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GOLDEN HANDCUFFS: DIRECT FINANCIAL INCENTIVE TIED TO TERMS OF SERVICE COMPLETION

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Exercise Solo Flight

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**GOLDEN HANDCUFFS: DIRECT FINANCIAL INCENTIVE TIED TO
TERMS OF SERVICE COMPLETION**

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INTRODUCTION

The Canadian Armed Forces (CAF) invests significant time and money into recruiting and developing suitable and effective members to fulfill its role in the defence of Canada. The Canada First Defence Strategy (CFDS) clearly recognizes the importance of attracting and retaining personnel to maintain operational effectiveness of the military.¹ In each successive year between 2001 and 2003, recruiting allowances were announced for skilled entry candidates for non-commissioned members,² doctors and dentists,³ and engineers.⁴ While the monetary incentive for skilled individuals to join the CAF was removed in 2012,⁵ it is interesting to note that there was no similar incentive aimed at retaining these essential personnel.

It has been noted that there is a retention problem facing the CAF, most acutely felt in regions with strong economies such as Alberta.⁶ Director General Military Personnel Research and Analysis (DGMPRA) has noted a trend of increasing voluntary release of non-commissioned members (NCMs) with between 10 and 19 years of service (YOS).⁷ Personal experience as a Commanding Officer (CO) of a garrison signal

¹ Department of National Defence, *Canada First Defence Strategy* (Ottawa: National Defence, 2008), 16.

² Department of National Defence, *DND Backgrounder - NCM Recruitment Allowances and Incentives* (Ottawa: Department of National Defence, 2001).

³ Department of National Defence, *DND Backgrounder - Recruitment Allowance for Doctors and Dentists* (Ottawa: Department of National Defence, 2002).

⁴ Department of National Defence, *DND Backgrounder - Engineering Officer Recruitment Allowance* (Ottawa: Department of National Defence, 2003).

⁵ CBC News, "Defence Department Axes Signing Bonuses," last accessed 14 April 2015, <http://www.cbc.ca/news/canada/nova-scotia/defence-department-axes-signing-bonuses-1.1255189>.

⁶ Department of National Defence, *3rd Canadian Division Manning and Retention Campaign Plan* (Edmonton: 3rd Canadian Division Headquarters, 2014).

⁷ Department of National Defence, *DGMPRA Retention Attrition Slides (V4_ Nov)(with Notes).Pptx* (Ottawa: Chief of Military Personnel, 2014).

squadron has demonstrated that some members choose to voluntarily release from the CAF for better compensation. They are able to obtain employment with better compensation using the skills and experience that the CAF has invested in, and perhaps most critical, they are leaving at unforecasted times prior to completing their current Terms of Service (TOS). The nature of career management and postings in the CAF translates this unforecasted voluntary release into a manning shortage until the next posting cycle. This manning gap issue leads to the research question to be investigated in this paper: is there an employment model that would incentivize members to complete TOS and release at forecasted times? This paper will focus on the effect and effectiveness of direct financial incentives on this aspect of retention. The paper's thesis is that direct financial incentives tied to completion of TOS will mitigate unforecasted release.

The research question will be addressed by first clearly articulating the retention problem briefly described above. This will be achieved through reviewing attrition data gathered for the CAF as a whole by Chief of Military Personnel.

Following defining the problem, this paper will highlight *past* and *present* employment models in the CAF. The *past* CAF employment model was based upon a 20 year period of service that had some monetary incentives available at the completion of the TOS. The *present* model has lengthened the TOS from 20 to 25 years before a diminished incentive is available for members completing their TOS. The regulations allowing for voluntary release and CAF member's beliefs on early release will also be highlighted in this section.

It must be noted that the CAF is not the only institution that has challenges retaining trained and effective members. To that end, this paper will then survey both key allies' retention incentives and contemporary private industry retention incentives.

Based upon the evidence presented in the previous sections, this paper will then conclude by confirming the thesis that the CAF needs to adopt more contemporary retention incentives, specifically direct financial incentives tied to TOS completion, if it wishes to maintain skilled and effective members.

RETENTION PROBLEM

Attrition of any workforce is a normal factor that employers face. The workforce will age, retire, seek new opportunities elsewhere, or be fired. There is a healthy level of attrition for any workforces that allows for a steady inflow of “new blood”. In private industry, employees have multiple entry points into a new organization, at the bottom or anywhere up the managerial ladder. Private industries can recruit individuals with requisite skills or train raw “recruits”; moreover, private industry can inject new hires with appropriate skills and experience at any level of the managerial ladder.

The CAF is quite different from private industry, as there is really only one entry point into the institution – the bottom. A healthy attrition level provides the CAF an opportunity to recruit young people, arguably a bona fide requirement for the profession of arms; however, there is a concomitant requirement to spend time and money inculcating new members into the profession of arms and grow trained and effective members. Thus, when CAF members leave the institution, they are only replaceable by

more junior members who have demonstrated the potential and aptitude to fulfill roles with greater responsibility.

This employment model has had problems in the recent past when recruiting did not match attrition levels. Specifically, between 2002 and 2006, the CAF was authorized a trained effective strength of 62 300 Regular Force members, but indicated that it was only at 87% of authorized trained effective strength.⁸ Even with increased focus on recruitment of 20 000 new members, there was attrition of 16 000 members, and the net result was an injection of only 700 new trained and effective members.⁹ The apparent discrepancy between numbers recruited and productive members can be explained very simply as arising from the time necessary to bring a new recruit to trained and effective status, which can range “from two to seven years depending on the occupation.”¹⁰ The impact of an increased attrition rate is alarming, as “every one per cent rise in total attrition translates into approximately 1,000 less trained effective personnel to fill functional positions.”¹¹

At the height of the mission in Afghanistan, facing significant personnel challenges, a call out was made to recently retired CAF members to invite them to re-enroll in order to "assist in a variety of ways in various locations and under a range of

⁸ Office of the Auditor General, "Chapter 2 - National Defence - Military Recruiting and Retention," in *2006 Report of the Auditor General of Canada to the House of Commons* (Ottawa: Office of the Auditor General, 2006), 51.

