



## RECONSTITUTION: LESS TALK, MORE ACTION

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### JCSP 50

#### Service Paper

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**Lieutenant-Commander Mai Guo**

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## RECONSTITUTION: LESS TALK, MORE ACTION

### AIM

1. This paper will make the case for a financial retention incentive (FRI) to attract and retain members to meet the Royal Canadian Navy's (RCN) growing operational requirements. All other Five Eyes (FVEY) navies have (a version of) an FRI, and this paper will conduct a compare and contrast. This paper will also make the case that just the act of submitting an FRI proposal can be used as a communication tool to tangibly demonstrate the RCN's commitment to Reconstitution and the CAF Retention Strategy.

### INTRODUCTION

2. Strong, Secure, Engaged (SSE) set the strategic vision for defence as being “Strong at Home, Secure in North America, and Engaged in the World”.<sup>1</sup> Within the context of “Strong at Home”, the Arctic and Northern Policy Framework states “Canada will enhance the Canadian Armed Forces’ presence in the region over the long term...”.<sup>2</sup> The RCN’s supporting document, the Arctic and Northern Strategic Framework then details the use of the Arctic & Offshore Patrol Vessels (AOPV) as the primary naval platform to achieve greater presence.<sup>3</sup> Within the context of “Engaged in the World”, Canada’s Indo-Pacific Strategy (IPS), states that “Canada will augment its naval presence, including by increasing the number of frigates deployed on to the region...”.<sup>4</sup> This means an increased requirement for Naval platforms in new parts of the globe while maintaining previous commitments such as Op Reassurance.

3. New naval platforms such as the AOPV and Joint Support Ship (JSS) require personnel not currently accounted for. This is reflected in the growth of the Trained Effective Establishment (TEE) from 7247 to 7636 positions between 2020 to 2023.<sup>5</sup> This increase is occurring against the backdrop of a falling Trained Effective Strength (TES), which decreased from 6296 to 5965 between 2020 to 2023. This has resulted in certain rank bands within specific occupations falling to under 60% TES. The CAF released a Retention Strategy in 2022, signed by then Minister of National Defense, The Honourable Anita Anand. Also in 2022, the Chief of Defense Staff and Deputy Minister of National Defense published the Directive for CAF Reconstitution. Despite the high-profile release of these documents, over a year later, very few tangible initiatives that directly impact junior sailors have been pushed out and the operational tempo remains high with limited guidance on allowed offsets.

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<sup>1</sup> Government of Canada, “Strong, Secure, Engaged”.

<sup>2</sup> Government of Canada, “Arctic and Northern Policy Framework”.

<sup>3</sup> Department of National Defence, “RCN Arctic and Northern Strategic Framework”.

<sup>4</sup> Global Affairs Canada, “Indo-Pacific Strategy”.

<sup>5</sup> DGMPRA. “Establishment Strength Report – End Dec”.

## DISCUSSION

4. The Retention Strategy contains lines of effort (LOE) that include “Engage Leaders to Promote a Culture Supportive of Retention, Communicate Priorities and Promote Activities to Support Retention, and Support CAF Members’ and Careers”.<sup>6</sup> This strategy did not provide resources, either in terms of funding, nor prioritization offsets. This severely limits the ability of leaders to support their members in any tangible fashion. By contrast, when the Australian Defence Force (ADF) communicated that “workforce challenges are intrinsically linked to the future force the Defense Strategic Review (DSR) seeks to deliver” it was accompanied by \$400 million for a continuation bonus as part of the 2023-24 budget.<sup>7</sup> Similar funded initiatives can be found within the Royal Navy (RN), the Royal New Zealand Navy (RNZN), and the United States Navy (USN). In other words, Allied Navies put resources behind their reconstitution initiatives while the CAF has not.

5. The Reconstitution Directive states that “the interim goal is to address shortcomings that are preventing the CAF from being in the position it needs to in order to excel as a modern and combat-ready force.”<sup>8</sup> The interim goal has not yet been met and an FRI can be part of the solution. One retention theory states: “A service member will remain in the military if the difference between the future streams of military and civilian pay is sufficient to offset the service member’s taste for civilian life (or distaste for military life)”.<sup>9</sup> To overcome this an FRI can take the form of monetary compensation for committing to another terms of service (ToS), or compensation for achieving and maintaining a qualification, or any other means of topping up base pay in exchange for continued service. The goals of introducing an FRI are to meet operational requirements and to message internally.

