

**Report from
The Pharmacy Special Pay Workgroup
November 2007**

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Abstract

Background: The Pharmacy category, at the request of the Chief Professional Officer (CPO), convened a special incentive workgroup to examine issues that may impact recruitment and retention. The group met over a period of four months and gathered information that would update and expand a similar report prepared by a Special Pay Workgroup in 2004. Their efforts included

- Searching the professional and lay literature;
- Gathering data from various Commissioned Corps (CC) and Operating Division personnel systems;
- Discussing potential barriers and concerns of special pay adjustments with agency liaisons.

Objectives:

1. Determine if rates of pay for Commissioned Officers (COs) impact recruitment and retention;
2. Determine the magnitude of pay disparity and special pay impact;
3. Develop recommendations and action steps to address incentives and special pay issues.

Discussion: Like other uniformed services, the Commissioned Corp (CC) of the Department of Health and Human Services / US Public Health Service (PHS) is authorized to pay an accession bonus (AB) for new pharmacy officers and variable special pay (VSP) for all pharmacy officers. Recruitment and retention of the officers has, in the past, been affected by salary disparities as well as other pay issues. Private sector pharmacist salaries have dramatically increased in the last five years and are expected to continue to rise due in part to the workforce shortage. Currently, entry level pharmacist salaries differ by geographic region in the private sector, however base pays range from \$92,802-\$122,232 before sign-on bonuses, stock options or other incentives. Representative data indicates the salary of a USPHS Pharmacist, commissioned as a Lieutenant (O-3) under 2 years of service without dependents, ranges from \$55,430 to \$63,890 – a significant pay disparity. As well, the pay disparity between private sector and Commissioned Corps pharmacists has significantly increased since 2004, creating an escalating challenge and concern for recruitment and retention of CC pharmacists. Although the data seem to indicate that CC retention remains high, this assumption may be faulty. Growing populations served by the PHS, a projected growth of the Commissioned Corps to 10,000 officers, and an increase in the number of prescriptions generated amplify the demand for pharmacists. Additionally, operating divisions find pharmacists' unique training and expanding roles attractive to fill multidisciplinary vacancies. While the demand for pharmacists has increased, the number of Corps pharmacists on active duty has remained steady. Conversely and alarmingly, the number of applicants and calls to active duty has steadily declined.

Recommendations: The Workgroup recommends the following actions to retain officers and decrease pay disparity with the private sector and CC pharmacist:

- Retain the critical \$30,000 accession bonus, reallocating the current first year lump sum payment to four equal installments of \$7,500 annually over the first four years of service.
- Maximize VSP to \$15,000 per year for all O-2 to O-6 active duty pharmacy officers across all years of service to immediately mitigate the effect of the growing pay discrepancy. This action requires no new legislation.
- Monitor changes to AB and VSP for effect on recruitment and retention.
- Consider legislative authority to expand AB, VSP, and other special pays.
- Identify and implement effective incentives to improve retention and recruitment.

I. Executive Summary

The United States Public Health Service (PHS), like the private sector, must provide clinical care to patients in a wide variety of settings and fill regulatory, administrative and multidisciplinary positions despite a nationwide pharmacist shortage. Like the other uniformed services, PHS's recruiting efforts are constrained by entry level salaries far lower than those offered in the private sector. Additionally, PHS does not employ full time recruiters, therefore much of this recruitment and retention workload defaults to 'additional duties' for individual Professional Advisory Committees (PACs) and our Office of Commissioned Corps Operations (OCCO). However, without primary focus on specific category issues, the potential exists to overlook growing pay disparities.

The PHS has taken several steps designed to ameliorate these challenges and improve recruitment and retention. These have included an accession bonus (AB) for new pharmacy officers and variable special pay (VSP) for all O-2 to O-6 pharmacy officers. This report provides

- A brief historical and legislative background of AB and VSP;
- An historical and current comparison and discussion of private sector and uniformed service pay for PHS pharmacists;
- An analysis and discussion of special pay incentives as they relate to closing the pay gap and improving recruitment/retention;
- Recommendations for the CPO to consider as action steps to reduce pay disparities between the private sector and PHS pharmacists.