⁹ *Ibid.*, 51.

¹⁰ *Ibid.*, 52.

¹¹ Department of National Defence, *Department Performance Report for the Fiscal Year Ending March 1, 2008* (Ottawa: Department of National Defence, 2008), 11.

employment options."¹² The attrition problem continues to exist today, as the CAF remains 3.5 percent below trained effective establishment, a factor attributed to high attrition rates.¹³

Thus in order to maintain operational effectiveness, the CAF must make an effort to retain trained and effective members. This concept is recognized in the 2009 *Military Personnel Retention Strategy*, which notes two spikes of attrition, one at approximately 20 years of service, when a member completes their TOS and is eligible for an immediate, unreduced annuity, and during the first year of service, when a newly recruited member may have second thoughts about the CAF.¹⁴ Due to the nature of entry into the profession, the CAF must make an effort to ensure that attrition is accurately forecasted to match recruiting targets. Forecasted attrition at these two spikes is therefore predictable and can be accommodated. The more difficult issue is that of early voluntary release outside of those two known spikes.

CAF members who voluntarily release prior to the completion of their TOS cause manning shortfall for up to a year. A replacement, if available, is generally only posted in at the next Active Posting Season (APS). Data obtained from the DGMPPRA on attrition is presented below to confirm that unforecasted voluntary releases are an issue for the CAF.

¹² CTV News, "Canadian Forces Ask Retired Vets to Re-Enlist," last accessed 15 April 2015, <http://www.ctvnews.ca/canadian-forces-ask-retired-vets-to-re-enlist-1.253897>.

¹³ Department of National Defence, *Department of National Defence and the Canadian Forces 2013-2014 Departmental Performance Report* (Ottawa: Department of National Defence, 2014), 11.

¹⁴ Department of National Defence, *Military Personnel Retention Strategy* (Ottawa: Chief of Military Personnel, 2009), 2.

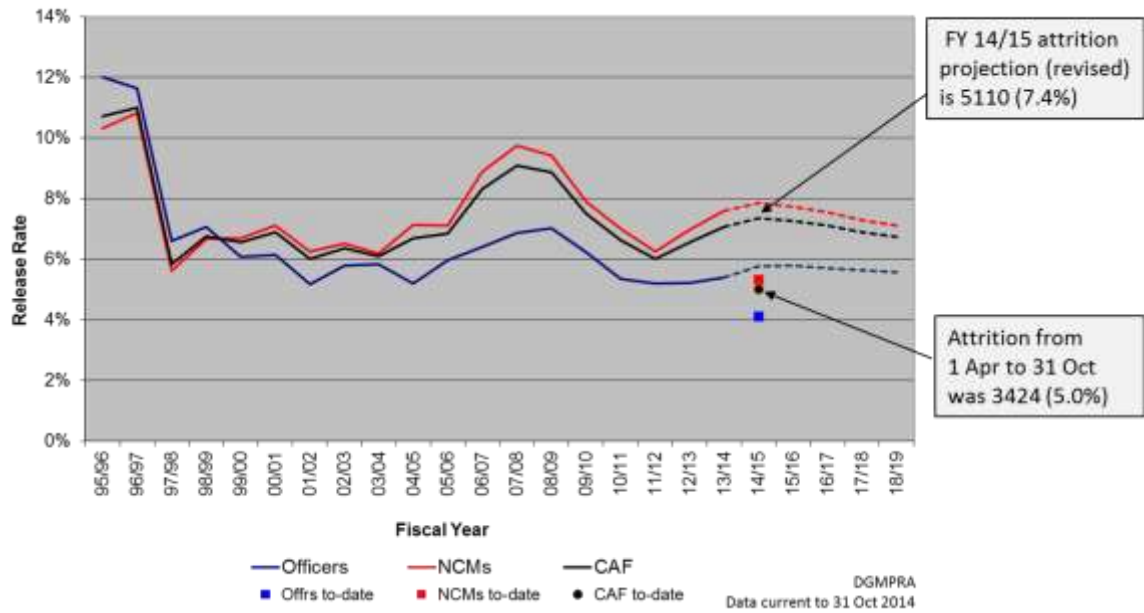


Figure 1: Historical and Forecast CAF Attrition
 Source: DGMPRA Retention Attrition Slides

Figure 1 provides historical and forecast attrition rates for the CAF. The historical aspect tracks the past 20 years of data, whereas the forecast aspect projects out a future five years. The figure indicates a general trend over the last four years of increasing attrition rate. This data on its own does not inform the situation or clearly indicate a problem.

