THE USE OF BONUSES AS A RETENTION TOOL FOR THE CAF

LCdr P.J.J. Carrière

JCSP 40

Exercise Solo Flight

Disclaimer

Opinions expressed remain those of the author and do not represent Department of National Defence or Canadian Forces policy. This paper may not be used without written permission.

© Her Majesty the Queen in Right of Canada, as represented by the Minister of National Defence, 2015, 2016.

PCEMI 40

Exercice Solo Flight

Avertissement

Les opinions exprimées n’engagent que leurs auteurs et ne reflètent aucunement des politiques du Ministère de la Défense nationale ou des Forces canadiennes. Ce papier ne peut être reproduit sans autorisation écrite.

© Sa Majesté la Reine du Chef du Canada, représentée par le ministre de la Défense nationale, 2015, 2016.
EXERCISE SOLO FLIGHT – EXERCICE SOLO FLIGHT

THE USE OF BONUSES AS A RETENTION TOOL FOR THE CAF

LCdr P.J.J. Carrière

“This paper was written by a student attending the Canadian Forces College in fulfilment of one of the requirements of the Course of Studies. The paper is a scholastic document, and thus contains facts and opinions, which the author alone considered appropriate and correct for the subject. It does not necessarily reflect the policy or the opinion of any agency, including the Government of Canada and the Canadian Department of National Defence. This paper may not be released, quoted or copied, except with the express permission of the Canadian Department of National Defence.”

Word Count: 3312
THE USE OF BONUSES AS A RETENTION TOOL FOR THE CAF

Introduction

All large organizations need to rely on the successful recruitment and retention of their human resources if they are to meet their organizational goals. The Canadian Armed Forces (CAF) are no exception and this is explicitly stated in their doctrine. According to Major-General Walter Semianiw (quoted in Canadian Forces Joint Publication (CFJP) 1.0), “the personnel of the Canadian Forces are the most valuable component of national defence and are, in fact, a defence capability – the key capability in defence mission success (emphasis added).” According to Major-General Walter Semianiw (quoted in Canadian Forces Joint Publication (CFJP) 1.0), “the personnel of the Canadian Forces are the most valuable component of national defence and are, in fact, a defence capability – the key capability in defence mission success (emphasis added).” Accordingly it is not surprising that the CAF should invest so much in Recruiting and Retention (R2) initiatives. What is somewhat surprising though is the fact that R2 initiatives are heavily focused on the recruiting aspect, with very little in the way of specific retention programs as members reach career transition points. Rather, retention strategies are based on “addressing those issues perceived as dissatisfiers to service life, such as personal recognition, terms of service, work/life balance and military family support.” While this in itself is not a bad thing, it fails to address decisions that service members must make when they approach key career transition points near the end of their current Terms of Service (TOS or “contracts”). It is as though the CAF is saying to its members, “your working conditions are good enough; there should be no reason to give you anything more to encourage you

to remain.” However, as they approach the end of their TOS, service members do consider their all their options. This includes release from the CAF in order to pursue civilian careers. In the case of those members who are leaning towards exiting the CAF, can anything stop them from doing so? Some of Canada’s allies have relied on retention bonuses to retain experienced service members. Does this work and would it work here? Can the use of cash awards or other material compensation in exchange for continued service be used as a viable retention strategy for the CAF? Using data from the American military and the Australian Defence Forces, this paper will argue that cash awards are of limited use for retention purposes and can in fact become problematic. This paper will also look at alternate non-monetary compensation schemes for retention purposes and consider whether these are viable in the Canadian context.

**The rationale for bonuses**

The basic idea behind a retention bonus is to convince members who were planning on releasing to remain instead for a further period of compulsory service. The member’s change of heart may be short term (a few years) or long term (an entire career). Those who see the bonus as the reason to remain in the organization do so as it essentially becomes *too expensive* to leave the organization.³ Understandably, the size of the bonus required to retain a member varies with each individual. For example, a large bonus may be required to compensate for a significant family disruption such as the loss of a spousal job due to posting. Conversely, a smaller bonus may be required for

---

someone who is generally pleased with their work conditions. Determining a bonus sufficiently large to retain enough members is the tricky part.