II. Background

Recruiting qualified pharmacists to fill vacant positions is troublesome throughout the nation. The PHS Commissioned Corps (CC) and other uniformed services face a compounded challenge. Traditionally, the pay they are authorized to offer recruits is considerably lower than that offered in the private sector. In addition, Commissioned Officers must be able to meet the service's expectations in terms of mission, readiness for deployment and conduct; as well as additional duties that not all potential recruits or existing pharmacists are willing or able to accept.

Congress authorized the Pharmacist Special Pay and Accession Bonus for Pharmacy Officers in the Floyd D. Spence National Defense Authorization Act for Fiscal Year 2001. Signed by the President on October 30, 2000, it became Public Law No 106-398, with Section 628 addressing pharmacist special pay and accession bonuses. This law amended Chapter 5 of Title 37, United States Code, by inserting sections 302i and 302j. All uniformed services also pay Board Specialty Pay, which was discussed among the Workgroup as another potential mechanism to address pay disparity. However, the Workgroup concluded Board Specialty pay is not a consistent or efficient way to impact recruitment and retention as the certification is more a reflection of individual effort, clinical expertise, and reflected in the category promotion benchmarks. Furthermore, only fifty three CC pharmacists currently receive special pay for board certification. It was determined that adjustment of Board Specialty Pay would have little impact on recruitment and retention efforts, yet should remain as an incentive for individual achievement.

Section 302i: Special pay for pharmacy officers

1. For Army, Navy and Air Force Pharmacy Officers: The Secretary of the individual Armed Service may allow special pay at the rates noted below to pharmacists on active duty for a period of not less than one year in the Medical Service Corps of the Army and Navy or the Biomedical Sciences Corps of the Air Force.
2. For Public Health Service Commissioned Corps Pharmacy Officers: The Secretary of the Department of Health and Human Services may allow special pay (at the rates noted below) to a Public Health Service pharmacy officer in the Regular or Reserve Corps on active duty and under a call or order to active duty for a period of not less than one year.
3. Variable Special Pay (VSP) rates authorized for pharmacy officers in the PHS are paid as follows:
 - **\$3,000** per year, if the officer is undergoing pharmacy internship training or has less than 3 years of creditable service
 - **\$7,000** per year, if the officer has at least 3 but less than 6 years of creditable service and is not undergoing pharmacy internship training
 - **\$7,000** per year, if the officer has at least 3 but less than 8 years of creditable service
 - **\$12,000** per year, if the officer has at least 8 but less than 12 years of creditable service
 - **\$10,000** per year, if the officer has at least 12 but less than 14 years of creditable service
 - **\$9,000** per year, if the officer has at least 14 but less than 18 years of creditable service
 - **\$8,000** per year, if the officer has 18 years or more of creditable service

Section 302j: Accession bonus (AB) for pharmacy officers:

- The accession bonus is authorized for graduates of accredited pharmacy schools who sign a written agreement to accept a commission as an officer of a uniformed service and remain on active duty for a period of not less than 4 years. The amount of the accession bonus is determined by the Secretary concerned, but not to exceed \$30,000.
- The person executing the agreement shall be assigned to duty, for the period of obligated service covered by the agreement, as a pharmacy officer in the Medical Service Corps of the Army or Navy, a biomedical sciences officer in the Air Force designated as a pharmacy officer, or a pharmacy officer of the Public Health Service.
- Unless amended, the accession bonus will expire on September 30, 2004.

The PHS implemented the AB and VSP via the Commissioned Corps Personnel Manual, in Part 4, Pay and Allowance Administration Regulations, Subchapter CC42.2, Instruction 8, "Pharmacist Specials Pays – Variable Special Pay (VSP), Nonphysician Board Certified Pay (NPBCP), and Accession Bonus (AB)" (signed by Secretary

Thompson on 10/11/01) and in Part 2 Commissioned Corp Personnel Administration, Pay and Allowances Administration, Subchapter CC22.2, Instruction 8, “Pharmacist Special Pay” (10/26/01).

Subchapter CC42.2 prescribes the regulation governing the award of special pays to pharmacists and defines various terms necessary for special pay administration. It states that VSP will be paid in equal monthly installments based on the officer’s years of creditable service. In addition, this subchapter describes eligibility requirements and limitations for the AB and situations that require its repayment.