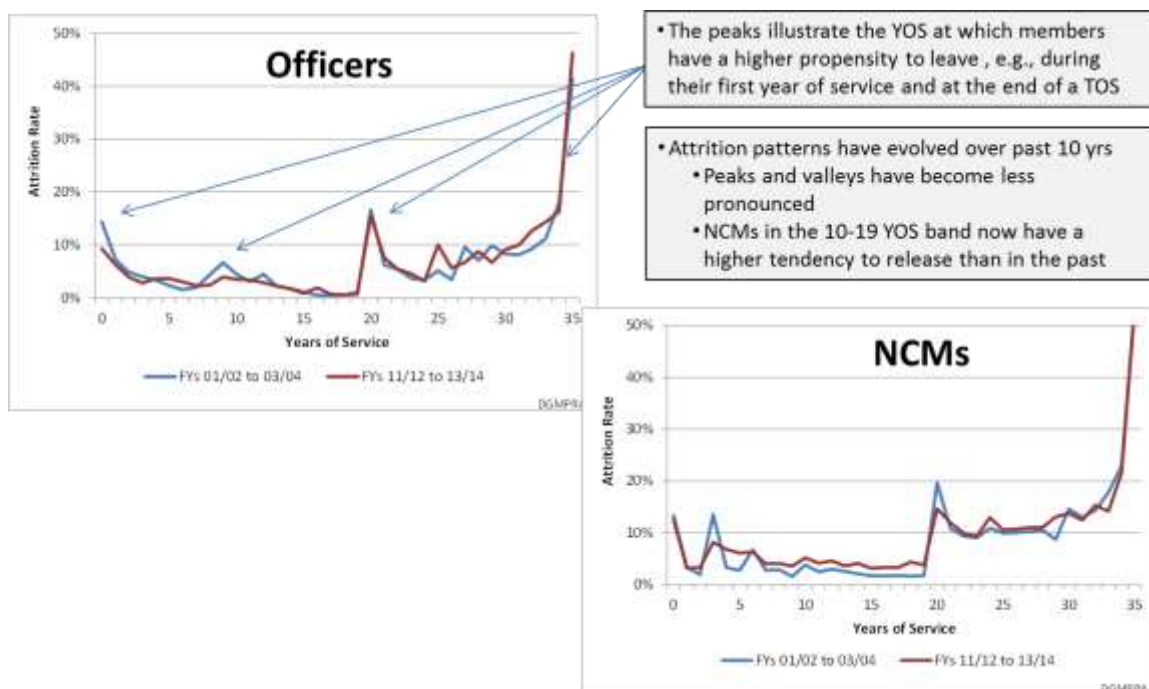


Figure 2: Attrition by Years of Service
Source: DGMPRA Retention Attrition Slides

Figure 2 provides better fidelity on when attrition occurs by YOS. The data for NCM attrition indicates that attrition patterns have evolved over the last 10 years with NCMs in the 10-19 YOS band having a higher tendency to release than in the past.¹⁵

Figure 3 presents release volume data and type of release over the last five years for NCMs. There is a clear pattern discernable in the data with respect to voluntary releases: the volume of voluntary releases decreases between 10 and 19 YOS. Figure 4 presents the same type of data, but for officers. A similar pattern to that noted for NCMs for voluntary releases occurs for officers in that voluntary releases generally decrease between 10 and 19 YOS. This pattern is taken to mean that CAF members tend not to

¹⁵ Department of National Defence, *DGMPRA Retention Attrition Slides ...*

voluntarily release the closer they are to achieving a gateway tied to a financial incentives, which at the 20 YOS mark is an immediate annuity.

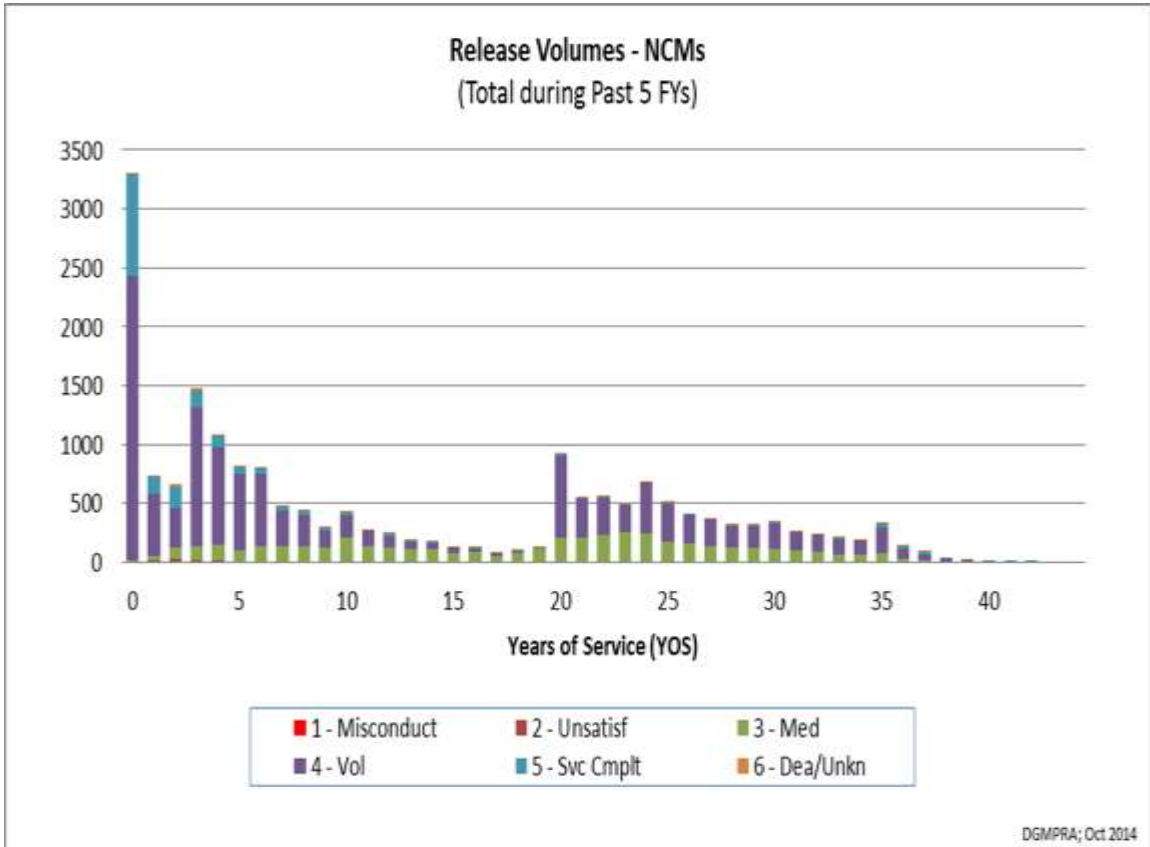


Figure 3: Release by Type and YOS – NCMs
Source: DGMPRA Retention Attrition Slides

