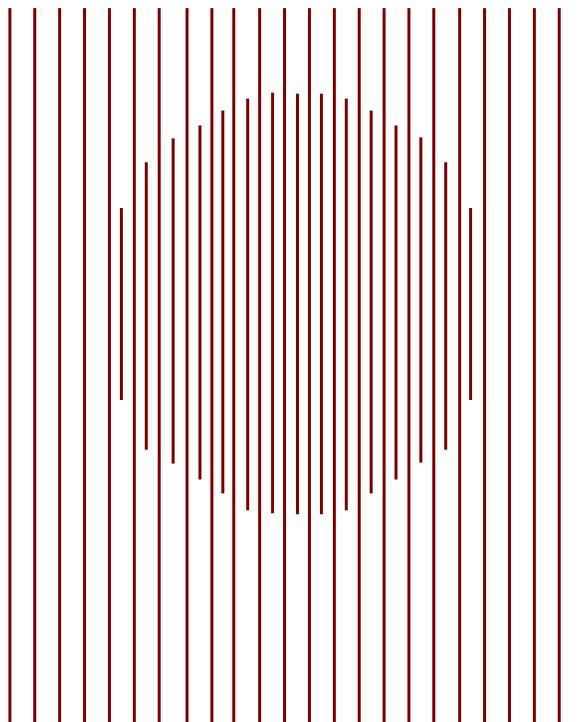


CBO PAPERS

**BONUSES FOR NUCLEAR-TRAINED
OFFICERS IN THE NAVY:
CURRENT PROGRAM
AND ALTERNATIVES**

September 1996



CONGRESSIONAL BUDGET OFFICE

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**CONGRESSIONAL BUDGET OFFICE
SECOND AND D STREETS, S.W.
WASHINGTON, D.C. 20515**

PREFACE

The Navy, like the other military services, faces the difficult task of managing a drawdown of personnel and forces while looking for further areas in which to trim its budget. Likewise, in today's atmosphere of fiscal austerity, the Congress has the responsibility to review the services' programs for possible budgetary savings. One area that both might consider is the Nuclear Officer Incentive Pay (NOIP) program. This Congressional Budget Office (CBO) paper, prepared at the request of the Subcommittee on Personnel of the Senate Committee on Armed Services, examines the NOIP program and three alternative pay plans for nuclear-trained naval officers. In keeping with CBO's mandate to provide objective, impartial analysis, this paper contains no recommendations.

Marvin M. Smith of CBO's National Security Division prepared the paper under the general supervision of Cindy Williams and Neil M. Singer. The author gratefully acknowledges the assistance of Amy Plapp of CBO's Budget Analysis Division, who prepared the cost estimates, and Ivan Eland of the National Security Division. The paper also benefited from the support provided by Michael Nakada of the Navy Personnel Research and Development Center. (Outside assistance implies no responsibility for the final product, which rests solely with CBO.)

Christian Spoor edited the paper, and Judith Cromwell prepared it for publication.

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SUMMARY

As the Navy considers its staffing requirements in an era of smaller fleets, a continuing concern is filling positions that call for officers with nuclear training. Such officers operate the Navy's nuclear-powered submarines and surface combatants and serve in a variety of other billets on shore. Although recent downsizing efforts have reduced the requirements for such officers, the Navy's total demand for nuclear-trained submarine and surface officers exceeds the number now in the service. That situation is expected to persist in coming years. The Navy projects that the shortage of nuclear-trained submarine officers will decline slightly by the end of the decade, but the shortage of nuclear-trained surface officers will worsen.

For years, the Navy has relied on bonus payments to try to encourage as many nuclear-trained officers as possible to remain in the service. The current Nuclear Officer Incentive Pay (NOIP) program provides annual cash bonuses of \$7,200 or \$10,000 to eligible nuclear submarine and surface officers who agree to remain on active duty after their minimum service requirement of four years. The NOIP program also offers a \$6,000 accession bonus to new officers who select the nuclear field.

At a time of tight budgets, however, the Congress is reviewing the cost-effectiveness of nuclear officer bonuses and other special military pay. As part of that effort, this Congressional Budget Office (CBO) paper evaluates the current NOIP program and three less expensive variations in terms of their estimated effects on the retention of nuclear officers.

