

DEPARTMENT OF THE AIR FORCE

STATEMENT OF

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(MANPOWER, RESERVE AFFAIRS,
INSTALLATIONS, AND ENVIRONMENT)**

BEFORE THE

**COMMITTEE ON ARMED SERVICES,
SUBCOMMITTEE ON PERSONNEL
UNITED STATES SENATE**

SUBJECT: MILITARY PAY AND COMPENSATION

March 3, 1999

INTRODUCTION

Mr. Chairman and members of the committee, I appreciate the opportunity to appear before you today to discuss the Air Force's, and indeed, the Department of Defense's number one priority for ensuring the readiness of our armed forces. This includes improving the quality of life of our people who are entrusted with the responsibility of protecting our country and its vital interests. While our current budget will arrest the recent decline in readiness by addressing our most pressing concerns, it does not enable us to substantially improve pay and compensation for our troops. Therefore, our number one "people" issue is to fix the pay and retirement system. In this regard, the Air Force believes that the *Compensation Triad* must be our first order of business if we are to restore our people's faith and confidence in our leadership and our ability to provide them and their families an adequate quality of life.

OVERVIEW

The foundation for maintaining the world's greatest fighting force must be a fair and competitive compensation and benefits package. In his recent speech to the Air Force Association's Air Power Symposium, the Air Force Chief of Staff, General Michael Ryan, said that "the United States has had its peace dividend and now is the time for reinvestment;" – I agree. Thus, our reinvestment strategy must begin with our most important resource--our people. We now see that military readiness is starting to be negatively affected by changes made to the Military Retirement System in the mid 1980s, and by pay raises capped below the rate of inflation for 12 of the last 16 years. Our missed recruiting goals and reduced retention rates are the most visible signs of this systemic problem. This must be corrected so that we can maintain a viable "all volunteer force" by accessing and retaining sufficient numbers of America's quality youth.

Currently we are pursuing several quality of life and force management

initiatives designed to curtail recent negative trends in recruiting and retention. First among these is implementation of the Expeditionary Aerospace Force (EAF). The EAF is designed primarily to help meet the nation's defense needs for the 21st Century by providing greater predictability and stability for our people, and by helping to ease the stress and strain of the high operations TEMPO that has resulted from constant deployments. This is important because over the past 10 years we have seen deployments increase by 400 percent while manpower was reduced by 40 percent. So, in order for the EAF concept to succeed we must offer a competitive compensation package that is capable of attracting and retaining top-quality, high-tech individuals in an environment of sustained economic growth, low unemployment, and expanding job and education opportunities.

We are excited by the opportunity to address this compensation issue because it focuses on the value we place on our people. We are also grateful for this committee's support of the administration's compensation initiatives, and your continuous support of improved benefits for our service members.

Primary Objective--Recruiting and Retaining Quality People

The Air Force remains committed to recruiting and retaining high quality people to perform its leading edge missions through the use of highly technical weapon systems. However, while we met our FY98 recruiting goal of 31,300 new recruits with 99 percent being high school graduates, only 77 percent scored in the top half of the enlistment exam, this compared to 84 percent as recently as FY95. In FY99, because of a downturn in retention, we had to increase our recruiting goals by 8 percent to 33,800 recruits. Increased enlistment bonuses have helped, but recruiters are still working harder to find the required numbers of eligible recruits at a time when the propensity to enlist has declined by approximately 23 percent since 1991. This was partially due to a strong economy and to increased opportunities for

continuing education. As a result, the Air Force has missed its Delayed Entry Program (DEP) targets in 9 of the last 12 months, and also fell short of our goal for new contracts in 3 of the first 4 months this year--down 696 accessions through Jan 99. The last time the Air Force missed recruiting goals in two consecutive months was Nov 95 and the last time an annual goal was missed was in FY79, 20 years ago.

Since we are experiencing some problems with retention we must increase the number of people coming in through higher accession numbers. Last year was the first time since 1981 that the Air Force fell below its goals for reenlistment in all three reenlistment categories: first-term, second-term, and career airmen. As can be seen in the table below, since FY95 the trend in each reenlistment category has consistently been negative, and the preliminary indicators for FY99 suggest that the downward trend will continue.

Enlisted Retention Rates										
Category/FY	FY90	FY91	FY92	FY93	FY94	FY95	FY96	FY97	FY98	AF GOAL
1st Term	52%	59%	58%	61%	59%	63%	59%	56%	54%	55%
2nd Term	69%	77%	76%	82%	81%	77%	76%	71%	69%	75%
Career	93%	95%	96%	97%	96%	96%	95%	95%	93%	95%

This trend gives us great cause for concern since nearly 93 percent of our enlisted force must make a reenlistment decision over the next four years. Even more troubling is the fact that more than half of our enlisted specialties are below the 75 percent second-term reenlistment goal, and that among these are critical war fighting skills such as avionics, air traffic control, and security forces. We significantly expanded the Selective Reenlistment Bonus (SRB) program by increasing the number of eligible skills from 48 in FY95 at a cost of \$24M, to 117 skills in FY99 at a cost of \$53M. We will continue to maximize the use of this program to improve retention in our critical skills.

