

ADAPTING COMMERCIAL INCENTIVES TO A MILITARY ORGANIZATION

INTRODUCTION

The U.S. Navy is under ever-increasing pressure to retain the highly skilled and motivated personnel that it develops. That development includes technical and managerial education intertwined with operational and leadership experience in a dynamic environment. Unfortunately, those skills are the same ones that corporate America seeks.

One large factor in the decision to “Stay Navy” is the total compensation package that is offered by the Navy, and countered by civilian businesses. Although the retention issue is one with which corporate America also struggles, the perception among military personnel is that corporate America provides better benefits than the military. In essence, the U.S. Navy trains people to excel and then loses them to actual or perceived higher paying, more family friendly, private-sector companies.

Within the limited time allowed for project research and development, we have identified five specific areas to explore and compare to civil service and civilian businesses:

- i. annual leave / sick leave / holidays
- ii. retirement benefits
- iii. PCS transfer compensation
- iv. award / incentive programs
- v. educational opportunities

PROCESS

A ‘benefit perception’ questionnaire was filled out by senior level (O5) and junior level (O1-O2) Navy classes. The purpose was to survey the existing benefit perception and knowledge base of both recently commissioned officers and those nearing retirement eligibility.

Compensation packages were also researched for civil service and several civilian companies. The companies were identified by points of contact that group members had within each company...many of which were former Naval Officers. Military benefits were then compared to that of civil service and the selected civilian corporations. Finally, we researched the availability of human resource information for military personnel, and the ease with which it was found.

COMPARISON

Provided is an executive level comparison between known military and civil service policies and researched corporate America benefits:

Annual Leave / Sick Leave / Holidays

Military personnel receive 30 days paid annual vacation regardless of time in service. Leave is accrued at a rate of 2.5 days per month of service. Existing policy allows a carry-over of 60-90 days of leave, dependent upon certain criteria. Sick leave is neither accrued nor charged. National holidays are generally observed by personnel not deployed or on duty.

For civil service employees, annual leave accrues at variable rates ranging from 4 hours/pay to 8 hours/pay period dependent upon length of employment. Sick leave accrues at 8 hours/month. The 13 government accepted holidays are observed.

Corporate leave is handled in different ways. One common way is to accrue it monthly, say 10 hours per month for the first year and increase an hour or two each year of service. Most companies do not allow carryover of leave from one year to the next. When employees leave the company, they normally receive cash payment for any leave balance. Sick leave is taken without affecting vacation time for short illnesses and long-term disability insurance covers periods exceeding 5 days. Corporate personnel additionally observe a generous number of paid holidays, plus a Christmas holiday shutdown period.



Retirement Benefits

Dependent upon the policy in effect at the time of commissioning/enlistment, military retirees receive a pension calculated at 2.5% of (high 3)base pay for each year of service. Military personnel are not vested in a retirement plan, so if an individual leaves military employment before retirement eligibility, he may qualify for severance pay but will not receive any rollover or retirement benefits.

Civil service employees under the Federal Employment Retirement System (FERS) become vested at the 3-year period and qualify for annuities dependent upon years of federal service and the age of the individual. This annuity accrues at a rate of 1% of salary for each year of service plus social security offset benefits. The Thrift Savings Plan (TSP) avails a tax-exempt contribution of up to 5% (matched) dependent upon individual participation.

Corporate America offers employees the opportunity to save for retirement through various retirement savings plans. Most companies have a 401k and a pension program (may start contributing immediately). A typical 401(k) retirement savings plan allows employee contributions on both a pre-tax and post-tax basis, some up to 13% of base salary, as well as providing a generous company match of as much as 8% of base pay. Usually employees are vested within 2 to 4 years. Companies may also contribute (2%) into a separate pension fund that will vest in 3 to 5 years. Some companies provide stock purchase plans at a 15% discount. If the market is good and the company is on the rise this can amount to a very profitable investment. Stock options usually vest in 3 to 5 years with 10 years to exercise.

