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An Analysis of Canadian Armed Forces Pension and Personnel Retention

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JCSP 48

Service Paper

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CANADIAN FORCES COLLEGE – COLLÈGE DES FORCES CANADIENNES

JCSP 48 – PCEMI 48

2021 – 2022

Service Paper – Étude militaire

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Major Paul Allan

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AN ANALYSIS OF CANADIAN ARMED FORCES PENSION AND PERSONNEL RETENTION

AIM

1. The purpose of this service paper is to present practical recommendations to Chief of Military Personnel (CMP) for changes to Canadian Armed Forces (CAF) policy and practices to increase retention as it relates to the CAF pension plan. Pension benefits are only one part of the retention strategy equation, but they are arguably one of the most critical factors to consider for reasons that are not always obvious. This paper will focus on key elements associated with pension benefits that contribute to retention and could either have a positive or negative effect if changed.

INTRODUCTION

2. In Canada's Defence Policy "Strong, Secure, Engaged (SSE)", it is acknowledged that "investing in our people is the single most important commitment we can make".¹ Part of that investment must include protecting members' futures, once they have left the CAF. Significant pension reform occurred in the CAF in 1999, but an independent review concluded that changes to legislation had not gone far enough.² Additional changes in 2003 and 2007, part of Canadian Forces Pension Modernization, were needed to improve benefits with the objective of attracting and retaining members. The Honourable Gordon O'Connor, Minister of National Defence at the time, was quoted as saying "these changes will improve the quality of life of our members, encouraging people to join the C[A]F and those members currently enrolled to continue their service."³

3. Pension modernization has been effective in attracting and retaining some members, but benefits are often not well understood by members, and therefore the impact is not as significant as would be expected. Dr. Koedel and Dr. Xiang, professors for the University of Missouri, conducted a study to measure the retention of public employees based on pension enhancements. In the study, the professors found that "teachers do not value their pension benefits, at least at the margin, at nearly the cost of providing them."⁴ An explanation for this finding was thought to be because of a "lack of knowledge about the full value of their pensions."⁵ At this point, according to Canada's

¹ Canada. *Defence Policy – Strong, Secure, Engaged*. Ottawa: Department of National Defence, 2017, 19.

² Canada. Government of Canada. *Canada's New Government Announces Canadian Forces Pension Modernization*. Last accessed 22 December 2021. Canada's New Government Announces Canadian Forces Pension Modernization - Canada.ca

³ Ibid.

⁴ Koedel, Cory and P. Brett Xiang. "Pension Enhancements and the Retention of Public Employees." *Industrial & Labor Relations Review* 70, no. 2 (2017): 544.

⁵ Ibid., 544.

Defence Policy, CAF Regular Force recruitment and retention policies and practices need to make changes in order to reach the force strength “goal of 71,500 personnel.”⁶

4. Middle management in the CAF, more than their junior or senior counterparts, often end up in the unique position once they approach the final third of a 35-year career. Still potentially having many years left to serve, but due to years of investment in their professional development, they will have new career opportunities presented to them outside of the CAF. The timing of this transition occurs around the same time that they reach the 9,131 days, or 25 years of service required to become immediate annuitants in the CAF pension plan, which is also the same time that they can receive an unreduced pension. These members provide tremendous benefit to the organization, as they can train the next generation, holding down key operational positions, and preparing to take on more senior roles as the future leaders of the organization.

CONTEXT

5. Numerous studies have been completed in recent years with the goal of identifying and solving issues related to retention in the CAF. Defence Research and Development Canada (DRDC) conducted surveys in 2016 and 2019 outlining factors associated with an increase in the percentage of personnel indicating their intent to leave the CAF.^{7,8,9} The result of these studies is the realization that retention in the CAF is a “wicked problem”, which means that the issue is very complex and is not able to be solved.¹⁰ Although there are multiple variables to consider when tackling retention issues, according to DRDC’s surveys, pension was not one of those variables that was considered problematic. The CAF pension is not a problem in terms of a dissatisfier for members, but it could be a problem for retention since it provides an opportunity for members to retire at a stage of their career when their continued service would still be considered valuable to the CAF. This is usually true of middle managers, or personnel just entering the final third of their career.

6. Having a desirable pension plan, according to Toronto’s Human Resource (HR) reporter Monina Febria, could “give employers a powerful recruitment and retention

⁶ *Defence Policy – Strong, Secure, Engaged...*, 13.

⁷ Edward Yeung, Evanya Musolino, and Emrah Eren. *The 2019 CAF Regular Force Retention Survey: Descriptive Analysis*. Ottawa: Defence Research and Development Canada, 2020.

⁸ Polly Cheng, Vanessa Myers, Evanya Musolino, Edward Yeung, and Emrah Eren., *The 2019 CAF Regular Force Retention Survey: Qualitative Analysis*. Ottawa: Defence Research and Development Canada, 2020.

⁹ Nicholas Bremner, Glen Budgell, *The 2016 CAF Retention Survey: Descriptive Analysis*. Ottawa: Defence Research and Development Canada, 2016.