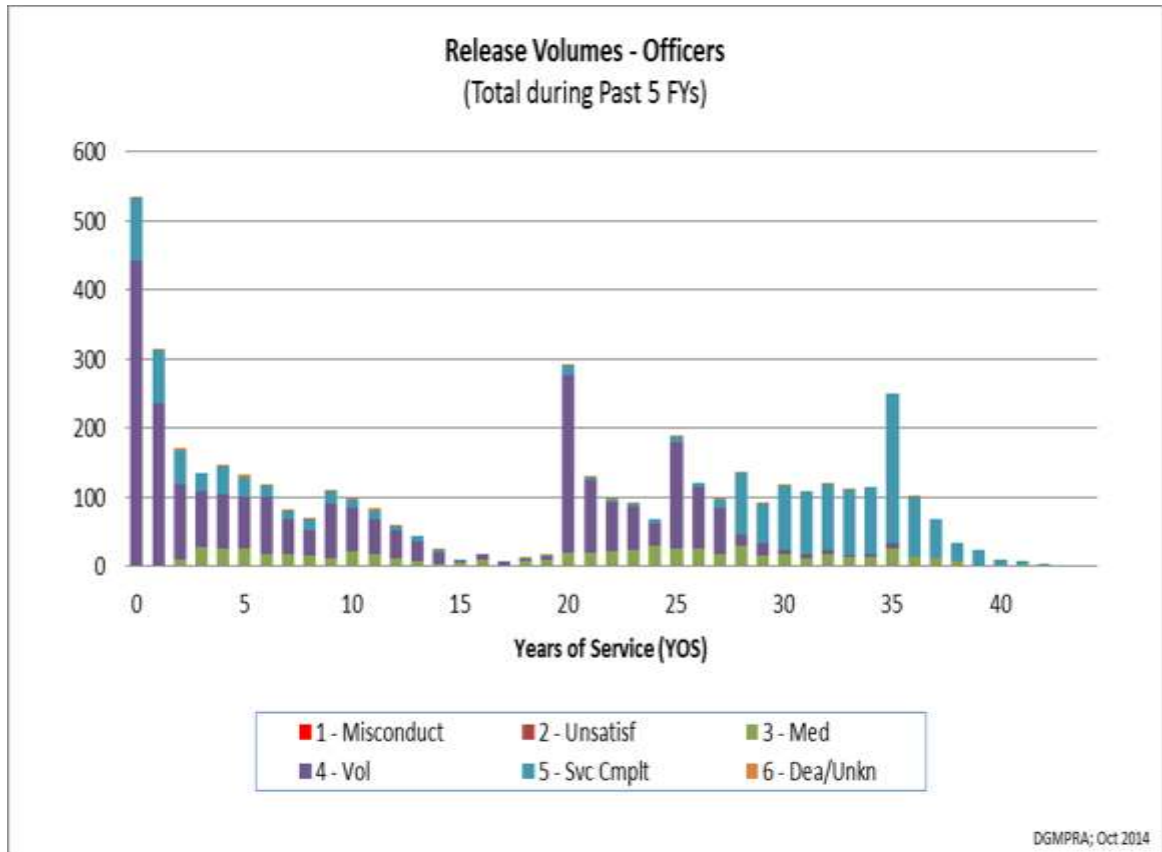


Figure 4: Release Type and YOS – Officers

Source: *DGMPPRA Retention Attrition Slides*

A potential immediate response to CAF members requesting voluntary release is to hold members to their agreed TOS. DGMPPRA has investigated CAF member perception to this option through the 2010 *Your Say* survey.¹⁶ The survey posed specific questions regarding voluntary release prior to completion of TOS. The response indicate that more than half of the CAF disagree with requiring a member requesting voluntary release to be denied that release based on service requirements.¹⁷ Moreover, the survey

¹⁶ Department of National Defence, *Fall 2010 Your-Say Survey Focus Section : Terms of Service, Voluntary Release, and Obligatory Service* (Ottawa: Chief of Military Personnel, 2012).

¹⁷ *Ibid.*, iv.

indicated that while a large population in the CAF believe that unforecasted voluntary releases are an issue for units, “refusing requests for voluntary release would have a negative effect on unit morale.”¹⁸ Voluntary release policy will be further investigated as part of the next section of this paper, but the 2010 survey indicates a clear CAF member preference towards continuing to allow unforecasted voluntary releases when a member so requests.

A second possible response to gaps created by unforecasted voluntary releases would be to post in a replacement prior to the next APS. While this course of action may appear to mitigate the problem at first glance, the current posting system is built around a specific period, or season, during which the majority of posting occur.¹⁹ Personal experience with career management and postings indicate that individual training production of entry level members is not an issue in this regards. New members can and are posted outside of the APS; however, it is trained and effective member, those in current positions and possibly with families, who are difficult to post outside of the APS. There are some policies such as imposed restrictions, where the member is separated from his/her family for a period of time, which would support out of APS postings. However, there is a reticence to unduly separate the member from his/her family and a restriction of a maximum of four years.²⁰ Moreover, there is a financial cost borne by the CAF in providing accommodations and leave travel assistance to members posted on

¹⁸ *Ibid.*

¹⁹ Department of National Defence, *ADM(HR-Mil) Instruction 05/05 - The New CF Regular Forces Terms of Service* (Ottawa: Department of National Defence, 2005).

²⁰ Department of National Defence, *CANFORGEN 184/12 - Changes to Imposed Restriction Policy* (Ottawa: Department of National Defence, 2012).

imposed restriction. And so, established trained and effective members are most economically and effectively posted into new positions during the APS and according to forecast.