Corporate savings plans typically allow immediate rollover contributions from other qualified plans and allow participants to borrow from their accounts at favorable interest rates. Customary plans provide a wide selection of investment funds, including a brokerage account option and allow an employee to be his own account manager with 24-hour account access. An employee may change investment options at any time. Extensive planning tools and educational information are available through company-administered websites.

PCS Transfer Compensation

Due to the nature of military service, families can anticipate permanent moves every 2 to 3 years. Limited moving assistance services are available, but outside of scheduling and paying a moving company, the individual family is unaided in the moving process. Relocation assistance is of informational nature only. Dislocation allowance and temporary living allowance provides minimal relief of relocation costs.

Civil service permanent moves receive the same benefits as military personnel, plus reimbursement of real estate fees, closing cost/fees and miscellaneous costs.

Corporate reimbursement depends upon if the move is at the request of the company or employee and the level of the employee (staff, management, executive). Most commercial companies will buy a relocated employee's home if it remains unsold for 60 days. Some companies will pay an added bonus of 2 to 5% of sales price if an employee sells the home. Usually, corporations cover all commissions, closing costs/fees, inspections, etc and financially contribute to the purchase of a new home. No loss of equity or undue duress of having two homes for an extended period of time is their goal. They will also grant one month salary and temporary living allowance for up to 60 days. Rental car and flights home are permitted depending on the employee's entry level.

Award / Incentive Programs

Military awards consist of letters of appreciation/commendation and the presentation of medals. In addition, Commanding Officers also have the authority to provide special liberty, where awardees are allowed time away from work. However, restrictions prevent using special awards in conjunction with annual leave, so accrual or consecutive use isn't possible.

Civil service personnel can receive the same tangible benefits as mentioned above, in addition to monetary awards (spot or sustained service) and actual pay-grade step increases and/or promotions.



Corporate rewards take many forms including: one-time bonuses, trips, raises, and promotions. Incentives are primarily financial in nature based on meeting certain targets (sales or performance), and are usually tied to the overall profitability of the company. Performance is reviewed once or twice per year and raises are generally given once per year with a salary increase, cash and stock bonuses. Promotions in some companies mimic the military, dependent upon length of employment, while others promote strictly on performance.

Educational Opportunities

Educational opportunities for military personnel vary significantly. Enlisted personnel desiring college education must pursue it during off-duty time. Several graduate programs are available for officers. There is no reimbursement for a second advanced degree, and there is a widely held perception that participating in any of the fully-funded, full-time educational opportunities, such as Naval Postgraduate School, is detrimental to career progression.

Civil service opportunities are wide and varied from intern programs to full reimbursement for college/advanced courses taken.

High-tech companies value education and stress the need for continual education with in-house universities and public or private universities. If interest is inline with a profession (MBA or MS), members are free to take the degreed program. Most businesses encourage educational growth and self-development and will allow employees to take the time to complete their studies. Corporate America provides financial assistance by reimbursement of approved, job-related educational courses taken at accredited institutions. Educational assistance plans typically provide 100% reimbursement for tuition, registration fees, and books.

PERCEPTION – SURVEY RESULTS

Part of this study called for a questionnaire that was administered to various groups inside the Navy Supply Corps School. The participants surveyed were the entire class of the Advance Management Program and a cross section of Basic Qualification and Supply Officer Department

Head Courses. The opinions expressed were those of officers and civilians ranging from 1 year to over 25 years of service. The survey focused on the perception of military benefits vs. corporate benefits and participants were asked to provide perceptions and shortfalls in the following areas: leave, retirement/transition, awards, PCS transfers and educational opportunities. Rank and years of service were collected to discover the differences in opinions (if any) between the more senior officers, new ensigns and those newly commissioned officers with prior enlisted service. The analysis is highlighted below:

Annual Leave / Holidays:

The majority of participants perceived that 30 days annual leave exceeded corporate leave benefits. However, the vast majority pointed out that although one could earn 30 days of leave it was almost impossible to use it all every year. Furthermore the two greatest complaints were being unable to carry over more than 60 days and not being able to sell back excess leave. The surveys inferred that those who are underway or deployed were “punished” even more by being more restricted in leave opportunity than shore duty personnel. Additionally, the majority of the study group complained that leave was charged over weekends and holidays unlike their corporate peers.

