that the housing will be built and/or renovated. A long-term plan for housing that is financed through traditional military construction methods is dependent upon yearly budgeting. In future budget cycles, there is always a chance that long-term plans to construct or renovate housing might be shelved in favor of funding something else. Privatization contracts “lock in” the housing plans.

Nevertheless, General Accounting Office (GAO) and Center for Naval Analysis reports have expressed some concerns about the privatization program. The privatization lease agreements tend to be very long-term—many are fifty-year agreements with an option for DoD to renew them for an additional twenty-five years. These long-term agreements may not afford DoD enough flexibility, especially if leased housing is not needed in the future. Another concern is that rents are not market-based, but depend upon the amount of the tenant’s housing allowance. Without a monetary incentive, a contractor may not maintain property in

3 The distribution of RFPs and RFQs issued are as follows: one by the Army; and two each by the Navy, Air Force and Marine Corps.

4 The breakdown of RFPs/RFQs under development by Service are: four by the Marine Corps, and three each by the Army, Navy and Air Force. The Army is considering seven additional projects; the Navy is considering eight; the Air Force two; and the Marine Corps two.

an exemplary fashion and enforcing DoD maintenance standards could be difficult and expensive.

GAO questions whether privatization will result in significant cost savings. It estimates that the cost savings on privatization contracts at Lackland Air Force Base and Fort Carson will save the DoD less than 10 percent. "To a large degree, privatization shifts funding from military housing construction, operations and maintenance accounts to military personnel accounts to pay for increased housing allowances used to pay rent to developers of privatized housing." GAO also criticizes DoD for not setting the privatization program in a coordinated DoD housing strategy that properly addresses broader issues. GAO concludes that it would be most cost-effective for DoD to rely on off-base housing for military families, rather than to build more units, whether privatized or built by traditional military construction methods. A recent RAND study concludes that most military families place little value on the non-economic benefits of military housing, suggesting that developing an effective referral system for off-base housing and paying adequate allowances would meet the needs of most families.

SOURCES:

1996 Defense Authorization Act, P.L. 104-106 110 Stat 108, February 10, 1996.

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MILITARY HEALTH CARE

Health benefits are provided to military personnel through the TRICARE program. TRICARE includes three plan options; all options offer care at military treatment facilities (MTFs) and by civilian providers, but the beneficiary cost shares and the arrangements for accessing care differ.

- TRICARE Prime is a health maintenance organization (HMO). Beneficiaries who enroll in this plan cannot use either of the other two plans. Each enrollee is assigned a primary care provider – either an MTF clinic or a civilian physician – who handles the enrollee’s routine care and refers him or her to specialists as needed. Almost all care is provided by the MTF or civilian physicians, hospitals, and other providers who have contracted to be in the TRICARE provider network. Prime enrollees have priority in accessing MTF services and significantly enhanced benefits when they use the civilian network.
- TRICARE Standard is the traditional military health program. Beneficiaries who are eligible for health benefits and listed in the DoD eligibility system are automatically enrolled in the Standard plan unless they elect to enroll instead in the Prime plan. Health care is available on a space-available basis in the MTF, and insurance coverage is provided for covered services from civilian health providers.
- TRICARE Extra is available as an option for all beneficiaries enrolled in the Standard plan. Extra is a preferred provider organization (PPO) that offers enhanced benefits for beneficiaries who use the TRICARE provider network when they get care in the civilian sector. Beneficiaries may elect to take advantage of this PPO option for some types of care but not for others.

All active-duty personnel are automatically enrolled in the Prime plan and the MTF is made responsible for their care. DoD covers all the costs of care. In practice, therefore, health care for active-duty personnel is no different under TRICARE than it was before TRICARE. To the extent that their Prime responsibilities cause the MTFs to improve their delivery of primary care and coordination of specialty care, active-duty patients may be better served with TRICARE.

Currently, the other beneficiaries eligible for TRICARE include individuals who are under age 65 and in one of the following groups: dependents of active duty, retirees, retired dependents, and survivors. At age 65, Medicare replaces TRICARE, although eligibility for space-available MTF care continues. TRICARE benefits differ depending on the beneficiary group and the TRICARE option chosen. Active-duty personnel continue to receive all care necessary to maintain their peak health status at no cost to themselves. Other beneficiaries who take advantage of the new Prime and Extra options receive better benefits, but their provider choice is restricted and their care may be reviewed for medical appropriateness.