Subchapter CC22.2, Instruction 8, describes the conditions and circumstances under which PHS pharmacists may be authorized special pay, and if so, the applicable pay rates. It states that the purpose of special pays is to aid HHS in recruiting and retaining selected professional pharmacists. It also provides direction for PHS pharmacy officers with prior service (as a pharmacist officer) in any Uniformed Service. In addition, this subchapter defines the AB as a lump-sum payment not to exceed \$30,000 and outlines procedures for receiving the bonus. Finally, this subchapter defines eligibility limitations and situations involving contract termination.

On December 2, 2002, the President signed the Bob Stump National Defense Authorization Act for Fiscal Year 2003. This Act became Public Law No 107-314. Section 615. “Increase in Maximum Rates for Certain Special Pays, Bonuses and Financial Assistance for Health Care Professionals,” amended section 302i as follows:

1. “Special pay” was renamed “retention special pay.”
2. The authorized rate of special pay was changed from variable amounts based on years of creditable service to an amount not to exceed \$15,000 for any 12 month period.

The AB and VSP are currently included in the Defense Authorization Bill, and renewed annually. Thus, these pays do not “sundown,” but remain limited by the legislation.

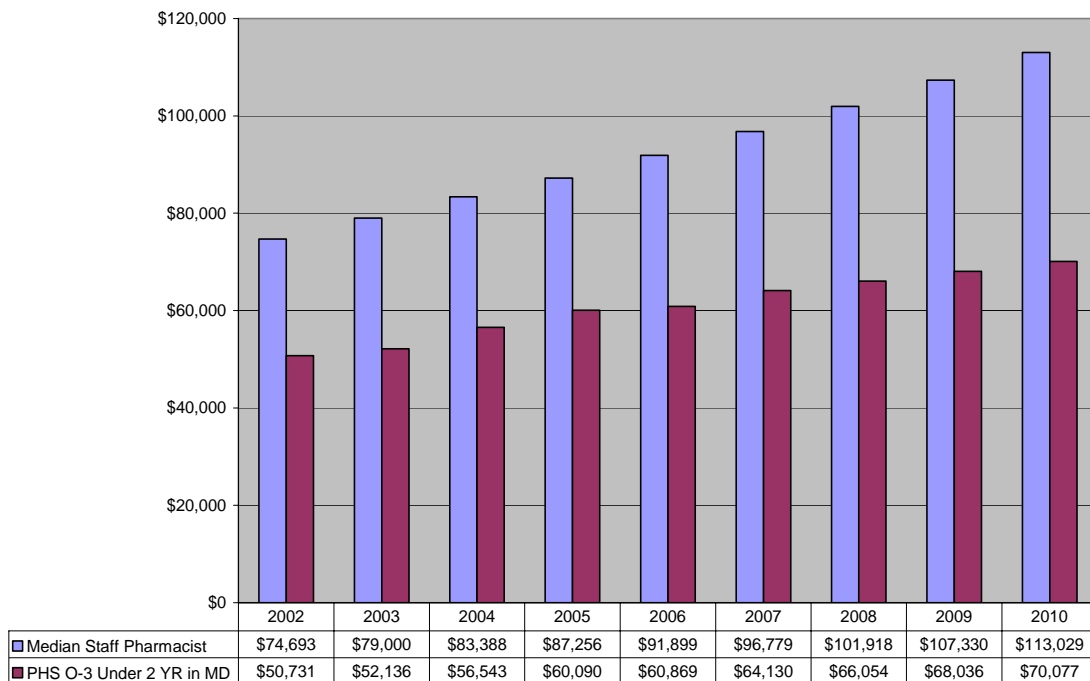
III. Pay Disparity between Private Sector and Uniformed Services Pharmacists

The pay disparity between private sector and uniformed service pharmacists is real and pressing. Approximately two-thirds of PHS pharmacist officers who inactivated or terminated between 2002 and 2007 were on active duty less than 4 years. Although no objective data explains *why* this occurs, a panel convened to investigate recruitment and retention concluded from reasons disclosed in respondent-driven surveys, that it is more likely lack of proper “fit” with the PHS. Among others, reasons such as geographic diversity, familial concerns and new job offers contribute to attrition in the first two years of active duty rather than solely pay disparity. This panel concluded that the 4-year mark may be a more effective time frame for salary comparison and consideration of recruitment and retention recommendations due to the significant challenges (and limited options) to overcome reasons given for attrition in the first two years of active duty.

