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# ***DACMC Special and Incentive Pays Committee Report***

***July 20, 2005***

**Committee Members:**

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# Overview

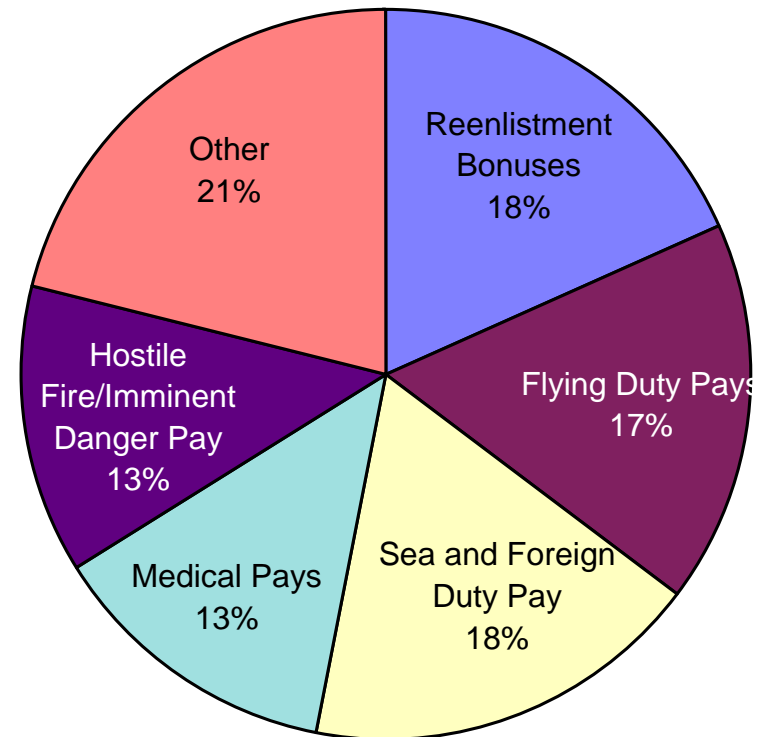
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- Current System Background
- Categorizing S&I Pays
- Strengths of Current System
- Weaknesses of Current System
- Alternatives to Current System



# Background

- **Over 60 different pays**
- **2004 active component budget of \$4 billion**
  - **3% of total compensation**
  - **5% of cash compensation**
- **Five types of S&I Pays account for about 80% of total outlays**





# Categorizing S&I Pays

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- **Various schemes have been used to classify S&I Pays**
- **OSD**
  - Recognition
  - Incentive
- **Seventh QRMC**
  - Hazardous duty
  - Career incentive
  - Skill incentive



# Analytical Scheme

Purpose	Discretion		
	None	Limited	Greater
Recruiting/retention & skill incentives	ACIP	ACCP/ ACP	SRB/ EB
Compensating differentials	Parachute Duty Pay		SDAP
Assignment or Location pays	SUBPAY	Career Sea Pay	AIP



# **Strengths of Current System**

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- **Provides military compensation system with flexibility to address staffing requirements that across-the-board compensation cannot**
- **Compensates for arduous, unpleasant or hazardous jobs**
- **Responds to variation in supply and demand conditions across occupational specialties**
- **Encourages acquisition and maintenance of essential skills**



# Weaknesses of Current System

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- **Proliferation**

- System can be difficult to manage and monitor with so many different pays

- **Inflexibility**

- Many pays are not easily adjusted to changes in market conditions

- **Motivation**

- Most pays are not structured to motivate personnel to perform



# Alternatives to Current System

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- **Consolidate S&I Pays**
- **Increase share of S&I Pays in total military compensation**
- **Modify pay-setting mechanisms to allow S&I Pays to reward performance**
- **Establish general principles for setting pay levels**
- **Develop general rule for adjusting S&I budget**





# Pay Consolidation

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- **Establish broad authority for a few distinct types of pays**
  - **Example – CSRB**
- **Benefits**
  - **Simpler**
  - **More flexible**
- **Disadvantages**
  - **Increases need to justify pay levels**
  - **No S&I Pays are entitlements**



# Possible Consolidation Scheme

Pay	Purpose	Discretion	Market Based?
<i>Occupational Differential</i>	Adjust for long-term differences in market conditions	●	Yes
<i>Retention</i>	Adjust for short-term market fluctuations	●	Yes
<i>Accession</i>	Attract new members to specific jobs, level-load recruits, increase market share	●	Yes
<i>Conversion/ Separation</i>	Adjust for unforeseen changes in demand	●	Yes
<i>Skill Retention/ Proficiency</i>	Incentive to acquire/maintain critical skills & abilities	●	Yes
<i>Assignment/ Duty</i>	Incentive to accept hard-to-fill jobs voluntarily	●	Yes
<i>Hardship/ Hazardous Duty</i>	Compensate members for unforeseen hardship (e.g., deployment & combat)	●	No



# Possible Consolidation Scheme

Pay	Purpose	Discretion	Market Based?
Recruiting and Retention	Adjust for long-term differences in market conditions	●	Yes
	Adjust for short-term market fluctuations	●	Yes
	Attract new members to specific jobs, level-load recruits, increase market share	●	Yes
<i>Conversion/ Separation</i>	Adjust for unforeseen changes in demand	●	Yes
<i>Skill Retention/ Proficiency</i>	Incentive to acquire/maintain critical skills & abilities	●	Yes
Assignment	Incentive to accept hard-to-fill jobs voluntarily	●	Yes
	Compensate members for unforeseen hardship (e.g., deployment & combat)	●	No



# Increasing S&I Pay Share

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- **Current share not out of line with civilian employers**
- **Private employers not constrained to single pay table**
  - Occupational differentials are not S&I pay
- **How to determine proper level**
  - Perhaps begin with look at private-sector variation across occupations
- **How to transition to larger share**
  - If budget neutral, would entail increases at expense of nominal increases in other compensation elements (e.g., RMC)



# Rewarding Performance

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- **Where possible, make S&I Pay function of grade**
  - Maintains positive and significant relationship between performance/promotion and compensation
- **Some pays (i.e., proficiency pays) could directly recognize performance**
  - Pay at Apprentice/Journeyman/Master level
- **May become more important if relative share of S&I Pays in total compensation increases**



# Setting S&I Pay Levels

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- **Pay level may be set:**
  - **Legislatively**
  - **By OSD**
  - **By Services**
  - **Using a market mechanism (e.g., auctions)**
- **“Best” method depends on purpose of pay**
  - **Pays that offer “insurance” against unpleasant conditions may need to be fixed/known to member in advance**



# Setting S&I Budget

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- **If S&I Pays more discretionary, burden of justification increases**
  - More difficult to maintain funding levels if pays no longer entitlements
  - More susceptible to budget cuts
- **One solution is to tie increases in S&I budget to increases in Basic Pay**
  - Not necessarily desirable or in line with changes in market conditions or fluctuations in staffing demands