HOW MANY NUCLEAR-TRAINED OFFICERS DOES THE NAVY NEED?

The Navy's demand for nuclear-trained officers in the submarine and surface communities is governed by its nuclear billet requirements. Some of those requirements consist of positions that must be filled by an officer with nuclear training. Others, however, are billets that would benefit from an officer with nuclear expertise but could be filled with any submarine or surface officer, or positions that could be filled by any naval officer. Only about one-third of the total billets for nuclear submarine officers and one-fourth of those for nuclear surface officers require an officer with nuclear training. Many of the rest are high-profile positions that are thought to improve an officer's management skills or career prospects. In

the interest of fairness, the Navy believes that nuclear-trained officers, like all other officers, should be given access to a certain number of those positions.

Comparing the estimated number of nuclear-trained officers in 1997 with the total requirements for nuclear officers and with only those requirements that must be filled by a nuclear-trained officer yields striking differences. Compared with total billet requirements, the Navy expects the number of nuclear-trained officers next year to fall short by 557 submarine officers and 350 surface officers. But compared with the number of nuclear-specific billets, there will be a projected surplus of 2,008 qualified submarine officers and 584 surface officers.

ALTERNATIVES TO THE CURRENT BONUS PROGRAM

Nuclear officer incentive pay includes two bonuses for officers who extend their service. A nuclear submarine or surface officer who remains on active duty under a three-, four-, or five-year contract receives a continuation pay (COPAY) bonus of \$10,000 per year. A nuclear officer who opts to stay without a contract receives a smaller annual incentive bonus (AIB) of \$7,200.

In considering any modifications to the NOIP program, the Congress needs to look at several factors: future job opportunities for nuclear officers in the civilian sector, having an adequate supply of officers to fill billets that require nuclear expertise, and ensuring sufficient access by nuclear officers to billets that might be considered career enhancing.

Although officers with nuclear training can still count on finding some type of employment in the civilian sector, their job prospects in related fields are not as promising as in the past. That change results in large measure from a decline in the civilian nuclear power industry and a projected drop in the number of nuclear engineering jobs. Nuclear officers might find employment outside the nuclear industry--for example, as managers in other fields--but the overall lure of the civilian labor market has lost some of its strength. For that reason, reductions in nuclear bonuses might not produce unacceptable reductions in the number of nuclear-trained officers in the Navy.

To examine the range of possible lower bonus payments, CBO analyzed three alternatives to the current program. In the first two, the Navy would pay smaller bonuses to nuclear surface officers than to submarine officers because the projected shortage of nuclear-trained officers in the surface community is not as great. In all three alternatives, the Navy would continue to pay the \$6,000 accession bonus to new officers who chose the nuclear field.

- o Alternative 1: for nuclear submarine officers, COPAY of \$7,200 per year with a four-year contract or an AIB of \$6,000 per year without a contract. For nuclear surface officers, COPAY of \$6,000 a year with a four-year contract or an AIB of \$3,200 a year with no contract.
- o Alternative 2: COPAY of \$6,000 a year for submarine officers and \$4,000 a year for surface officers with a four-year contract, but no AIB. That plan is designed to encourage officers who would otherwise renew without a contract to sign one, thus ensuring the Navy a more predictable labor force.
- o Alternative 3: no COPAY or AIB for any nuclear officer.

Effects on Officer Retention

CBO analyzed the current NOIP program and the three alternatives using a model of nuclear officer continuation from the Navy Personnel Research and Development Center. The model examines whether officers will extend their service based on such variables as military pay (including bonuses), possible civilian pay, and a variety of nonmonetary factors and personal characteristics. CBO then compared the results of the model for each alternative with the Navy's projected number of officers under the current program.

A key finding of CBO's analysis is that the level and structure of special pay apparently does not have a large impact on the decision of nuclear officers to remain in the service. For example, under the current NOIP program, the Navy expects to fill no more than 85 percent of its total billet requirements for nuclear submarine officers next year and 72 percent of requirements for nuclear surface officers. Under Alternative 1, those levels would decline by only 1 or 2 percentage points. Even under Alternative 3 (doing away with the bonuses completely), the Navy would fill 82 percent of its total requirements for nuclear submarine officers next year and 67 percent for nuclear surface officers.