Thus, for the CAF, the data suggests that there is a retention problem for NCMs, and to a lesser extent officer, within the 10 to 19 YOS band. This problem is most notable earlier in this band and declines to negligible levels just prior to the 20 YOS point, a forecasted gateway for releasing from the CAF. As well, historical data indicates that this problem has grown over the last 10 years for NCMs. The data also indicates a preference within the CAF to allow unforecasted releases despite the pressure at unit level it may cause.

PAST AND PRESENT EMPLOYMENT MODEL

This paper will define employment model as the framework for recruiting, training and employing an employee until they release from the CAF. An essential element of the employment model is the concept of TOS. TOS “is an agreement between the CF and individuals specifying the duration of service...”²¹ that a member is liable to serve. TOS length varies from as short as three years to an indefinite period of service that would take a member to compulsory retirement age. The CAF employment model sees an applicant agree to a short, fixed period of service on entry. Upon completion of this TOS, the member could be offered further TOS, depending on the needs of the

²¹ Department of National Defence, *DND Backgrounder - Recommended Changes to Canadian Forces Terms of Service* (Ottawa: Department of National Defence, 2001).

service.²² Further, upon completion of specific TOS, members could be eligible for severance pay and/or a pension – both of which are seen as incentives to complete the TOS. The employment model also allows CAF members to request release from the CAF prior to completion of a TOS. The employment model over time and the ability to voluntarily release will be examined below.

The employment model was changed beginning in 2005, and allows a characterization of a *past* and *present* employment model based upon TOS. The *past* TOS “were originally designed to release 80 percent of members at or before 20 years of service. They were based on Cold War conditions and the availability of recruits.”²³ The normal sequence of TOS for the *past* employment model was an initial fixed period of service followed by an Indeterminate Engagement (IE) that took a member to 20 years of service. At this point, the member could be offered an Indefinite Period of Service (IPS) that would allow the member to serve the CAF until compulsory retirement age.²⁴

In 2005 and in the face of “demographic challenges and the need to enhance personnel retention...”²⁵ the CAF put in place the *present* employment model based upon a TOS sequence that was similar to the *past* model, but replaced the 20 year IE with a 25 year IE. It is difficult to obtain data on the effectiveness of this strategy as:

²² *Ibid.*

²³ Office of the Auditor General, *Chapter 2 - National Defence - Military Recruiting and Retention*, 64.

²⁴ Department of National Defence, *ADM(HR-Mil) Instruction 05/05 - The New CF Regular Forces Terms of Service*.

²⁵ Department of National Defence, *CANFORGEN 067/05 - New Regular Force Terms of Service* (Ottawa: Department of National Defence, 2005).

[The Office of the Auditor General] estimate that the first group of Canadian Forces personnel who will serve for 25 rather than 20 years will be officers who completed their initial engagement in 2005 and re-enlisted under the new terms of service. They may not begin to serve the extended five years until around 2013 and will be required to serve until about 2018 or later before being eligible for release with a pension.²⁶

However, it is clear from the attrition data presented in the previous section that the 20 year IE was a predictable exit gateway for CAF members. The reason this was the case is apparent when one inspects the pension scheme for CAF members.

For both the *past* and *present* employment model, members following the typical employment model were eligible for an immediate annuity, or pension, upon completion of an IE.²⁷ There are of course exceptions to this general rule, such as provisions for medical release where members are eligible for an immediate pension earlier; however, for the purposes of this paper, the typical employment model requirements for pension eligibility will be used. Both the *past* and *present* CAF employment model “assumes that those who make it past 3 years of service will complete an average of 22 years of service or past the point where they are eligible to draw a pension.”²⁸

Both the *past* and *present* employment models made provisions for members releasing prior to completion of an IE. Under the *past* model, members were entitled to a return of contributions if they voluntary released prior to 20 YOS.²⁹ A return of

²⁶ Office of the Auditor General, *Chapter 2 - National Defence - Military Recruiting and Retention*, 65.

²⁷ Canadian Forces Superannuation Act, R.S.C., c. C-17, s-16 (1985).

²⁸ Allan Okros, "Chapter 7 - Becoming an Employer of Choice : Human Resource Challenges within DND and the CF," in *Public Management of Defence in Canada*, ed. Craig Stone (Toronto: Breakout Educational Network in association with the School of Policy Studies, Queen's University, 2009), 168.

²⁹ Canadian Forces Superannuation Act, R.S.C., c. C-17, s-19 (1985).

contributions is defined as “the amount paid by the contributor into the Superannuation Account.”³⁰ However, under the *present* employment model, members voluntarily releasing prior to 25 YOS, with a minimum of 2 YOS are now entitled to a deferred annuity, payable at age 60 (or as early as age 50 with some reduction).³¹ Only members releasing with less than two YOS are entitled to a return in contributions.³² Thus, the *past* employment model can be termed to have withheld a financial benefit until completion of TOS more than the *present* model, under which members can voluntarily release prior to completion of TOS and still have a deferred pension.

The *present* employment model was fully put in place in 2012 with a cessation of severance pay accumulation. CANFORGEN 062/12 was the executive for this change and further eliminated the graduated incentive scale for severance pay.³³ Under the *past* employment model, members were not eligible for any severance pay until they had served a minimum of 10 YOS. Between 10 and 19 YOS, members who voluntarily released from the CAF were entitled to 3.5 days of current pay per YOS. At 20 YOS, the severance pay doubled to 7 days of current pay per YOS. The *present* employment model removes the gradient steps for severance pay eligibility, awarding 7 days of current pay per year no matter the YOS while at the same time removing the accumulation YOS towards severance pay – ultimately removing severance pay as an incentive tied to continued service.

³⁰ *Ibid.*, s-12.

³¹ Canadian Forces Superannuation Act, R.S.C., c. C-17, s-17 (2013).

³² *Ibid.*, s-20.

³³ Department of National Defence, *CANFORGEN 062/12 - Approved Pay Increase* (Ottawa: Department of National Defence, 2012).