Officer retention also continued downward in FY98. Unfortunately, this trend is not limited to our pilot force. Though pilot retention is a major concern, we are also closely monitoring navigator, non-rated operations, and mission support retention for further signs of erosion. The table below depicts a challenging retention environment for all four of these officer categories.

Officer Retention Rates										
Category/FY	FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96	FY97	FY98
Navigator	75%	66%	70%	54%	28%	84%	86%	75%	73%	62%
Non-rated Ops	69%	59%	65%	43%	20%	70%	54%	62%	59%	56%
Mission Supt	56%	54%	58%	37%	21%	61%	51%	50%	45%	41%

If current trends continue, the Air Force will experience a shortage of more than 2,000 pilots by fiscal year 2002. We are attacking this problem from all angles in order to stem the tide and reverse this trend. Your approval last year of new limits in flight pay (Aviation Career Incentive Pay, ACIP) and the pilot bonus (Aviator Continuation Pay, ACP) have helped immensely. We had 42 pilots change their minds and accept ACP after we restored the bonus to its original value. So far in FY99, 48 percent of those pilots who have entered their decision window have accepted the long-term bonus contract while another 20 percent opted for a short-term contract. To put the ACP in context, the first three pilots who took the bonus paid for the entire annual ACP program in terms of what it costs to train three new pilots. However, since we know that pay is only one factor affecting our pilot retention, we recently increased the active duty service commitment for pilot training from 8 to 10 years to help preserve our future combat capability. We are also testing an innovative transition assistance program for pilots called Phoenix Aviator 20. It is designed to encourage mid-career pilots to stay with the Air Force

to 20 years by demonstrating that we are committed to helping them transition to commercial aviation after completing a full military career. This is a great partnership venture between the Air Force and commercial airlines.

We intend to continue to use every available incentivized recruiting and retention tool to their fullest advantage. If the Air Force is to continue to attract and retain quality people, now is the time to act to become competitive with the today's labor markets. The first step is to restore the retirement system so that it will once again be the number one reason people want stay in the Air Force. At the same time, we must reform military pay so that it keeps pace with inflation and remains competitive with private sector wages. We owe nothing less to our most important resource--our people. They are looking to us to take action on their behalf to ensure they receive fair and competitive salaries and a stable retirement benefit. We believe the elements of the *Compensation Triad* initiative will achieve these objectives. Our people not only need these changes, they deserve them.

Compensation Triad

The *Compensation Triad* initiative is specifically designed to reverse a number of negative trends in recruiting and retention, and ultimately to restore our readiness posture. Reforming REDUX (the Military Retirement Reform Act of 1986) and restoring the Military Retirement System (MRS) to a 50 percent multiplier at 20 years of service is our first priority. The across the board and targeted pay increases of the *Triad* will result in significant increases in base pay. And finally, restructuring the military pay tables so that performance and promotions are rewarded over longevity is essential for recognizing and retaining our most experienced mid-level NCOs and officers.

Retirement Reform: The results of recent separation surveys indicate more than 85 percent of our people do not think the REDUX military retirement system is

good enough to keep them. Right or wrong, REDUX is perceived by some as another example of breaking faith with our people. For our purposes, however, the important thing to understand is that most view it as an issue of equity--equal pay for equal work. In their response to our 1997 Quality of Life Survey, only one in eight airmen and one in three officers agree with the statement that the military retirement system is "fair and equitable." An attractive and fair military retirement benefit must be the foundation of a comprehensive compensation package that is critical to sustaining a ready force.

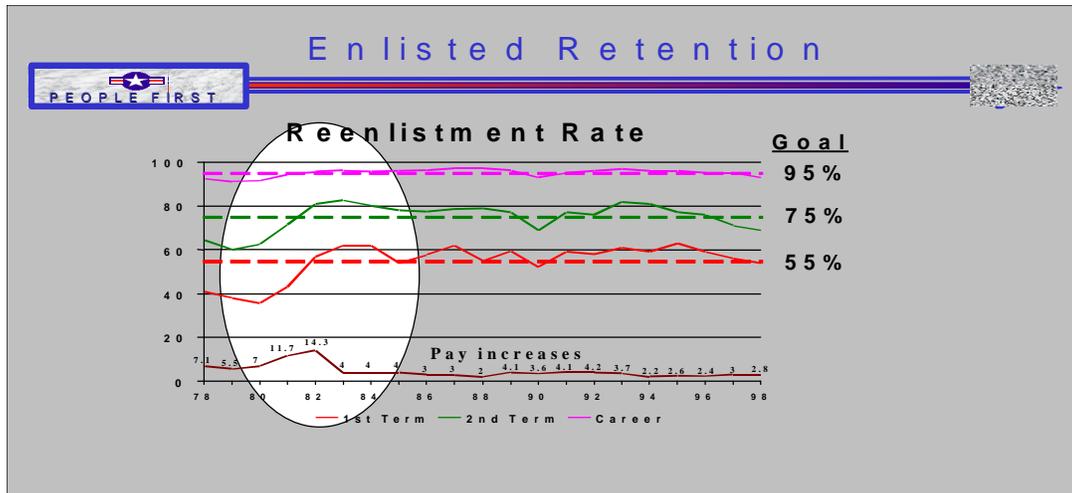
Competitive Pay: The Air Force, along with its sister Services, believes that the adequacy of pay should be assessed in terms of its effectiveness in supporting recruiting and retention requirements. Today we see that retention has declined and recruiting shortfalls have developed due in large part to a less than competitive pay system.