Pharmacist Pay Disparity

Private sector pharmacist salaries have long been higher than uniformed services salaries and the introduction of special pays attempted to ameliorate some of this disparity. However, pharmacist salaries have risen significantly in the last five years and are expected to continue to rise (and outpace increases in CC pharmacist salaries) due in part to the workforce shortage (*See Figure 1. Rate of Salary Increase*). The average rate of rise of salary in the private sector was 5.31% between 2002-2005. Figure 1 below illustrates how the private sector median salaries are both significantly higher than CC salaries and are continuing with a rate of rise much higher than the average rate of rise for a CC pharmacist (roughly 3%). For purpose of calculations and salary comparisons, we have assumed a similar rate of rise for 2007-2010 for both private sector and CC pharmacists, which demonstrate a widening pay disparity over the last 5 years. Several resources (*Salary.com, Drugtopics.com, and pharmacynow.com*) indicate that in 2007, entry level private sector pharmacist salaries differ by geographic region with base pays ranging from \$92,802-\$122,232 before sign-on bonuses, stock options or other incentives. In addition, a leading pharmacist salary survey reports that 72% of private sector respondents earned overtime, compared with 67% in the similar 1999 survey. Of these pharmacists, 27% were paid time and a half; the average annual compensation ranged from \$4,433 for independents to \$5,552 for mass-merchandiser and \$5,550 for chain pharmacists.

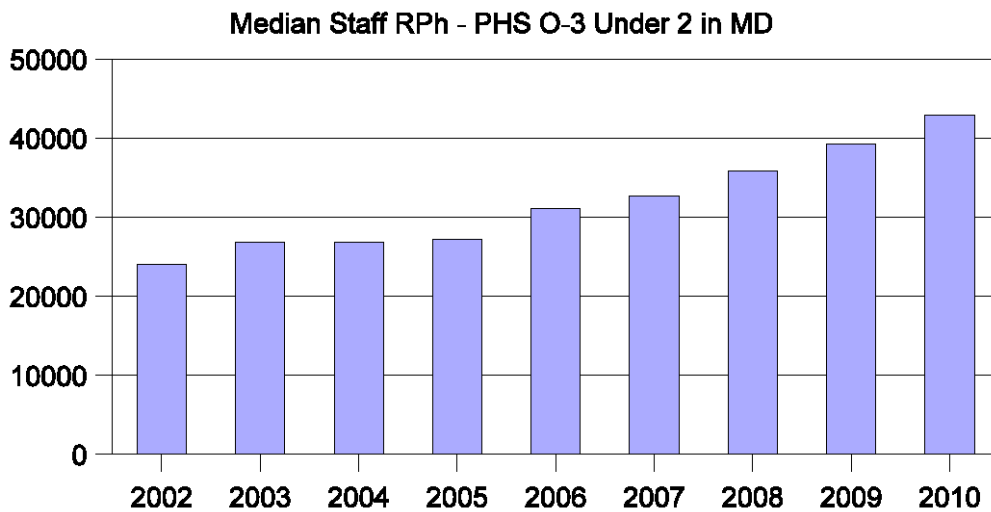
Figure 1. Rate of Rise Salary Comparison



Most PHS pharmacists are stationed in Alaska, Arizona, Maryland, New Mexico, or Oklahoma. Using data from these states, the salary of a USPHS Pharmacist, commissioned as a Lieutenant (O-3) under 2 years without dependants, ranges from \$55,430 to \$63,890. These figures differ from those cited for the private sector in an

essential and important way: this range accounts for base pay, subsistence, basic allowance for housing (BAH) and current VSP. The current and significant pay disparity between the private sector and CC pharmacist salaries is projected to increase. In 2008 it is estimated the median private sector salary will be roughly \$101,918 compared to a CC pharmacist salary of \$66,054. With each passing year, this salary gap widens (see Figure 2, *Pay Discrepancy [in Dollars]*).