¹⁰ Amanda Huddleston, *Canadian Armed Forces Retention: A Wicked Problem?* Winnipeg: University of Manitoba. Thesis, 2020, 10.

tool.”¹¹ Retention is a challenging and expensive problem, especially for the CAF, given the amount of paid training invested in each member of the Regular Force. There is a substantial financial cost to train personnel, but more importantly, training personnel takes away valuable human resources, which is something the CAF is regularly lacking. When personnel leave the CAF after a few years of service, it is difficult enough to replace them, but the real challenge is replacing experienced personnel after decades of service, where there are already shortages. Monina Febria goes on to say that “by 2022, employee retention will be HR’s dominant challenge, according to a 2012 report by the Society for Human Resource Management.”¹²

7. The focus of this paper will be on identifying possible changes to the CAF pension plan that will either positively or negatively affect retention and thus, operational effectiveness. Although this paper will offer suggestions to assist with the ongoing CAF retention problem, as it relates to the pension plan, it is important to note that while retention issues exist for specific trades, those specific cases will not be the focus of this paper. Due to the length and scope of the paper, retention issues related to Regular Force personnel will be considered, with only minor consideration being given to pension issues for Reserve Force personnel.

DISCUSSION AND ANALYSIS

8. A defined benefit plan, or what is commonly known as a pension, is intended to retain employees for a longer period. The issue with this idea is that, according to Dr. Louis Wilford of Walden University, “most millennial employees change jobs in 4 years or less.”¹³ Millennials, typically defined as people born between 1981 and 1996,¹⁴ will be required to stay long enough to fill senior leadership roles for the CAF. Therefore, the incentives that worked for Generation X, people born between 1965 and 1980, may not have the same effect. This idea is of great concern, since the CAF is already critically short in the middle management area, and there is no easy way to improve that situation.

9. The CAF Retention Surveys, conducted in 2016 and 2019, both highlighted the need for CAF leadership to act to improve retention, but as mentioned previously, the

¹¹ Febria, Monina. *“Providing Pensions for Retention Purposes.”* Canadian HR Reporter 30, no. 12 (2017). <http://theonnc.ca/wp-content/uploads/2017/07/HR-Reporter.Providing-pensions-for-retention-purposes.2017.pdf>

¹² Ibid.

¹³ Wilford, Louis. *Leadership Strategies and Millennial Organizational Commitment*. ProQuest Dissertations Publishing, 2020, 42.

¹⁴ Wikipedia, last accessed on 22 December 2021. Millennials - Wikipedia

CAF pension plan was not one of the issues identified.^{15,16,17} Approximately one quarter of surveyed CAF personnel were planning on releasing either as soon as another job became available, or sometime in the next three years, up from one fifth of surveyed personnel only three years prior.^{18,19} With a relatively high 83.2% of respondents indicating that they were satisfied with the CAF pension plan, it is important to note that only a small percentage of those leaving were actually planning to do so because of their eligibility for retirement.

10. As noted above, according to the 2019 CAF Retention Survey, members were satisfied with their pension benefits.²⁰ Therefore, a balance must be struck between satisfying the needs of the individual and those of the CAF. It would likely be a mistake for the CAF to move away from a defined benefits plan without offering comparable incentives, even though those plans are expensive and not necessarily an obvious desirable benefit for millennials. Members joining the CAF are typically interested in a career with a unique culture, job security, good benefits, stimulating work, distinctive opportunities, or a combination of these things; these are not necessarily typical millennials. CAF members are satisfied with the current pension plan, but they are still leaving early, so a look at what changes could be made is required.

CHALLENGES AND RETENTION STRATEGIES

11. This paper will examine CAF retention strategies and challenges, as they relate to pension benefits, and focus on what could be improved upon. There are many complicating factors to consider in the pursuit of an effective retention strategy, but one particularly important thing to consider, coming from the well-known psychologist Dr. Hoffman, is that “pension and job stability do not motivate millennial employees.”²¹ As was mentioned above, this factor may not be applicable in all cases, but it should still be a consideration and is worth exploring. If members are no longer satisfied with CAF culture, or if secure employment with good benefits can be found elsewhere, then great pension benefits may not be enough to retain employees. According to the 2019 CAF Regular Force retention survey, key reasons for leaving the CAF included “the impact of military life on spouse or partner (25.4%), job dissatisfaction (21.5%), lack of meaningful, satisfying, or challenging work (20.6%), and the lack of geographic stability

¹⁵ Yeung, et al. *The 2019 CAF Regular Force Retention Survey: Descriptive Analysis*, 2020.

¹⁶ Cheng, et al. *The 2019 CAF Regular Force Retention Survey: Qualitative Analysis*, 2020.

¹⁷ Bremner and Budgell, *The 2016 CAF Regular Force Retention Survey: Descriptive Analysis*, 2016.

¹⁸ Ibid., 27-28.

¹⁹ Yeung, et al. *The 2019 CAF Regular Force Retention Survey*..., 48.