Regarding the CAF policy on voluntary release, the Queen's Regulations and Orders (QR&O) 15 – Releases, indicate that CAF members can be voluntarily released from under three situations: the first, when they are eligible for an immediate annuity (i.e. have completed a TOS that brings them to 20 or 25 years of service), the second, when they have completed a fixed period of service (a shorter TOS), or third, prior to completion of a TOS, if there are “good and substantial reasons for seeking ... release and the exigencies of the service permit...”³⁴ Releases are generally granted in the first two situations based upon member preference and as soon as thirty days from submitting a request to release voluntarily. The third situation could be held to complete the current TOS, but generally are allowed to release within six months of requesting release. Depending on the good and substantial reason, this period of time can be reduced to thirty days.

Thus, the CAF employment model changed substantially over the last 10 years. First, TOS were changed in 2005 with the major effect being a lengthening of the IE from 20 to 25 years. This has a direct impact on when members are eligible for an immediate annuity, and from one perspective can be seen as incentive to stay in the CAF longer; however, the data for this desired outcome will not be available until at the earliest 2018. Moreover, the *present* employment model allows for a deferred pension prior to completion of TOS. Second, eligibility for severance pay and accumulation of time toward it was changed in 2012. At the same time, the ability to request and be granted a voluntary release prior to completion of a TOS remained the same. And so, one can

³⁴ Department of National Defence, "Chapter 15 - Releases," in *Queen's Regulations and Orders* (Ottawa: Department of National Defence, unknown).

characterize the *past* employment model as having an incentive to remain until 20 YOS based on severance pay gradients and repayment of contribution vice an annuity prior to 20 YOS. In contrast, the *present* employment model has de-incentivized retention through removing severance pay and allowing a deferred annuity prior to completion of an IE.

OTHER ALLIES RETENTION INCENTIVES

A detailed review of allies' retention incentives is beyond the scope of this paper, and so a survey of key allies' retention incentives will be provided in this section. The United Kingdom (UK), the United States (US) and Australia (AU) schemes will be briefly examined to identify the approaches towards the challenge of retaining trained and effective armed forces members and the incentives each nation uses. While AU is the most similar to Canada in the structure of their armed forces, in that they have a single defence force with one policy for all services, there is merit in also looking at the UK and US where service recruitment and retention is handled by individual services.

The UK faced a significant recruitment and retention issue at the height of their involvement in Afghanistan and Iraq. In a 2006 report by the National Audit Office, it was noted that historically all services were below authorized manning levels and that there were areas of shortages that were operationally significant.³⁵ It found that “early departures were starting to increase for some key groups.”³⁶ To address the issue, a wide

³⁵ National Audit Office, *Ministry of Defence: Recruitment and Retention in the Armed Forces* (London, UK: National Audit Office, 2006), 13.

³⁶ *Ibid.*, 17.

range of short term measures were implemented, including financial incentives, to retain key trained and effective members.³⁷ The financial incentives offered were a fixed sum of money in return for a commitment to serve for a defined period of time.³⁸ The actual sum was dependent on members' occupation and ranged from 10,000 pounds and a three to five year commitment for certain army occupations, through 25,000 pounds for a three year commitment for certain naval occupations to 50,000 pounds for a five year commitment for tri-service air crew.³⁹ It is important to note that these financial incentives were offered as a retention incentive and were paid out at the beginning of the required time commitment, vice as a reward for completing the service. To this end, the National Audit office report rightly indicates that it is difficult to identify members who would have stayed even without the retention incentive.⁴⁰

Additionally, within the UK Army, there is a concept of commitment bonuses. After having served a specified period of time, soldiers re-enlisting or continuing to serve for additional time are eligible for a financial incentive at the end of the term. In 2008, the financial incentive to stay eight years in the army was 15,000 pounds.⁴¹ And similar to the CAF, the UK Armed Forces offers an immediate pension to eligible members after specific periods of service: 16 years for officers and 22 years for other ranks.⁴² Prior to this point in time, if a UK Armed Forces member voluntarily releases and have served a

³⁷ *Ibid.*

³⁸ *Ibid.*, 18.

³⁹ *Ibid.*, 48.

⁴⁰ *Ibid.*, 26.

⁴¹ Thomas Harding, "15,000 for Troops Staying Eight Years in the Army," *The Telegraph*, 20 March 2008.

⁴² Ministry of Defence, *Service Leavers Guide* (London, UK: Ministry of Defence, 2014), 24.

minimum of two YOS, they are eligible for preserved pension payable at age 60.⁴³ In addition, members are eligible for a terminal grant, or an immediate lump sum payment of three times the annual rate of pension, upon leaving the service.⁴⁴

The US Armed Forces has the ability to offer reenlistment bonuses to members of the Armed Forces as laid out in US Code Title 37. The reenlistment bonus may be paid to personnel who have completed their initial terms of service, are in an occupation designated as critical and agree to a further enlistment of a minimum of three years. The bonus is calculated based upon the rate of pay of the member at the expiration of their previous terms of service and can be as much as \$90,000.⁴⁵ The reenlistment bonus is paid at the commencement of the new terms of service in either a lump sum or by installments.⁴⁶ Should a member not complete the new terms of service, the member is required to repay the unearned portion of the reenlistment bonus.⁴⁷

Enlistment periods vary by service and occupation, but in general, recruits join the US Armed Forces on an initial 4 year enlistment.⁴⁸ Upon serving for 20 YOS, a US Armed Forces member is eligible for an immediate pension, termed retirement pay.⁴⁹ Discharge from the Armed Forces prior to this point in time precludes retirement pay, but

⁴³ *Ibid.*

⁴⁴ *Ibid.*

⁴⁵ "Title 37, Chapter 5, Sub-Chapter 308 - Special Pay - Reenlistment Bonus," last accessed 22 April 2015, <https://www.law.cornell.edu/uscode/text/37/308>.