Pay Discrepancy (in Dollars)

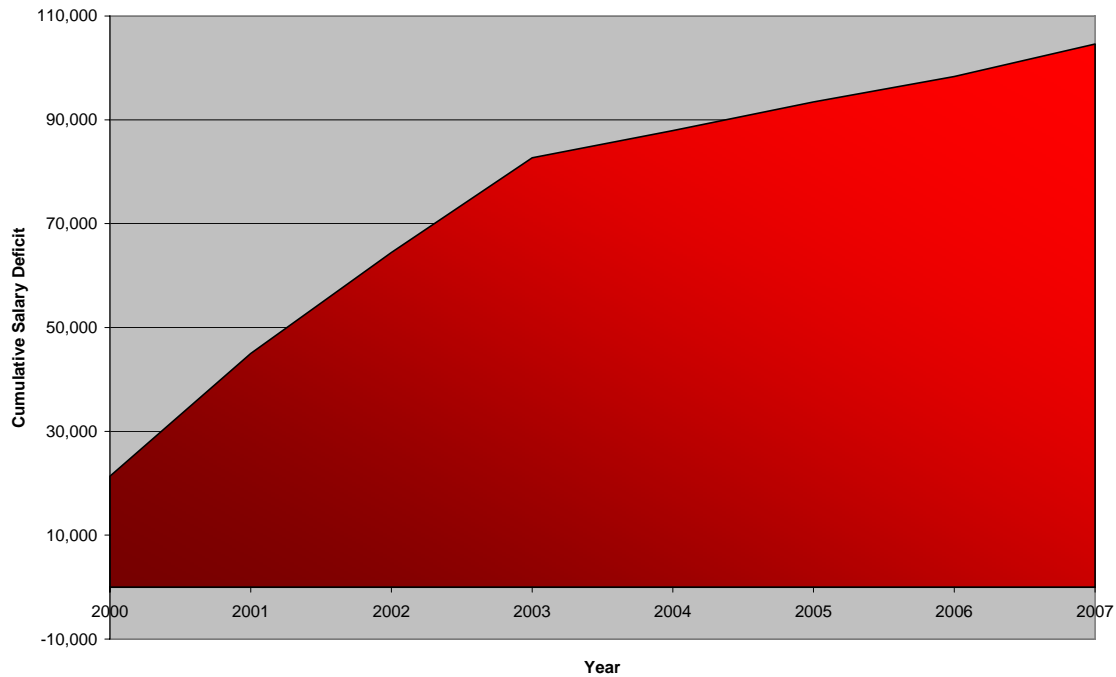


While it may be desirable to compare private sector to PHS salaries in the first 2 years of service, the lump sum AB received in the first year significantly distorts the comparison since private sector salaries will remain substantially high and the PHS AB is a one-time salary incentive. Recognizing that PHS officer retention stabilizes over time, it is important to note that the pay disparity continues to appreciably and demonstrably widen which could negatively impact retention. In the past, PHS leadership also considered private sector and PHS salaries comparable when officers accrued ten years of active duty. Given current private sector and PHS pay scales, the workgroup concluded that:

1. PHS salaries are more comparable to private sector salaries when PHS officers accrue 12-14 years of active duty – well into their career and in conjunction with a current taper of the VSP, which begins at 12 years of service;
2. Salaries may be ‘comparable’ at 12-14 years of service, however this ‘comparable’ salary only commences from that point. Due to the substantial pay disparity across the first 12 years of an officer’s career, it is necessary to consider a cumulative pay disparity over the first 12 years to illuminate loss of economic value over time.

Figure 3, *PHS Pharmacists Cumulative Salary Deficit*, estimates cumulative loss in salary (utilizing salary comparisons from Figure 1) which a CC pharmacist incurs over a seven year period. Figure 3 is a conservative estimate as it does not account for the future value of the lost dollars had they been invested.

Figure 3. PHS Pharmacists' Cumulative Salary Deficit



IV. Data Analysis Methodology

To determine VSP's and AB's effect on recruitment and retention, the workgroup gathered data from several sources. Table 1 summarizes data concerning Corps strength.

Table 1. Corps Strength and Calls to Active Duty 2002-2007.