**Bonuses in the Canadian context**

The CAF currently does not offer any retention bonuses (or “allowances” as they are known in its terminology). However, the CAF does offer several varieties of Recruitment Allowances (RA). According the Compensation and Benefit Instruction (CBI) 205.525, “to meet manning shortfalls in under-strength military occupations, specific recruitment allowances are available as an incentive to attract eligible applicants and provide compensation for the unique skills and qualifications they bring to the Canadian Forces.” Among the most significant allowances is the Medical Officer RA which provides for up to $225,000 in a lump sum payment for a qualified physician to join the Regular Force in exchange for four years of service. Similarly, the Pharmacy Officer RA provides for up to $50,000 in a lump sum payment for a qualified pharmacist to join and provide four years of service. Other officer and NCM occupations have similar programs, but with smaller payouts. The 1998 introduction of the Medical Officer RA is credited with helping correct the exodus of Medical Officers from the CAF.

---

4. Ibid.
6. Ibid., Table D.
8. National Defence and the CAF. “Compensation and Benefits Instructions, (1 April 2013 version), Table D.
in the late 1990s. Indeed, by 2004, up to 35% of Medical Officer positions were vacant. Fast forward to 31 March 2015; the Director General Military Personnel’s Projected Status Report shows a “trained effective strength” (TES) of 221 Medical Officers for 246 positions (89.8% or -25). What this figure fails to show is that by 1 July 2015 there will be more than 25 licensed physicians serving in the Canadian Armed Forces that are not yet TES as they have not completed part of their initial military training (e.g. the Basic Officer Training Program (Recruit School)). The net effect is that Medical Officer strength will be more than 100% by the summer of 2015 which is excellent news for the CAF. What is unclear is what role the Recruitment Allowance played in the physician recruitment success of the last decade. Was there some other factor was at play? Certainly it can be argued that an aggressive, physician-led recruiting team had more to do with it than the RA.

As mentioned above, the CAF currently does not offer any retention bonuses. The most recent retention-type bonus it offered was the Pilot Terminable Allowance. Prior to 31 December 1998, a CAF pilot could be entitled to up to a $75,000 allowance upon undertaking to serve 5 more years of service. However, unlike retention bonuses

12. LCdr Kirsta MacIsaac, Director Military Careers 6-5, in discussion with the author, May 2015.
13. Adams, “Doctors In The Ranks”
paid out in other countries, the Pilot Terminable Allowance paid more money to those pilots with fewer years of service, paying $75,000 for those with less than nine years as a commissioned officer as opposed to $50,000 for those with between nine and eighteen years of such service. Furthermore, to be eligible for the allowance, a member had to be within 5 months of completing the obligatory service they owed due to previously subsidized education. As such, a pilot who did not previously incur obligatory service (such as a Direct Entry Officer) or a pilot who waited until after his obligatory service was complete before committing to further service was not eligible for the allowance. Understandably, this caused some consternation within the pilot community and potentially explains why such a plan has not been used again in the last 17 years.

Whenever personnel retention is discussed in the CAF context, the topic of Terms of Service is often tied-in. According to DND, Terms of Service are “an agreement between the CF and individuals specifying the duration of service and providing the framework for managing personnel flow within military occupations in the CF.” In 2005, a new TOS system was implemented to change the system from one where members where encouraged to leave at certain career gates (thereby encouraging turnover of personnel and preventing stagnation) to one where retention of personnel was emphasized. Compulsory Retirement Age (CRA) was changed from age 55 to age 60,