⁴⁶ *Ibid.*

⁴⁷ *Ibid.*

⁴⁸ Military Advantage, "Join the Military - Know what You are Committing To," last accessed 22 April 2015, <http://www.military.com/join-armed-forces/making-commitment.html>.

⁴⁹ Secretary of Defence, "Military Compensation - Retirement," last accessed 22 April 2015, <http://militarypay.defense.gov/retirement/>.

may be eligible for voluntary separation pay – a lump sum payment generally equating to 10% of the product of yearly earnings and YOS.⁵⁰

In 2006, AU began a program aimed at improving recruitment and retention in the Australian Defence Force (ADF). They consolidated various recruitment and retention strategies so as to manage these strategies centrally, but execute them de-centrally, in order to both increase recruitment and reduce attrition from 11% to less than 10% annually.⁵¹ The retention strategy included both “short term remediation initiatives to stabilize the personnel situation and longer term major reforms.”⁵² One line of effort in the longer term reforms was orienting the ADF as an employer of choice with competitive rewards.⁵³ By 2010, the ADF was “considerably over its funded strength...”⁵⁴ and the retention strategy was considered a success.

A temporary element of the AU retention strategy was Army and Navy Retention bonuses tied to further service. The 2010 report on the effectiveness of the AU recruiting and retention strategy points to these bonuses as one of the only areas where they could draw a direct connection between the incentive and retention.⁵⁵ Retention bonuses were targeted according to need and varied in value and commitment length from \$30,000 to certain Air Force trades for a YOS to a total of \$40,000 for certain Army ranks

⁵⁰ "Title 10 - Code 1175 - Voluntary Separation and Pay Benefits," last accessed 22 April 2015, <https://www.law.cornell.edu/uscode/text/10/1175a>.

⁵¹ Noetic Solutions, *Review of the Australian Defence Force Retention and Recruitment Strategy*, Noetic Solutions 2010), 4.

⁵² *Ibid.*

⁵³ *Ibid.*

⁵⁴ *Ibid.*, 9.

⁵⁵ *Ibid.*

commitment to four YOS.⁵⁶ The report also indicates that it is difficult to ascertain if members receiving the retention bonus would have remained in the ADF without it.⁵⁷

The 2010 report goes further in commenting on the effectiveness of financial retention incentives, stating that “they have a place as a short-term fixer, specifically in relation to a short-term change in external offers for ADF personnel....”⁵⁸ However, under the extant ADF pension scheme – the Military Superannuation and Benefits Scheme (MSBS) – there is a built in financial retention bonus of one year’s salary for members at 15 YOS to commit to an additional five YOS.⁵⁹ If a member releases from the ADF prior to the five YOS, the unearned portion of the benefit is repaid.⁶⁰ The MSBS can be defined as a deferred pension, in that payment is not available until a minimum age of 55, and ADF members with a minimum of one year of service are eligible for such a deferred pension.⁶¹

Thus, a brief survey of key allies and their retention schemes indicates that direct financial incentives tied to further periods of service have been consistently used to drive retention. The mechanics of the financial incentivization is slightly different for each ally, and potentially each service; however, there is a consistent application when there is a desire to retain trained and effective members. Similarly, there is a consistent pattern of tying an annuity to a specific period of service, but here too there is some variance on the

⁵⁶ *Ibid.*, 10.

⁵⁷ *Ibid.*, 9.

⁵⁸ *Ibid.*, 10.

⁵⁹ Adam Crocket, "Military Retirement Reform : An Australian Perspective" (master's thesis, Naval Post Graduate School, 2014), 14.

⁶⁰ *Ibid.*, 15.

⁶¹ *Ibid.*, 13.

exact service length. Most significantly, the AU data confirms that direct financial incentives are indeed effective in short term retention, and as a response to external drivers such as competitive labour markets.

PRIVATE INDUSTRY RETENTION INCENTIVES

Civilian labour practises can be viewed as more dynamic and transactional than those of the public sector. A simplistic view of civilian labour practices can be summarized as private industry paying the going rate of compensation to ensure a profit. Moreover, civilian organizations can build retention into an overall compensation package. Additionally, private industry can be thought of as faster to react and less constrained than public institutions in addressing retention issues. It is important to understand contemporary civilian compensation models as they are a pull factor for highly trained and experienced CAF members. Similarly, and in the face of competitive civilian industry, it is important to look at extant research into financial incentives effectiveness for military retention to inform military compensation and potential innovations to increase CAF member retention.

The most recent Conference Board of Canada compensation outlook indicates that although overall economic growth in Canada is expected to be slow in 2015, moderate compensation increases are forecasted.⁶² Moreover, “[t]he percentage of [both private and public sector] organizations experiencing difficulty recruiting and retaining particular

⁶² Katie Fleming and Nicole Stewart, *Compensation Planning Outlook 2015* (Ottawa: Conference Board of Canada, 2014), 1.

skills has increased to 64 percent – up from 58 percent in 2014.”⁶³ The 2015 report indicates a continuing trend in additional sources of compensation including some form of incentive plan. Short Term Incentive Plans (STIPs) are tied to employee performance, and 83% of survey respondents have one in place.⁶⁴ The average cost of STIP is reported at 11% of total base pay spending.⁶⁵ The majority of survey respondents indicated that STIPs were used to drive organizational and individual performance and that STIPs achieved that objective.⁶⁶ In addition to STIPs, Long Term Incentive Plans (LTIPs) tie an employee’s performance with a condition to remain with the employer for a determined period of time.⁶⁷ While 59% of private sector respondents indicate that LTIPs are used, only 6% of public sector respondent organizations have LTIPs.⁶⁸ The average cost of LTIPs for executives is reported as 58% of base pay.⁶⁹

The desire to maintain key talent in the private sector stems from a recognition that key talent “disproportionately contributes to current organization performance and to future performance since key employees often become organization leaders.”⁷⁰ Additionally, employee turnover is a costly matter that affects private industry’s overall productivity.⁷¹ Worldatwork, a not for profit human resource education organization, conducted a survey in 2011-2012 to determine what contemporary key talent retention

⁶³ *Ibid.*, 18.