	2002	2003	2004	2005	2006	2007
Total number of PHS pharmacists on active duty	826	874	907	917	933	942
Number of Calls to Active Duty	107	103	107	83	69	79

YTD = through October 19, 2007

Source: *Chief Professional Officer October 2007 Report*

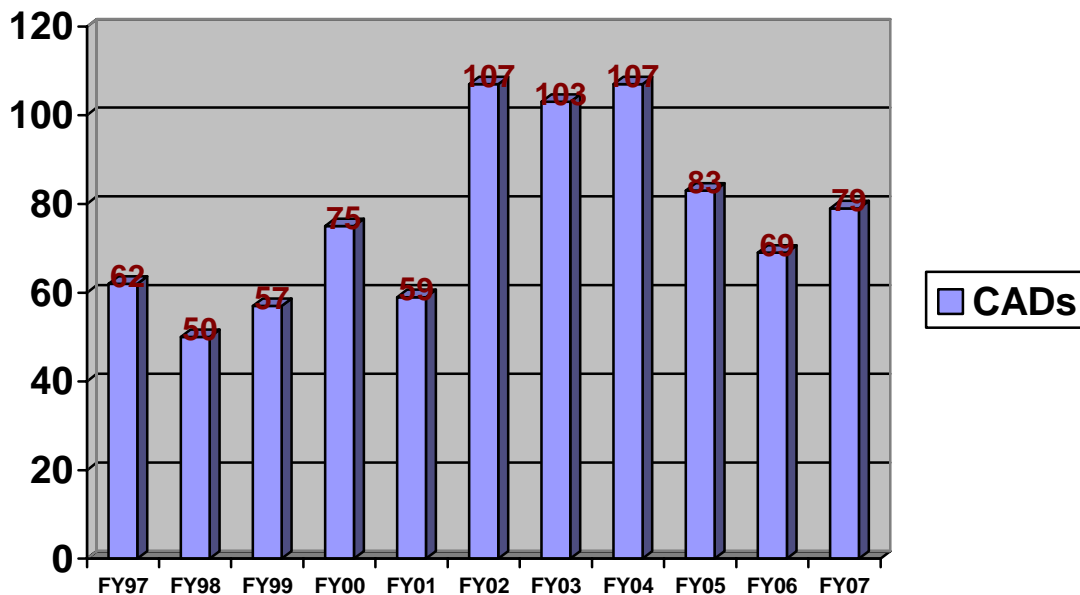
Although the data in Table 1 seems to indicate that retention remains high, this assumption may also be faulty as calls to active duty decrease. Growing populations served by the PHS, a projected growth of the Commissioned Corps to 10,000 officers and an increase in the number of prescriptions generated amplify the demand for pharmacists. Additionally, pharmacists' unique training and expanding roles have made them attractive to operating divisions to fill multidisciplinary vacancies. While the overall demand for pharmacists is increasing, the rise in the number of active duty Corps pharmacists has slowed and calls to active duty have significantly declined from the period 2002-2004. Current vacancy rates in operating divisions that employ primarily clinical pharmacists (IHS and BOP) shed some light on this problem.

In the private sector, the current vacancy rate appears to hover at 4.4% to 5%. The American Society of Health-System Pharmacists reported that in 2005, their members reported vacancy rates averaging 6.2%, with an average time to hire of more than six months. Other organizations representing distinct sub-groups of pharmacists have reported vacancy rates from 4% to 22%, but the methods they use to calculate the rates are not comparable. Professional organizations consider these figures significant enough to declare a nationwide shortage in this discipline.

In the Indian Health Service, the current vacancy rate is 12%. The Bureau of Prisons (BOP) reports that their current pharmacist vacancy rate is 20.6%. The implication is clear: if the private sector is stressed with a 5% vacancy rate, DHHS’s operating divisions face a critical and safety-threatening shortage.

Figure 4, *Calls to Active Duty*, 1997-2007, shows that in the period 1997 to 2001, the number of calls to active duty annually hovered around 60 per year. Special pays were implemented in 2002, and calls to active duty increased to above 100 per year for three years. Since 2004, however, calls to active duty have declined. This seems to indicate that the positive effect of special pays on recruitment may have diminished. In addition, the FY2007 calls to active duty (79) still remained much lower than FY2002-2004 period.

Figure 4. Calls to Active Duty, FY97 through FY07



Compounding this problem is a steady decline in the number of applicants for available positions. Table 2 describes the steady decline since 2003.