Retirement/Transition:

The general perception was that military retirement benefits were as good as corporate benefits in terms of being able to retire at 20 years regardless of age. This comment was mostly made by those who were safely within retirement eligibility. There was a definite trend in the surveys from the junior officers that members should be able to take away some sort of contribution if 20 years of service is not completed. Others commented that transition was difficult and the Navy fails in providing time for preparation and interview. Participants were encouraged by the new TSP program, however there is strong desire for higher contribution levels and significant employer matching. Finally, the “high three” requirement was viewed as



unfavorable, since you only receive monetary credit for 18 years of service though 20 years were actually completed.

Awards / Incentives:

This category was surprisingly more negative than expected. The number one complaint from all groups focused on awards given for “doing their job” vice “going above and beyond.” Additionally, the group opined that politics, type of awards (awards associated with certain ranks only), few chances for cash awards, writing of one’s own award, lack of consistency and long administrative lead time contributed to the negative view of this category. Furthermore there was a definite view that not enough awards were given to enlisted sailors.

PCS Transfers:

The main emphasis of comments was on the administrative difficulties associated with a PCS move. Most respondents believed that members almost always lost money on PCS moves. Other comments identified problems with itinerary/travel restrictions, miscalculated claims and payments, the frequency of moves, losses from sale of homes, and restrictions from shipping second vehicles both home and abroad. Several “prior service” officers claimed that members in their situations should be allowed more weight allowance as they have had time to acquire more possessions over a longer period of time (an E7 commissioned to an O1 loses 500 lbs. in HHGs). Also, although the Navy endorsed ‘homsteading’, members frequently feel penalized for not relocating.

Educational Opportunities:

The comments across the board were favorable in comparison to the corporate world. An interesting suggestion stated that the “Navy should allow enlisted sailors to attend college as shore duty. If the Navy continued to pay salary and benefits, the sailors would self-finance their educations, therefore saving the Navy from paying for education.” In essence, both would benefit.



CONCLUSION / RECOMMENDATIONS

We have not explored other areas of interest, such as health care, salary and pay tables, life insurance plans, disability programs, travel insurance, family separation or prepaid legal services. These areas are certainly worth comparison, but were outside the scope and time allotted for this study.

This analysis revealed a fundamental flaw prevalent throughout the U.S. Navy. Although information is plentiful, it's existence and access paths are not readily known throughout the fleet. For example, many internet sites are available (staynavy.navy.mil, bupersaccess.navy.mil, lifelines2000.org) that provide different pieces of information, but the general Naval population does not yet realize they exist or how to gain access. Although efforts are being made to consolidate web sites, too many still exist and require multiple links/jumps to locate desired information.

Perhaps a personalized website can be developed for each individual member through a Navy system, such as www.my.yahoo.com. This can then be manipulated by the individual service member to provide the information and web-links desired. Members could also publish contact information. Additionally, a personalized internet e-mail address should be established when a person enters the Navy and this address should not change until the individual leaves Naval service. This already may be a desired result of the Navy-Marine Corps Internet (NMCI) initiative, but this information could not be found.

The following provides a synopsis of findings and presents several ideas for possible research in the on-going efforts of increasing the lure of a military career. These ideas have not been fully examined as to feasibility, but may provide an avenue for further investigation:

Annual Leave / Sick Leave / Holidays

Overall, the current leave policy is satisfactory, although improvements can be made.

Several thoughts include authorizing:

1. more carry-over of leave



2. annual sellback of leave
3. trading excess leave into training opportunities (to finance a class or seminar)
4. trading excess leave into a TSP contribution
5. change check-in/out policy to exclude weekends and holidays

Retirement Benefits

Most service members who either voluntarily or involuntarily transitioned prior to retirement feel resentful for the number of years and commitment invested in the military. One post-military member is quoted as saying “ Overall, as a service member who transitioned prior to retirement I feel a bit cheated for the 12 years that I served knowing what I now know. \$35k after taxes is nothing. But you only get what the American public is willing to pay for your service.” This sentiment applies to sustainment of forces as well as initial recruitment.