Complaints about TRICARE are reported in the defense press, by the military retiree associations, and by senior DoD officials and Congressional members who have talked to military members and retirees. The most systematic assessment of attitudes is the annual Health Care Survey of DoD Beneficiaries. The most recent results available, which are from 1997, are shown in Table E-1.

Table E-1.
Beneficiary Satisfaction Under TRICARE
(Percent satisfied with care received, 1997)

Beneficiary category	MTF users	Civilian users	Prime enrollees
Active duty	57%	74%	--
AD dependents	56	81	51
Retirees/survivors/ dependents under 65	62	83	57
Retirees/survivors/ dependents over 65	63	85	--

A key feature of TRICARE is the outsourcing of the civilian component to contracting health-care organizations. The contractors share the financial risk for the costs of civilian care, develop the provider network for the Prime and Extra options, and provide extensive administrative support (e.g., Prime enrollment, patient referral, and utilization review). Separate contracts are awarded for each of 12 regions, each of which is under the oversight of a regional lead agent – typically the commander of the largest MTF in the region.

A test version of TRICARE was tested in California and Hawaii between 1988 and 1992. Full implementation was then phased in by region and completed by 1998. TRICARE is a complex managed-care program and, as in its civilian counterparts, the changes in the organization of health-care delivery take time to mature. In the DoD case, MTFs and military beneficiaries must learn about the new options and how to use them effectively. The contractors and civilian network providers must learn about the military system. Many of the system-wide problems have become apparent and changes have been made. For example, at first some Prime enrollees had some problems accessing care when they traveled or moved outside their region. To fix this problem, various changes have been made to facilitate the coordination between contractors that is required to make the plan seamless across regions. Despite efforts to convey the experience of earlier TRICARE regions to later regions, each new implementation takes time. The next

few years will show whether implementation problems are the cause of current complaints about TRICARE or whether the program itself should be improved or augmented by other options such as Federal Employees Health Benefits Program (FEHBP).

One long-standing complaint concerns health benefits for beneficiaries who reach age 65. As indicated earlier, these beneficiaries lose their TRICARE eligibility when they become eligible for Medicare, although they can continue to use the MTFs when space is available. Many of these older retirees located near MTFs take advantage of this continuing benefit. However, the facility closings that accompanied DoD downsizing and the new priority for Prime enrollees with the implementation of TRICARE has meant that the MTFs serve fewer of these beneficiaries than they used to. Reacting to these changes, the over-65 population has pressured for an improvement in their DoD health benefit. Congress has mandated two test programs designed to meet the demand. The first, which sets up TRICARE Prime as a Medicare HMO, is being tested in six locations. Enrollees must use the MTF as their primary care provider, so enrollment is capped by MTF capacity. The Medicare Trust Fund and DoD share the costs according to historical usage patterns; the authority for the HCFA payments is called Medicare subvention. The second test program will offer plans from the Federal Employees Health Benefits Program. It is too early to evaluate these test programs. Early information from the Medicare subvention test indicates that implementation has gone well and enrolled beneficiaries are pleased so far. Information on costs and other outcomes are not yet available.

The beneficiary complaints, which are reflected in lower satisfaction levels than are common in civilian employer managed-care plans, are a cause of concern. TRICARE is a complex plan because it seeks to integrate two different systems of care: the MTF system and the civilian health-care system. It may be that its complexities will prove to be ill advised. However, it may also turn out that the current problems are transitional and will disappear as all participants in the MHS learn TRICARE. Regardless of how the long-run experience with TRICARE turns out, DoD can only offer its people high-quality care at a reasonable cost if the best features of managed care are retained. A simpler program that gives up on full MTF-civilian integration would force beneficiaries to choose between reliance on the MTF system (augmented as necessary) or using a civilian-only benefits program. However critical they are of TRICARE, many beneficiaries want to keep their option to use the MTFs and what is called a "lock out" plan is not popular.

The DSB recommends that the TRICARE experience be monitored carefully for quality, cost, and beneficiary satisfaction. Special attention should be paid to the test programs for over-65 beneficiaries. Where possible, TRICARE outcomes should be benchmarked against the outcomes of the better private-sector employer plans. Should TRICARE fall short after it is fully operational and all participants have adapted to it, then other possibilities should be explored. For the next several years, the TRICARE program should be stabilized so that the military health care system can focus on making it work as well as possible.