15. Ibid.
16. Ibid.
18. Ibid.
thereby extending the careers of members that joined later in life.\textsuperscript{19} Similarly, in what is likely the most significant change to TOS was the change in length of the Intermediate Engagement (IE) from 20 years to 25 years. This was also linked to changes to the Canadian Forces Superannuation Act. The intention was that by delaying pension accessibility from 20 years to 25 years that the CAF would retain members for longer periods of time.\textsuperscript{20,21} However, anecdotal evidence seems to indicate that members are not following the proposed TOS of a 3 to 9-year Variable Engagement followed by an IE25. Rather, they are opting for short 3 to 5-year Continuing Engagements (CE) instead. It is as though the end of the IE25 is too far in the future for members to consider it. As such, it is at the end of a CE that a retention bonus may be appropriate to consider, especially when the end of an IE25 is still some time away. From the retention point of view, both the change in CRA to 60 years of age and the change in pension accessibility to 25 years of service are worthy of further study as to whether they are achieving their projected results.

**Allied retention bonus programs**

While there are various retention bonus programs within the United States military, the one that is likely the most known is the Selective Reenlistment Bonus (SRB) which applies to the four Services (U.S. Army, Navy, Air Force and Marine Corps). According to the USN, the SRB “provides a bonus to enlisted personnel who reenlist in a

\textsuperscript{19} National Defence and the Canadian Armed Forces. “ADM (HR-MIL) INSTRUCTION 05/05, The New CF Regular Force Terms of Service,” as modified 17 January 2008
\textsuperscript{20} Ibid.
skill characterized by inadequate manning, low retention, and high replacement costs payable to an individual with between twenty-one months and sixteen years active service.” Furthermore, to highlight the importance of the SRB, the USN considers it “as the Navy's primary monetary Force shaping tool to achieve enlisted retention requirements in ratings, Navy Enlisted Classifications (NECs) and skills.” Through a complex system, selected members of the U.S. military receive reenlistments bonuses that can be up to $90,000 in exchange for a commitment to serve “obligated service” of up to 6 years.

The Australian Defence Forces (ADF) employ retention programs similar to the American SRB. The Critical Employment Category Retention Bonus (CERCB) was employed by both the Royal Australian Navy (RAN) and the Australian Army (though with differing eligibility conditions) “to encourage retention of members and reduce shortfalls in critical trades.” The amounts paid out to Australian service members varied, but in all cases, the payment was in exchange for a two-year period of obligatory service. Concurrently, the Expansion and Ranks Retention Bonus (ERRB) paid “a bonus to members in certain ranks to encourage them to serve longer in those or higher ranks.” The ERRB paid a total to $40,000 for four years of continued service. As such, the two bonus programs were part of the Australian Recruitment and Retention Program, which

25. Ibid., 20.
combined with other retention initiatives, aimed to reduce the separation rate in the ADF to less than 10% per annum. While the ADF did manage to meet their separation targets\textsuperscript{26} it is not clear what role the retention bonuses played when compared to other changes in service conditions or the state of the economy has a whole. Somewhat surprisingly, there is very little literature which deals with the success rate of retention bonus initiatives.\textsuperscript{27}

**Criticisms of retention bonus programs**

There are numerous criticisms of retention bonus programs in USA and in Australia. These are essentially based on the effectiveness and the efficiency of cash payouts to retain members. As previously mentioned, one of the main concerns expressed is that there are no empirical studies that show a direct link between retention bonuses and increased retention. Worse yet is a study published in April 2015 on the effect of the SRB on the USAF which states that the “overall effect of the bonus is small” with between 0.1% and 0.6% increase in the annual retention rate.\textsuperscript{28} Linked to this concern is that retention bonuses are mostly paid out to members who would have remained in the service without one and as such are a significant expense with little return. This is based on the fact that when determining the amount of the bonus, the service is actually trying to determine the marginal amount required to convince the final service member to remain in the service to meet the retention target. As such, the previous service members who accepted the bonus would have been willing to remain for