⁶⁴ *Ibid.*, 8.

⁶⁵ *Ibid.*, 14.

⁶⁶ *Ibid.*, 12.

⁶⁷ Investopedia, "Definition of Long Term Incentive Plan (LTIP)," last accessed 20 April 2015, http://www.investopedia.com/terms/l/long_term_incentive-plan.asp.

⁶⁸ Fleming and Stewart, *Compensation Planning Outlook 2015*, 14.

⁶⁹ *Ibid.*

⁷⁰ Scott Dow, Tom McMullen and Mark Royal, *Retention of Key Talent and the Role of Rewards* (Scottsdale: Worldatwork, 2012), 2.

⁷¹ *Ibid.*, 3.

strategies were in private industry. The survey indicated that the 80% of respondents had a program to identify key talent, 83% paid key talent above labour market rates and 74% provided cash retention bonuses.⁷² Moreover, analysis of the survey results indicate that respondents believe that paying key talent above labour market rates is the most effective method of retaining employees.⁷³ And specifically in regards to direct financial incentives, LTIPs were singled out as being an effective retention method.⁷⁴

It could be argued that employees in private industry are more transactionally motivated than professional members of an armed force; however, a recent study indicates that financial incentives would also be an effective tool for armed forces. The RAND Corporation developed an officer retention model when requested to do so by the US Secretary of Defence. The model is based on compensation as it is the “key tool for attracting, retaining, and eventually [releasing] the right number and quality of people for the military.”⁷⁵ The model statistically estimates US officer behaviour and uses these estimates to gage the effect of changes in compensation on retention of mid-career officers (taken to mean those serving from 10 to 19 YOS).⁷⁶ The model predicts that a desired retention rate could be obtained through either a bonus, a deferred bonus available at some point in the future (termed separation pay and equivalent of Canadian severance pay), or a combination of the two.⁷⁷

⁷² *Ibid.*, 10.

⁷³ *Ibid.*

⁷⁴ *Ibid.*, 11.

⁷⁵ Michael G. Mattock et al., *Toward Improved Management of Officer Retention* (Santa Monica, CA: Rand Corporation, 2014), 1.

⁷⁶ *Ibid.*, 2.

⁷⁷ *Ibid.*, xiii.

In a competitive labour environment, private industries that can afford to pay for talent will be more effective than those that cannot. The reports and studies discussed above also look at other pull and push factors regarding employee retention, but generally agree that compensation is a key factor in attracting and retaining employees. Moreover, financial retention incentives in the form of LTIPs that tie a deferred reward to a period of employment are seen as effective retention tools that can be built into the overall employee compensation package. It should be noted that private industry with its focus on Return on Investment (ROI) are keenly aware of employment gaps due to employee turnover causing productivity loss, and may be in a better position to build a business case for financial retention incentives than public organizations. Private industry may also be in a better position to offer financial incentives and pay above labour markets in being more flexible in applying corporate human resource regulations to a subset of all employees – key talent. The RAND corporation study indicates that these contemporary labour practices would be equally effective in retaining key talent in armed forces.

CONCLUSION

This paper investigated a research question that affects the operational effectiveness of the CAF: is there an employment model that would incentivize members to complete TOS and release at forecasted times? As demonstrated in the definition of the problem, the gaps created in unit lines from unforecasted voluntary releases create pressure on units to meet mandated responsibilities. DGMPRA data was presented to indicate an increasing trend in NCMs with 10-19 YOS voluntarily releasing. The *past* and *present* employment models were reviewed to illustrate that the *past* employment

model had clear financial incentives tied to completing 20 YOS, and that the *present* model has dismissed some of those incentives and stretched the YOS requirement to 25 YOS. This is a concerning situation and as indicated by the 2006 Auditor General Report, one for which the true consequences will not be known for a few years yet.

Moreover, the CAF employment model of potentially long TOS – specifically the potential 16 to 21 year commitment of an IE following an initial engagement, is not truly a contract, in that members have an ability to request voluntarily release at any time, and historically have been granted that release within a maximum of six months. So, the problem is real, extant and could possibly be growing due to the changes in the CAF employment model.

Other nations and private industry both face a similar challenge in the fight to attract and retain employees. A depth investigation into other armed forces employment models and retention schemes is beyond the scope of this paper, but the cursory survey of UK, US and AU data indicates that each has used direct financial incentives in the past as a way of retaining key personnel in the face of a competitive labour market. The AU data goes as far as to indicate that such financial retention incentives are effective in the short term. As to private industry, their focus of ROI allows them to monetize retention and compensation in a way that public organizations generally do not. However, a RAND study indicates that similar financial retention incentives would be equally effective in armed forces organizations, and could affect the decision to stay or go for a critical population – those in the middle of their careers. For the purposes of this paper, this critical population is taken to mean members in the 10 to 19 YOS band who represent

significant investments in time and resources in order to have obtained required and marketable skills.

Based on the data reviewed above, the answer to the research question is clear: the CAF employment model must continue to evolve and must provide direct financial incentives to retain trained and effective members in the face of competitive labour markets. The appetite to hold individuals to long TOS does not exist, but shorter TOS with Golden Handcuffs, or contract completion bonuses tied to TOS completion, could be better suited to enforcement and lead to additional forecasted exit gateways that prevent unforecasted voluntary releases and the resultant gap in unit productivity. This model has been shown to be effective for other allies and private industry. Thus, the evidence presented in this paper confirms the thesis that direct financial incentives tied to completion of TOS would mitigate unforecasted release of trained and effective members of the CAF.

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