The new TSP program is viewed as a good bridge in retirement compensation. Several other ideas include:

1. providing mandatory and repeated investment training to include basic financial management and explanation of investment tools such as mutual funds, stocks, IRAs, etc.
2. allow vesting in the military pension plan at specific career milestones
3. although stock options aren't feasible, perhaps offering U.S. Savings Bonds at a slight % discount (a \$100 bond may be purchased for \$45 – a 10% discount). This would increase the military investing in the U.S. Government, as current fund drives endorse.
4. allow excess leave to be transferred to a cash contribution in the TSP

PCS Transfer Compensation

Continuous moves dramatically affect the quality of life of service members and their families. In an effort to minimize the financial impacts, deliberate efforts and improvements must be made. As another post-military member remarked ‘the civilian moving experience is a bit more pleasurable than with the Navy, the low bidder is not moving you.’ There is a perception the Navy contracts with incompetent moving companies. Possible improvements may include:



1. increased \$ allotted to offset costs
2. encourage/endorse homesteading without penalizing members
3. variations in HHG weight limits allowed per years of service
4. offer trip planning that would allow a CONUS move to be performed with no out of pocket costs. This may resemble AAA's existing program, but would offer the PCS member lodging and meals at no cost
5. provide closing costs and real estate fees

With approximately 1.5 million active duty service members, and an average of 1/3 of those executing permanent moves every year, a government purchase plan that mimics corporate America is not fiscally feasible. However, perhaps a stipend such as paying '10 x BAQ' would help in offsetting loses.

Award / Incentive Programs

There are two trains of thoughts inside the U.S. Navy. First, the Navy does a poor job of rewarding its military members (especially enlisted), there exists a hierarchical pyramid ratio of rank to award level, and there is excessive time in the award process, from submittal to presentation. Additionally, members dislike having to write their own award nominations, but are directed to do so. The second viewpoint is that medals have become inflated or devalued, and have become too easily awarded. Specifically, members receive awards for just 'doing their job'. An example is the recent policy change to award a Navy Achievement Medal to recruiters who lure 4 new recruits into military service.

Possible improvements may include:

1. allowing a Commanding Officer to set aside a % of OPTAR as monetary awards. This can be mapped to either allowing an awardee to purchase a palm-pilot, laptop computer or take an educational course or seminar or perhaps contribute to a TSP. Such a policy would benefit both the Navy and the individual as productivity and education should increase.



2. allow individuals to keep frequent flyer miles
3. streamline the award process

Educational Opportunities

Military programs probably provide as many if not more opportunities, but lack marketing and advertisement. The transfer of military schools and experience into a civilian equivalent (ACE), as well as many of the current partnership and hybrid initiatives, are certainly heading in the right direction. However, officers should be afforded the opportunity to quickly utilize any sub-specialty code attained, and not have to wait 6 to 8 years for payback tours and enlisted personnel should be afforded time during shore duty to complete college programs.

Moreover, realistic expectations should be addressed. As both officers and enlisted personnel are increasing the amount of time at work, it has become even more difficult to seek a degree during off-duty hours. As some individuals receive back to back to back sea tours, meaningful educational opportunities for deployed or overseas personnel are limited. If the Navy wants an educated workforce and really believes that advanced education is a critical component of the future force, the Navy must provide not only the opportunities but also the time necessary for degree completion. Additionally, officers should not be shoddily detailed because they participated in a fully-funded program of study, and consideration given to a second advanced degree funding.

SUMMARY

Out of the 5 areas researched, only leave and educational opportunities met or exceeded corporate offerings and are also perceived as such by military members. Improvements in relocation efforts, existing award policies and retirement initiatives are required.