**ANNEX F. MILITARY RETIREMENT
SYSTEM OPTIONS**

MILITARY RETIREMENT SYSTEM OPTIONS

The task force believes that the two functions of the military retirement system – helping individuals accumulate for retirement after age 62 and inducing separations at the desired time (payment prior to age 62) – should be more explicitly recognized in policy and should be managed separately. To help individuals save for retirement after age 62, the task force recommends establishing a defined contribution system for military personnel with investment options patterned after the Thrift Savings Plan (TSP) for federal civilian employees. The separation payment system would be patterned after the current system, with separation payments beginning at the desired separation point and lasting until age 62, at which point individuals would begin relying upon accumulations in their TSP accounts. In the separation payment system, individuals would be permitted to choose between an annuity and a lump-sum separation payment. This annex discusses this two-part plan in more detail.

DEFINED CONTRIBUTION SYSTEM

Defined contribution plans offer the potential of much higher returns than defined benefit plans, especially when the governmental defined benefit plan limits investments to government bonds. The military retirement accrual currently must be invested in federal government bonds. In deriving the annual retirement charge, DoD actuaries are required by the Office of Management and Budget to assume a real interest rate of only 2.75 percent. Such a low interest rate means that DoD must set aside more money today to fund future benefits than would be necessary at a higher rate. Jeremy Siegel estimates the average annual real return on a broad portfolio of U.S. stocks to have been about 7 percent over both the very long period 1802-1992 and the long period 1926-1992.¹ Since its inception in 1952, the College Retirement Equities Fund has enjoyed an average annual real return of 7.7 percent. Real bond returns are lower. Over long time periods, bonds have yielded somewhere between 3 and 4 percent in real terms. Historically, balanced portfolios of stocks and bonds have earned around 5 percent in real terms over long time periods.

The effect of converting the part of the military retirement system to be paid after age 62 from a defined benefit to a defined contribution system is illustrated in the following discussion. It is assumed that the government contributes a certain percentage of basic pay into a Federal Employee Retirement System (FERS)-type Thrift Saving Plan and that the plan earns a certain percentage return. Table F-1 begins with a base case in which the contribution rate is 10 percent of basic pay and the real return on the TSP is 7 percent. Calculations are shown for enlisted

¹ Siegel, J., 1994, *Stocks for the Long-Run* (Irwin, Chicago, IL).

personnel who separate after various years-of-service (YOS). Calculations are based on the FY 1999 enlisted basic pay table using average basic pay by years-of-service. Table F-1 shows accumulated contributions with and without interest, the accumulated fund at age 62, the annuity an individual could obtain with this fund,² and the annuity the individual would receive under the 1980-86 military retirement system.³

Consider an individual who separates with 20 years of service. Under the assumptions for Table F-1, this individual will have a fund equal to \$382,023 at age 62, from which the individual can purchase a graduated life annuity of \$27,888. This individual would receive an annuity of only \$14,031 under the current military retirement system. Under the base case assumptions, individuals who leave military service after 25 and 30 years also fare better under the defined contribution plan. Furthermore, individuals who separate with 5, 10, or 15 years of service receive significant benefits after age 62 that they do not now receive.

Table F-1.
DoD Contributions, Accumulated Funds, and Expected Annuities Under
A Defined Contribution System After Age 62
(Real Return of 7 Percent and DoD Contribution Rate of 10 Percent)

<i>Separate After YOS</i>	<i>DoD Contribution without Interest</i>	<i>Accumulated Fund at Separation</i>	<i>Accumulated Fund at Age 62</i>	<i>Annuity</i>	<i>Military Retirement Annuity Under 1980-86 System</i>
5	7,416	8,434	110,307	8,052	0
10	17,193	23,013	214,607	15,666	0
15	29,109	45,910	305,251	22,283	0
20	43,248	80,586	382,023	27,888	14,031
25	60,739	133,003	449,542	32,817	22,206
30	81,970	210,970	508,196	37,098	31,416

² This analysis assumes that the individual will purchase a single life annuity that is inflation-protected, as available in the FERS system. In FERS, an individual who is age 62 can receive an annuity that is protected against inflation of 7.3 cents for each dollar in the defined compensation at the time of annuitization. In FERS, the single life annuity is fully protected against the first 3 percent of annual growth in the Consumer Price Index. Individuals can also buy a level annuity that is not inflation-protected. A person at age 62 will receive a level annuity of 9.6 cents per dollar in the fund.