²⁰ Ibid., 48.

²¹ Wilford, Louis. *Leadership Strategies and Millennial Organizational Commitment*..., 41-42.

(19.1%).”²² This should be of particular concern, given that millennials will be expected to start taking over the most senior CAF positions in the near future.

12. Having completed a review on the CAF, the Auditor General found that “with regard to organizational commitment, results indicate that members experience a moderately high level of affective commitment to the CAF, indicating that they feel a fairly strong emotional bond with the organization.”²³ Members join the CAF for a variety of reasons, but they often become engrained in the culture and sometimes find it difficult to leave. The CAF’s latest issues with culture change are only going to make it increasingly difficult to recruit new members and retain those members who are left to do more with less and find themselves burning out, or looking for new employment.

13. A highly effective retention strategy is to increase members’ base salaries, which is currently being used by CAF as a strategy for certain trades like Pilots and Search and Rescue Technicians. This change could be coupled with a move away from offering the current expensive defined benefit pension plan, thus allowing the government to adopt a more affordable defined contribution plan. Another example of a possible improvement would be to change the 25-year plan to a 30-year plan, but with incentives loaded heavily on the back end of the plan and penalties for early retirement. This would inevitably cause some members to leave right away, as was the case when the CAF shifted pension eligibility from a 20-year to a 25-year plan²⁴, but this change would eventually be accepted as the norm, just as the 25-year plan is today. There are risks associated with changing pension plans, especially since members are satisfied with the current plan, but something must be done. The simple fact that members are not satisfied to the point where they feel that their best option is to remain with the CAF, is reason enough to look into possible required changes.

14. Another possible change to the current CAF pension plan could be to increase the survivors’ benefit. It must be noted that this benefit is not highlighted as a dissatisfier for CAF members. That said, the Department of National Defence (DND) and the CAF regularly state that they truly appreciate the sacrifices of members and their families, but the survivors’ pension benefit does not reflect this fact. A spouse or partner of a deceased service member, and their children, should not lose half of that member’s pension once the member passes away. There are temporary entitlements for children under the age of 18, or 25 if those children are still in school, but the cost of living for the spouse or partner does not decrease by 50% just because the former CAF member has passed away. It is not right to ask a spouse or partner to sacrifice their own career and pension, having to follow a military member around the country every few years, and then to take away

²² Yeung, et al. *The 2019 CAF Regular Force Retention Survey*..., 21.

²³ *Ibid.*, v.

²⁴ Canada, Auditor General of Canada, *National Defence - Military Recruiting and Retention* (May, 2006): 64.

half of the pension benefit that was intended to support the family. The number one reason for members to release early is impact on spouse or partner. Members may be choosing to release from the Regular Force in order to remain in one location long enough to allow spouses or partners to build their own pensions, if those pensions are not transferable between provinces, like those of public-school teachers or nurses. This possibility should be explored as a specific item in the next DRDC survey.

CONCLUSION

15. This paper has examined the issue of retention, as it relates to the CAF pension plan. Numerous surveys and studies were reviewed on the subject, as they assist in better understanding employee rationale when deciding to leave, or to remain with an organization. With so many variables and complicating factors to consider as key challenges, there is no clear answer as to why some CAF members choose to remain with the military long enough to collect the maximum 70% pension, while other do not. The impact of military life on spouses, partners and other family members is clearly an important factor to consider, but almost equally important is the impact of CAF culture and job satisfaction. Retention strategies should either focus on improving key dissatisfiers or improving areas where the greatest benefit will be realized, like increases to pay, or delayed benefits from pension contributions.

16. The CAF pension plan is very expensive for the government and considered to be one of the best pensions in Canada, though it is clearly still not enough to offset some dissatisfiers, or potential alternative career opportunities, as they relate to retention of military members. With numerous viable options available to members looking to release, changes to the pension plan must be carefully examined in order to attract and retain those members for an optimal amount of time, whatever that amount of time happens to be.

RECOMMENDATIONS

17. Three main recommendations are presented below for consideration, although it should be noted that these recommendations are related to potential pension plan changes and are not necessarily considered to be the greatest dissatisfiers for members based on results from the latest CAF surveys.

18. The first recommendation is to increase base pay, but not all at once. Increments or incentives should increase, rather than decreasing each year that a member is in a particular rank. The current system has pay increases each year, but the increments typically decrease, or at best stay the same over time. With the current defined benefit pension calculating payments based on the best five years, members would have more incentive to stay longer if the benefits were loaded in later years.

19. The second recommendation is change from a 25-year immediate annuity plan to a 30-year plan and ensure there are substantial financial penalties for early retirement, as is the case with the current plan.

20. The final recommendation is to increase the survivors benefit from 50% to 80%. The pension benefits allotted to surviving children should not be 10% for each child (up to four children), until they are 18, or 25 years of age if still in school. A member's pay is not distributed between caregivers and dependents, so it makes sense that the survivor's benefit should follow the same principle.

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