If the Navy focused only on billets requiring nuclear training, it would have a surplus of officers in all grades and both communities through the end of the decade under the current program. The same would hold true under the three alternative plans: the Navy would have twice as many nuclear officers as needed to fill the nuclear-specific billets in both communities. Moreover, all of the alternatives would permit a significant number of nuclear officers to gain experience in non-nuclear-specific, career-enhancing assignments--one of the Navy's staffing concerns.

Cost Savings

Since all three alternative compensation plans would involve reducing COPAY and the AIB, they would yield savings to the government compared with the current program. Not surprisingly, Alternative 3, which would eliminate the bonuses, would result in the largest savings--\$40 million over the 1997-2000 period in the nuclear submarine community and \$9 million in the nuclear surface community. Alternative 1 would produce cumulative savings of \$12 million over four years and Alternative 2 of \$30 million, with similar savings ratios between the submarine and surface communities.

CHAPTER I

INTRODUCTION

As the Navy completes its personnel drawdown and contemplates future manpower issues, one persistent concern is filling critical billets at sea and on shore. Of particular concern is recruiting and retaining enough officers who are trained to operate the Navy's fleet of nuclear-powered submarines and surface combatants. Despite the Navy's recent downsizing efforts, its stated total demand for submarine and surface officers trained in the nuclear field exceeds the number now in the service, and it expects that shortage to continue for several years.

Nuclear officers undergo arduous training, and as with other naval personnel, the possibility of back-to-back sea tours presents Navy planners with a challenge in recruiting and retaining enough of them to man the nuclear fleet. The retention of nuclear-trained officers is influenced by many factors, a major one being their level of compensation.

CURRENT PAY FOR NUCLEAR-TRAINED OFFICERS

All nuclear-trained officers receive regular military compensation (RMC), which includes basic pay and tax-free allowances for food and housing. In addition, those who qualify collect sea-duty pay and nuclear officer incentive pay. Nuclear officers serving aboard submarines also receive submarine pay.

Regular Military Compensation

All nuclear-trained officers receive RMC under the same provisions applying to other officers and enlisted personnel. The major component of RMC is basic pay, which depends on an officer's years of service and pay grade. RMC also includes two types of housing allowances for personnel not living in government quarters. A basic allowance for quarters (BAQ) provides service members with a cash allowance to help them obtain civilian housing when government quarters are not available. BAQ varies by pay grade and by whether the recipient has dependents. Similarly, a variable housing allowance (VHA) is provided to service members who have to seek housing while stationed in high-cost areas.

Military personnel, including nuclear-trained officers, also receive a basic allowance for subsistence (BAS) to help defray part or all of their food costs. The

amount of the BAS payment is the same for all officers regardless of dependency status. Besides direct pay, military personnel enjoy a tax advantage because the allowances they receive in the form of BAQ, VHA, and BAS are not taxed by the federal government.

Special Pay

Eligible nuclear-trained officers and other military personnel who are assigned to a ship or a ship-based staff receive sea-duty pay. Personnel planners regard that pay as a valuable tool for meeting their staffing goals. It recognizes the competition that exists with the civilian sector for the services of naval officers with certain skills as well as the arduous duty and personal sacrifices (such as family separations) that they must endure during long deployments at sea. Sea pay varies with pay grade and years of sea duty.

Submarine-duty incentive pay is "paid continuously to members who hold a submarine duty designator, or are in training leading to such designation, and remain in submarine service on a career basis."¹ Thus, nuclear-trained officers serving on submarines are included among those receiving submarine pay. The amount of that pay depends on an officer's pay grade and years of service.

Given the various types of pay available to nuclear-trained surface officers, their total compensation can vary from \$70,909 a year for a midgrade officer (a lieutenant commander with 10 years of military service) to \$102,728 for a more senior officer (a captain with 22 years of military service). The equivalent range for nuclear-trained submarine officers is from \$78,049 to \$109,868 (see Table 1).