Table 2. Pharmacy Applicants to PHS

FY2003	183 general duty applications	312 applications of all types
FY2004	160 general duty applications	275 applications of all types
FY2005	162 general duty applications	276 applications of all types
FY2006	131 general duty applications	240 applications of all types
FY2007	148 general duty applications	287 applications of all types

- All types = general duty + direct appt. to IRC + EIS + COSTEP + USUHS training + Clinical Associate + Early Commissioning Program + Prev. Med. Res.

Accession Bonus Summary

The intent of an AB is to compensate for the large discrepancy between the initial PHS salary and that offered in the private sector. Given the pay disparity data, the AB will be needed for the foreseeable future until more aggressive measures are taken to eliminate the gap. The PHS operating divisions have some concerns about AB, and find that the \$30,000 AB paid in lump sum in the first year of service represents a financial and administrative burden.

- Dividing AB into smaller payments would allow agencies to spread the payments over a period of years, and decrease the annual tax burden to the officer. The PHS pharmacy category should monitor the effects of this change in the AB distribution over the first five years after implementation to ensure the change is not adverse to recruitment.
- The panel recommends considering a \$7,500 AB beginning in first year and continuing annually for the first four years of active duty; thus, the total AB of \$30,000 would be maintained. In the event an officer transfers between agencies or leaves the Corps before the AB repayment period is complete, the receiving agency can assume responsibility for AB, and repayment amounts will be much more manageable. Call to duty contractual language should contain a statement requiring a four year commitment to the Corps.
- If the AB is spread out across the first 2 or 4 years, it will also coincide with the first three longevity raises. This will demonstrate consistent increases in salary and potentially support retention to the 4-year mark.

Variable Special Pay (VSP)

The VSP's intent was for improved retention of officers. To illuminate retention issues, the panel compared salaries of private sector pharmacist managers to O-5 officers with more than 12 years of active duty and no dependents. Comparable private sector pharmacist manager salaries ranged from \$103,672-\$133,377 with most also getting stock options (discounts) and/or profit sharing. The salary of an O-5 officer with more than 12 years of active duty who has no dependents ranges from \$98,020-\$106,876. An O-5 officer who has dependents will earn a salary that varies depending on zip code. However, the median salary change in the five states considered herein was calculated to be an additional \$3,749/year yielding a range from \$101,764 - \$110,620 and appreciably less than that of private sector pharmacists of similar career stage and geographic area.

The panel acknowledges a Commission Corps retirement is one of few remaining pension-based retirement models in the United States as corporations shift from guaranteed pensions to 401K retirement plans, and is an attractive retention incentive for officers; calculations to determine the effects of non-contributory retirement are complex and have not been fully addressed in this document. PHS pharmacists with 10 to 12 years of CC experience are at the peak of VSP. Starting in year 12, VSP begins to decrease offsetting much of the subsequent longevity increases. Concurrently, rank is usually static between 12 to 18 years of service

This plateau affect could influence officers to retire at 20 years, depriving the Corps of their most vital and experienced cadre of officers. VSP reduction as an officer gains

depth and breadth of experience is incongruent with retention; senior officers are skilled clinicians, managers, or administrators who cannot be replaced by new recruits. Maintaining VSP at the \$15,000 level may be preferable. The category's commitment to retention should be emphasized as the Corps' most valuable recruitment tool.

- HHS has the authority to adjust VSP to a maximum of \$15,000 without a legislative change.
- Many VSP schedules are possible. The panel developed four alternatives that target the designated problem areas, noting that a portion of the increased cost may be offset by improved retention that decreases overall recruiting costs and eliminates some AB costs:
 1. Increase VSP to \$15,000 per year to all O-2 to O-6 active duty pharmacy officers across all years of service: Beginning at call to active duty, increasing VSP in this manner approximately doubles operating division VSP payments.
 2. Increase VSP to \$12,000 per year to all O-2 to O-6 active duty pharmacy officers across all years of service: This alternative increases operating division VSP payments by approximately 60%.
 3. If *tiered* approaches are preferred, two alternatives increase operating division VSP by about 26%:
 - *Tiered* Recommendation #1
 - Less than 2 years = \$7,000
 - Greater than 2 years, less than 12 years = \$12,000
 - Greater than 12 years = \$15,000
 - *Tiered* Recommendation #2
 - Less than 2 years = \$7,000
 - Greater than 2 years = \$12,000
 - May be beneficial to lure those that leave the Corps between two and four years and retain officers well into their career.