³ Under REDUX the annuity at age 62 would be the same as shown in the table, but its real value would diminish over time due to inflation.

When the calculations in Table F-1 are made assuming a more conservative return of 5 percent, a DoD contribution rate of 10 percent of basic pay would not grow funds sufficient to provide individuals who separate with 20+ years of service with the same benefits that they receive under the current system. However, as Table F-2 illustrates, a contribution rate of 15 percent of basic pay would be sufficient to do so.

Table F-2.

*DoD Contributions, Accumulated Funds, and Expected Annuities Under A Defined Contribution System After Age 62
(Real Return of 5 Percent and DoD Contribution Rate of 15 Percent)*

<i>Separate After YOS</i>	<i>DoD Contribution without Interest</i>	<i>Accumulated Fund at Separation</i>	<i>Accumulated Fund at Age 62</i>	<i>Annuity</i>	<i>Military Retirement Annuity Under 1980-86 System</i>
5	10,502	12,194	77,863	5,684	0
10	25,167	31,707	158,635	11,580	0
15	43,040	60,145	235,775	17,212	0
20	64,250	100,130	307,552	22,451	14,031
25	90,487	156,642	376,979	27,519	22,206
30	122,332	235,032	443,188	32,353	31,416

Tables F-3 and F-4 show the effect of varying the contribution rate by YOS. The scenarios in these tables assume a DoD contribution rate of 10 percent for YOS 1-10, 15 percent for YOS 11-20, and 20 percent for YOS 21-30. There are a number of reasons to graduate the contribution rate with years-of-service. One would be to provide those with longer service more protection against short-run fluctuations in market returns, i.e., downside risks, associated with defined contribution plans. Another would be to “skew” pay raises for higher-ranking personnel. A larger contribution rate is a way of providing larger rewards for those with longer service (and generally higher rank) without actually raising pay. Under the variable contribution rate scenarios in Tables F-3 and F-4, those with longer service do much better than they do under the flat contribution rate scenarios in Tables F-1 and F-2. Again, personnel do better after age 62 in all cases as compared to the current system.

Table F-3.

**DoD Contributions, Accumulated Funds, and Expected Annuities Under A Defined Contribution System for After Age 62
(Real Return of 7 Percent and Variable DoD Contribution Rates)**

<i>Separate After YOS</i>	<i>DoD Contribution without Interest</i>	<i>Accumulated Fund at Separation</i>	<i>Accumulated Fund at Age 62</i>	<i>Annuity</i>	<i>Military Retirement Annuity Under 80-86 System</i>
5	7,416	8,434	110,317	8,052	0
10	17,193	23,013	214,607	15,666	0
15	35,066	52,727	350,574	25,592	0
20	56,276	98,244	465,731	33,998	14,031
25	91,258	177,746	600,769	43,856	22,206
30	133,719	297,977	718,077	52,420	31,416

Table F-4.

**DoD Contributions, Accumulated Funds, and Expected Annuities Under A Defined Contribution System After Age 62
(Real Return of 5 Percent and Variable DoD Contribution Rates)**

<i>Separate After YOS</i>	<i>DoD Contribution without Interest</i>	<i>Accumulated Fund at Separation</i>	<i>Accumulated Fund at Age 62</i>	<i>Annuity</i>	<i>Military Retirement Annuity Under 80-86 System</i>
5	7,416	8,127	51,908	4,165	0
10	17,193	21,138	105,757	8,486	0
15	35,066	46,656	182,897	14,676	0
20	56,276	82,914	254,674	20,436	14,031
25	91,258	144,286	347,242	27,864	22,206
30	133,719	230,966	435,521	34,947	31,416

What would it cost to fund the component of the proposed retirement system that would be paid after age 62? Since the basic pay cost of the FY 1999 force is \$30 billion, the first scenario (with its flat 10 percent of basic pay contribution rate) would cost DoD \$3 billion annually. The task force estimates that if individuals are not vested in the DoD contributions until five years-of-service, the defined contribution plan would only cost about \$2.5 billion. The second scenario, with its contribution rate of 15 percent, would cost \$4.5 billion with immediate vesting but only about \$4 billion with delayed vesting. The third and fourth scenarios would cost about \$3.9 billion with immediate vesting and \$3.4 billion with delayed vesting.