The results of a comparison of salary and wages conducted by the Air Staff, using data from the Department of Labor and the Economic Research Institute, is shown in the table below. This study indicates that the disparity in pay varies among professions and occupations within the Air Force, and it clearly shows that the most pronounced differences between military and civilian wages are in the high-tech career fields.

Aircraft Mechanic				Comm-Computer System Operations				Security Forces			
Salary	Military	Civilian	Delta%	Salary	Military	Civilian	Delta%	Salary	Military	Civilian	Delta%
<i>Start</i>	\$22,571	\$31,700	40%	<i>Start</i>	\$22,571	\$41,670	85%	<i>Start</i>	\$22,571	\$23,039	2%
<i>7 Yrs</i>	\$30,650	\$41,170	34%	<i>8 Yrs</i>	\$31,413	\$61,646	96%	<i>9 Yrs</i>	\$31,413	\$41,142	31%
<i>w/SRB</i>	\$33,894	\$41,170	21%	<i>w/SRB</i>	\$36,278	\$61,646	70%	<i>w/SRB</i>	\$33,845	\$41,142	22%
<i>14 Yrs</i>	\$36,952	\$48,707	32%	<i>16 Yrs</i>	\$41,345	\$75,901	84%	<i>18 Yrs</i>	\$46,324	\$54,145	17%

There are those who question whether increased pay will have a positive

influence on retention. We only have to look at what happened after the significant pay raises in the early 1980s to find the answer to that question. As evidenced by the chart below, retention rates for first-term airmen increased by 60 percent while second-term retention rates went up by more than 30 percent.



Further evidence that pay raises will have a positive effect on retention is found in recent surveys. Our 1996 Careers Survey found that just 16 percent of the enlisted force and 22 percent of officers believe that military pay is “as good or better than the private sector.” The fact that current pay is capped (Employment Cost Index (ECI) minus 0.5 percent) is also well known to our members. They realize this formula for pay increases causes them to fall further behind every year. In fact, 55 percent of the enlisted members and 19 percent of the officers who separated in 1998 said they would have stayed if they had been guaranteed “annual pay increases equal to or higher than private sector wage growth.”

Our people have told us what it will take for them to stay in the Air Force, and they are watching to see if we’ve listened to them. We believe our response should be loud and clear, and should at a minimum, include the pay raises that are in

the President's Budget--a 4.4 percent raise in FY00, and full ECI raises in the outyears.

Pay Table Reform: The final component of the *Compensation Triad* is reforming the military pay tables so that more value is placed on performance and promotions rather than length of service. Consistent with recommendations from the 7th and 8th Quadrennial Reviews of Military Compensation, a comprehensive reengineering of military compensation will help improve organizational performance by offering more of an incentive to our better performers to stay in the military. As contained in the President's Budget, pay table reform will make promotion pay raises more significant and will target mid-career NCOs and officers so that their wages become more competitive with their counterparts in the private sector. As proposed, the new pay tables would take effect on July 1st, 1999 and would result in pay raises ranging from 0.5 to 5.5 percent on top of the 4.4 percent raise planned for January 1st. If we are to move toward a more competitive compensation package which recognizes the unique skills, special education, and leadership potential of our best mid-career NCOs and officers, then pay table reform must be considered an essential part of that package.

SUMMARY

Air Force personnel are the reason we have the ability to engage anywhere in the world to successfully accomplish our growing and increasingly demanding missions. We're all proud of our troops' selfless commitment and professional dedication, and we owe them a great debt of gratitude.

However, we owe them more than our gratitude. We owe them the right tools and training to do their jobs, and a fair wage and adequate benefits; and, for those who stay with us for a career, a reasonable and stable retirement. During the past year, my staff and I have traveled extensively to visit Air Force bases both here

in the United States and overseas. At each stop we have talked to, and witnessed the work of, highly motivated men and women who are excited about serving their country. Yes, they are serving proudly, and yes, they are doing everything we ask of them and more; but they also have questions and concerns about what the future in the Air Force holds for them and their families. We must take this opportunity to put their concerns to rest.

We are appreciative of this committee's swift approval of several initiatives that would improve compensation for our service members and their families, and we welcome any opportunity to study enhancements that will improve our ability to attract and retain sufficient numbers of America's finest men and women while still meeting the Air Force's other critical readiness and modernization requirements.

During your deliberations on the FY00 budget proposal, please continue to consider the sacrifices our men and women, and their families, are making for our country and continue to support the funding needed for the *Compensation Triad*. Our people are not asking to live on easy street. They only ask that we reasonably allow them to take care of their families. I look forward to working with you as we move forward on these important initiatives to take care of our most critical resource--our People.