These proposed changes to VSP would minimally affect operating divisions overall budget. For example, the Bureau of Prison's (BOP) Commissioned Corps (CC) operating salary budget exceeds \$60 million. If BOP implemented the recommendation with the greatest financial impact (a VSP of \$15,000 across the board), their salary cost increase would be 1.67%. Recommendation #2 above (a VSP of \$12,000 across the board) would impact the overall BOP CC salary by less than 1.0% ($595,000/61,000,000 = 0.97\%$). Table 3 summarizes the additional funds needed for each proposed VSP option for a specific agency (BOP) based on the current number of active duty pharmacists as of August 31, 2007.

Table 3. Estimated Cost Impact to BOP for 135 Pharmacists

VSP PAYMENTS	AMOUNT OF PAYMENT	AMOUNT OF INCREASE
CURRENT VSP PAYMENT	1,025,000	0
\$15,000 FLAT	2,025,000	1,000,000
\$12,000 FLAT	1,620,000	595,000
SCALED #1	1,678,000	653,000

SCALED #2	1,525,000	500,000
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Table 4 describes the estimated cost impact for each of HHS’s largest operating divisions. These calculations show the additional amount each agency will pay for the proposed VSP.

Table 4.

COST IMPACT TO AGENCY (AMOUNT INCREASED)

AGENCY	CURRENT VSP PAYMENT	\$15,000 VSP	\$12,000 VSP
BOP	1,025,000	1,000,000	595,000
FDA	1,825,000	1,839,000	1,107,000
IHS	3,300,000	4,050,000	2,580,000

Other federal agencies, recognizing that their pay scales may be inadequate in comparison to the private sector, are upgrading their pay scales. The Veterans Administration, for example, indicated it would offer better salaries to stay competitive and overcome recruitment problems. In 2007, the VA increased the annual salary cap for its most in-demand clinicians, including pharmacists, in some cases by 27%.

Operating Division Concerns

Workgroup members polled agency liaisons to determine:

1. If the agency hires pharmacists;
2. If the agency anticipates an increased need to hire pharmacists in the future;
3. If the current accession bonus pay for pharmacists affects the agency’s decision to hire pharmacists;
4. If the agency would like to change the current recruiting and hiring programs for commissioned officers;
5. If specialty pay affects the agency’s decision to hire pharmacists in pharmacy-specific billets or non-pharmacy-specific billets;
6. If the agency offers or would like to offer incentives other than an accession bonus to increase the likelihood that a pharmacist will take a job.

Many agencies responded. Of note, those operating divisions that are the most likely to hire pharmacists indicated that AB and VSP do not affect their decision to hire Commissioned Officers and that they anticipate an increased need for pharmacists in the future. The greatest obstacle for several operating divisions was their perception and/or experience that central support at the Office of Commissioned Corps Operations is lacking, and that increasing staffing there could improve recruitment and retention.

Other Recruitment/Retention Tools

This workgroup did not look specifically at other recruitment/retention tools. Some operating divisions employ tools such as Loan Repayment and the Junior or Senior COSTEP programs to attract applicants. These mechanisms are comparable to those used by private sector employers to attract students during their final year(s) of school.

VI. Workgroup Recommendations

As this report is concluded, the pharmacy category has 942 pharmacy officers with 114 officers with more than 20 years of retirement credit. Fifty-two pharmacists will likely retire within the next five years, as they currently have more than 25 years of service and retirement is mandatory at 30 years. Certain steps are essential to attract and maintain pharmacists to fulfill the needs of the PHS Commissioned Corps.

The workgroup makes these five recommendations:

- Retain the critical \$30,000 accession bonus. However, we recommend reallocating the current first year lump sum payment to four equal installments of \$7,500 annually over the first four years of active duty.
- Maximize VSP to \$15,000 per year to all O-2 to O-6 active duty pharmacy officers across all years of service to immediately mitigate the effect of the growing pay discrepancy. This action requires no legislation change.
- Monitor changes to AB and VSP for effect on recruitment and retention.
- Consider legislative authority to expand AB, VSP, and other special pays.
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