\begin{itemize}
\item \textsuperscript{26} Ibid., 9-10.
\item \textsuperscript{27} Hoglin. “The Burden of Bonuses,” 162.
\end{itemize}
a lesser amount.\textsuperscript{29} For example, let’s imagine that the Navy wishes to retain 10 sailors more than the expected annual attrition rate of 25 and that there are 115 sailors coming to the retention point (i.e. 90 would normally stay and 25 leave). If the retention bonus required to get the 100\textsuperscript{th} sailor to remain is $10,000, then the retention bonus will be $10,000 for all, even though the 99\textsuperscript{th} sailor would have taken $9,000 (a $1000 overpayment) and sailors 1 to 90 would have remained without a bonus (a $900,000 overpayment). The situation is even worse should insufficient members take up the bonus and retention targets not met.\textsuperscript{30} In the above example, if $10,000 was insufficient to keep the 91\textsuperscript{st} sailor, then $900,000 would be paid out to sailors 1 to 90 for no change in the overall retention picture. Conversely, if the bonus is set too high (e.g. $15,000 – acceptable to the 105\textsuperscript{th} sailor), more sailors than required will remain, thereby causing manning issues on top of the overpayment problem.

Linked to manning issues is the impact that reduced rates of service separation have on currently serving members, especially those that are junior in rank. In services such as the CAF where most ranks are controlled and promotions based on vacancies, increased retention means that promotions are fewer and that members will spend increased time in rank.\textsuperscript{31} As there are more members competing for fewer promotions, this is can potentially lead to greater attrition at the lower rank levels. Junior members become at increased risk to separate from the service than if there had been a greater

\begin{footnotesize}
\begin{enumerate}
\item Zimmerman. “Integrating monetary and non-monetary reenlistment incentives,” 10.
\item Ibid., 168.
\end{enumerate}
\end{footnotesize}
possibility of advancement.\textsuperscript{32} A further unintended side-effect is that in order to mitigate the impact on reduced promotions on their subordinates, reporting officers will be tempted inflate the annual evaluation reports, thereby reducing their utility at annual selection boards due to the uniformity of high scores.\textsuperscript{33} Given the current low separation rates and the fact that members can serve until age 60, both of the above phenomena are likely already being experienced in the CAF.

Other concerns with retention bonus programs have to do with their equity, their reversibility and their long-term impact on a given trade. From the equity point of view, when some members receive a bonus (i.e. extra remuneration) while others do not all the while performing the same type of work, this can been perceived as inequitable and lead to unintended separation from the service.\textsuperscript{34} There are very few ways this can be mitigated. One is to offer the bonus to everyone (i.e. give everyone a pay raise). However, the costs associated with this option are likely so high that the increase in salary may not be enough to retain sufficient members. The other option is not to offer any bonuses at all. With regards to reversibility, once a bonus is offered, it is very difficult to cease such a program, to the point where it might actually become an expectation by members.\textsuperscript{35,36} In the case of the United States, the SRB has existed since 1974 and it followed programs that had existed as far back as 1966.\textsuperscript{37} From the trade perspective there is little known information on what happens to it after a bonus is no

\textsuperscript{33} Hoglin. \textit{“The Burden of Bonuses,”} 168-169.
\textsuperscript{34} Ibid., 169-170.
\textsuperscript{35} Ibid.
\textsuperscript{36} Australia. \textit{“Review of the Australian Defence Force (R2) Program”}, 4
\textsuperscript{37} Joffrion & Wozny. \textit{“Military Retention Incentives,”} 3.
longer given. Does the trade revert to its pre-bonus standing (i.e. any temporary benefits are negated) or does it manage to maintain some of the bonus’ benefit as it moves into the future?