The task force estimates that at the point of separation about two-thirds of the retirement liability of a typical retiree is due to the annuity payments to be received between the age at separation and age 62 and one-third is due to the annuities to be received after age 62. Therefore, for about what it currently costs to fund the post age 62 component of military retirement under the current system (i.e., about \$3.5 billion per year), DoD could contribute into a defined contribution plan that will provide larger benefits after age 62 to substantially more personnel.

When to vest is an open question. Vesting after five years would encourage reenlistment among those whose initial obligations were for less than five years. Or, individuals could be vested after a period of five years of combined active and reserve service to encourage those who separate with less than five years to participate in the reserves. Another option would be to vest after the completion of the initial obligation. Vesting at this point might discourage first-term attrition.

A defined contribution plan that covers active duty personnel and reservists alike could also enhance total force management. Currently reservists must participate in the reserves for a very long time in order to get very much out of the reserve retirement system. Consequently, reserve personnel tend to either leave very quickly upon completion of their obligations or stay for very long careers in the reserves. A defined contribution system would give reservists more incentive to stay for intermediate-length careers and would not force them to make early decisions to quit or stay for a long career. A common defined contribution system would provide reservists more incentive to augment to active duty for short tours. Finally, an integrated system would help eliminate the financial penalty that reservists suffer when reserve units are activated and they stop receiving employer contributions into 401(K) and 403(B) plans.

SEPARATION PAY

After expending \$3 to \$4.5 billion annually for payments into service members' defined contribution plans, DoD would have well over half of the current annual accrual left over to fund a system of separation pays. In the proposed system, individuals would become eligible for separation payments only at the YOS point at

which the Services want personnel to separate, and the separation points would be tailored to meet experience requirements in various skills. The task force expects that separation payments would be made available before YOS 20 in the "youth and vigor" skills but might be delayed well past YOS 20 in skills where more experience is needed. In any event, the task force would not expect payments to be made prior to YOS 10. The normal operation of up-or-out rules would prevent payments being made to enlisted personnel below the rank of E-5 or officers below the rank of O-3.

Just how to structure the system of separation payments is at this point an open question. The task force offers two possibilities. One is to simply provide annuities from the age at separation until age 62 (when the defined compensation system kicks in) based on the current (1980-86) formula. The advantage of this is that individuals are treated just as they are under the current system, and this option does not entail any reduction in second-career benefits.

Offering individuals second-career annuities based on the current formula treats personnel fairly but may not be fully efficient. Evidence suggests that military personnel have significantly higher real personal discount rates, much higher than the government's. If individuals discount future dollars at a higher rate than the government, both could benefit if those who separate were offered the choice between an annuity and a lump-sum payment computed at some discount rate between that of the government and the individual.

COSTS OF THE OPTIONS

Because the annuity payments received from the point of separation until age 62 account for about two-thirds of the cost of the current retirement system, the separation payment part of the retirement proposal will cost about \$6.6 billion per year. Savings would be realized by allowing individuals the choice between annuity payments and a lump-sum option and by setting different separation points for different skills. The task force recognizes these potential savings, but has not estimated them. Costs of the various options are displayed in Table F-5. Costs include the annual defined contribution system costs plus the \$6.6 billion cost for the separation payments. The task force recommends the option that provides variable contribution rates into the defined contribution part of the plan of 10 percent for YOS 10 and under, 15 percent for YOS 11-20, and 20 percent for YOS 21-30. The recommended plan entails a cost that is similar to the FY 1999 retirement accrual charge. The cost of extending the defined contribution system to reservists has not been estimated, but the task force expects that this cost would be offset by elimination of the retirement accrual charge for reservists.

Table F-5.
Costs of Retirement Options Under A Defined Contribution System

	<i>Vest after YOS 1</i>	<i>Vest after YOS 5</i>
10% Contribution Rate	\$9.6 B	\$9.1 B
15% Contribution Rate	\$11.1 B	\$10.6 B
Variable Contribution Rate	\$ 10.5 B	\$10.0 B