THE NUCLEAR OFFICER INCENTIVE PAY PROGRAM

To address the Navy's perceived shortage of nuclear-trained officers, the Congress created the Nuclear Officer Incentive Pay (NOIP) program in June 1969. Under the program, eligible nuclear submarine officers received a \$15,000 bonus payment (\$3,750 per year) if they agreed to extend their military obligation for four years. Over time, the NOIP program has undergone several changes, including a period, from June 1975 to August 1976, when it expired after the Congress missed the deadline to extend it (see Box 1 for a brief history of the program). In 1972, NOIP was broadened to include nuclear surface officers. The most dramatic changes,

1. Department of Defense, Office of the Secretary of Defense, *Military Compensation Background Papers* (November 1991), p. 278.

TABLE 1. COMPENSATION OF NAVY NUCLEAR OFFICERS, 1996 (In dollars)

Pay	Lieutenant Commander with 10 Years of Military Service and Six Years of Sea Duty	Captain with 22 Years of Military Service and 11 Years of Sea Duty
Regular Military Compensation ^a	58,449	89,128
Nuclear Officer Incentive Pay (with a four-year contract)	10,000	10,000
Sea-Duty Pay	<u>2,460</u>	<u>3,600</u>
Total for Nuclear Surface Officers	70,909	102,728
Submarine-Duty Incentive Pay	<u>7,140</u>	<u>7,140</u>
Total for Nuclear Submarine Officers	78,049	109,868

SOURCE: Congressional Budget Office using data from the Department of Defense Compensation Office.

NOTE: These figures do not include retirement pay or the cost-of-living adjustment paid to service members in the continental United States.

- a. Regular military compensation is a combination of basic pay, subsistence allowance, basic allowance for quarters, and the variable housing allowance, plus the tax advantage stemming from not having either the housing or subsistence allowances taxed.

however, occurred in 1976 when the program added two other bonus payments. Besides the continuation pay (COPAY) provided to officers signing a four-year contract, NOIP added a nuclear career annual incentive bonus (AIB) of \$4,000 a year for eligible officers not on a COPAY contract. It also offered new officers who chose the nuclear field an accession bonus of \$3,000, which was paid at the end of their nuclear training.

Since 1976, the Navy, acting on authority granted by the Congress, has raised the various bonus payments and broadened the NOIP program. Most notably, the Navy now offers COPAY of \$10,000 a year to officers signing three-, four-, and five-year contracts up to an officer's 26th year of service. Eligible nuclear officers who do not sign COPAY contracts can now receive the AIB (\$7,200 a year) until they

BOX 1.
A HISTORY OF THE NUCLEAR OFFICER
INCENTIVE PAY PROGRAM

The amounts for the various bonuses indicated below are the maximum amounts the Navy is allowed to pay under law. The Navy sometimes pays less; for example, it now offers continuation pay (COPAY) of \$10,000.

June 1969	Program begun for submarine officers only. Eligible officers could sign up for continuation pay of \$3,750 a year for a one-time, four-year contract.
October 1972	Program expanded to include nuclear surface officers.
June 1975	Program expired.
August 1976	Program restarted and expanded: <ul style="list-style-type: none"> o COPAY for a four-year contract raised to \$5,000 a year. o Annual incentive bonus (AIB) of \$4,000 a year created. o Accession bonus of \$3,000, to be paid at completion of nuclear training, created.
January 1981	COPAY for a four-year contract raised to \$7,000 a year. AIB raised to \$6,000 a year. Accession bonus raised to \$6,000 (\$3,000 before training and \$3,000 after).
October 1985	COPAY expanded to cover multiple three-, four-, and five-year contracts up to 26 years of service and raised to \$9,000 a year. AIB raised to \$7,200 a year. Accession bonus modified to pay \$4,000 before training and \$2,000 after training.
December 1987	COPAY raised to \$12,000 a year.

retire or are promoted to the rank of admiral. Moreover, the Navy now pays two-thirds of the \$6,000 accession bonus before nuclear training, with the rest paid afterward.

In an era of military downsizing and budget consciousness, the NOIP program, along with other special military pay, is receiving close scrutiny by the Congress. At issue is whether the program is still needed, and if so, whether it should maintain its present bonus amounts or scale them back.