**Non-monetary retention bonuses**

When considering the implementation of retention bonuses, it may be wise to consider the use of non-monetary retention incentives or a combination of both monetary and non-monetary incentives given that remuneration (or lack of it) is not listed as one of the main dissatisfiers during CAF exit interviews.\(^{38}\) The USN surveyed its sailors and compared various non-monetary incentives and the impact that these would have on reenlistment rates and compared them with the equivalent salary increase that would be required to maintain the same reenlistment rate. For example, a retention incentive that guaranteed both the location of employment and type of duty obtained an equivalent retention response as an 8.9% pay raise. Similarly, simply increasing shipboard storage and locker space gave a response equivalent to a 2.4% pay raise.\(^{39}\) Given that some of the incentives may be of little or no cost to the USN, these are worth considering. Other examples of non-monetary compensation to consider are extra annual leave, specific employment or posting location, specific courses, increased/decreased OPTEMPO or even a sabbatical.\(^{40}\)


Another study by the USN has examined the use of a “second-place reverse sealed auctions” combined with non-monetary incentives as a cost-effective method to retain sailors. For example, if in a pool of 10 sailors the USN wishes to retain five of them, the sailors place sealed bids for what they are willing to accept as a retention bonus. The sailors with the five lowest bids are retained, but they are paid at the rate of the second-place (i.e first loosing) bid. In this example, the sailors would be paid the amount of the 6th lowest bid. As a result, the sailors are all paid more than they asked for and the USN would save money not paying more than what is absolutely required to retain the required members. This process becomes even more interesting when sailors are invited to place a monetary value on a non-monetary incentive as part of the bid. As such, a sailor may bid $10,000, but place a $2,000 value on an extra week’s leave. Should that extra week of leave only cost the USN $500, the total cost to meet the sailor’s bid it would only be $8,500 (though the sailor would get a $10,000 value from it). In this case, the sailor’s bid would win against that of a colleague who bid $9,000 but only wanted cash.\textsuperscript{41} Granted, the system could prove cumbersome to manage but nonetheless the combined use of monetary and non-monetary retention bonuses is worthy of further study.

\textbf{Conclusion}

Human resources are the CAF’s greatest asset and their retention is essential if the CAF hopes to meet its defence of Canada mandate. As part of its Recruitment and Retention strategy, the CAF has relied significantly on recruitment allowances to quickly

\textsuperscript{41} Ibid., 86-87.
increase the number of skilled members. However, unlike its American and Australian allies the CAF has opted not to use retention bonuses as part of its retention strategy (with the exception of the Pilot Terminable Allowance of the late 1990s). The question then is whether the use of cash awards or other material compensation in exchange for continued service should be used as a viable retention strategy for the CAF? This paper has demonstrated that the rationale of a retention bonus is to make it too expensive for a member to leave the service. Furthermore, within the CAF, retention is linked to Terms of Service and that the use of retention bonuses could be appropriate as members reach the end of their current TOS, especially when the end of the 25-year Intermediate Engagement is still some time away. From an Allied perspective, the U.S. military has used the Selective Reenlistment Bonus for over 40 years and to this day it is considered a “primary monetary Force shaping tool to achieve enlisted retention”42 while the Australians have used retention bonus within the last eight years in order to reduce their attrition. Although the Australian’s met their retention targets, confounding factors make it difficult to determine whether this was as a result of the retention bonus or as a result of other factors. Furthermore, retention bonuses are criticized due to their cost, their perceived inequities and even their purported effectiveness. Additionally, second and third order effects such as member dissatisfaction due to slower career progressions must be taken into account. As such, retention bonuses should only be considered by the CAF to meet very short term critical retention needs and should be discontinued as soon as possible. Nevertheless, the CAF should consider the use of non-monetary retention bonuses where a member could pick and choose from a selection of benefits. This sort of

42. United States Department of the Navy. “OPNAV INSTRUCTION 1160.8A,”
compensation scheme would likely be perceived as being more equitable to members all
the while being less expensive to the organization. This is an area for further study.
BIBLIOGRAPHY