6. Meet operational requirements – The primary reason for introducing an FRI is to maintain operational effectiveness. The RCN is at the point where a lack of people is preventing platforms from delivering the requirements as laid out in the IPS and Arctic Policy, which is reflected within the managed readiness plan (MRP). As an example, Commander Fleet Pacific indicated that HMCS Vancouver could not be maintained at the readiness level as directed by MRP 23.0 “due to ongoing crewing challenges”.<sup>10</sup>

7. Internal Messaging – The official messaging from CAF leadership is that pay and compensation are outside the CAF’s sphere of control and are determined by Treasury Board (TB). Although this is technically true, it is also incomplete and misleading, if no attempt has been made. CAF leadership must first determine what it wants to be changed, rationalize that change, and submit a proposal for consideration. Just the act of submitting a proposal can be positive for internal messaging by demonstrating “people first”. The fact that compensation change is difficult and that there are competing funding priorities would add to the narrative that leadership is trying. Alternatively, if CAF leadership does not believe further increases in pay

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<sup>6</sup> Department of National Defence, “CAF Retention Strategy”.

<sup>7</sup> Parliament of Australia, “Retention in the Australian Defence Force”.

<sup>8</sup> Department of National Defence, “CDS/DM Directive for CAF Reconstitution”.

<sup>9</sup> Huff, Jared, “Estimating the retention effects of Continuation Pay”

<sup>10</sup> R 112307Z JAN 24 - CCFP 002 - SUBJ: HMCS VANCOUVER READINESS - REQUEST DEVIATION FROM MRP

and compensation are warranted then it needs to communicate that in a transparent manner as opposed to using TB as a crutch.

8. Allied Navies are suffering from similar personnel issues. “A third of Royal New Zealand Navy ships are docked due to a shortage of sailors, causing a loss of significant flexibility”.<sup>11</sup> The Navy Lookout had this to say about the RN, “if trained strength continues a sustained fall at the same rate, it will quickly result in painful choices such as laying up frigates or keeping an aircraft carrier at low readiness.”<sup>12</sup> The USN, similar to the RCN, has a recruiting problem but is doing relatively well with retention.<sup>13</sup> Nonetheless, the USN has a program that offers retention bonuses to select occupations. All of the FVEY navies except for the RCN have some version of an FRI. The FRI of allied navies are compared and detailed below.

9. RAN - The RAN launched a Navy Capability Retention Payment in April of 2022 targeting ranks within STEM and critical categories. It offers a \$40,000 retention bonus in exchange for a two-year agreed period of effective service.<sup>14</sup> The RAN also has a Navy Retention Initiative Payment which offers \$20,000 for completing either 7, 8 or 12 years of service. The ADF has funded continuation bonuses with the understanding that personnel challenges are intrinsically linked to operational effectiveness and that the future force as presented in the Defense Strategic Review (DSR) cannot be delivered without addressing personal shortages. The equivalent CAF initiatives are unfunded and rely upon “deckplace leadership” to address.

10. USN - The USN offers a selective reenlistment bonus (SRB) to targeted officer occupations, including aviation, surface warfare, explosive ordnance disposal (EOD), naval special warfare (NSW), and Seabees. The program stated that the “[SRB] is the Navy’s primary monetary force shaping tool to achieve enlisted retention requirements in specific categories...”.<sup>15</sup> The rates vary from occupation to occupation but for example, for surface warfare officers, a department head (DH) can receive up to \$30,000 for signing a DH contract and can be expected to receive between \$75,000 to \$105,000 after 6 years of continuous service. A surface warfare LCdr can be expected to receive \$22,000 on their 2<sup>nd</sup> anniversary promotion to LCdr and \$12,000 on the 3<sup>rd</sup> and 4<sup>th</sup> promotion anniversary.

11. RNZN - The RNZN has launched a Retention Payment Scheme (RPS) for six trades. Although the offered rate was redacted in the “Official Information Act” release, a local news release reports the rate as \$35,000 over 3 years.<sup>16</sup> The official report does state, that the results of the RPS are encouraging in getting attrition down to around 9%. This compares to the previous 12-month rolling attrition rate of 16.3%, with some occupations (Marine Technicians) as high as 56.2% at the Leading Hand rank level. In addition, the RNZN has plans for Tranche 2 retention payments with “the strategic objective [to] retain personnel to reduce risks to output failure (single personnel impacting on the ability for ships to go to sea for training and readiness

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<sup>11</sup> Lee Frampton, Nick. “How the New Zealand Navy plans to fix its sailors and ship shortfalls”.

<sup>12</sup> Navy Lookout, “Not enough sailors”.

<sup>13</sup> Mackenzie, Christine. “US and European navy chiefs bemoan the people problem”.

<sup>14</sup> Royal Australian Navy, “Navy Capability Retention Payment”.

<sup>15</sup> Unites States Navy, “Selective reenlistment bonus program”.

<sup>16</sup> 1 News “Navy offering bonuses”

activities) and system failure (inability to effectively support operation outputs and NDZF personnel).”<sup>17</sup>

12. RN – The RN offers a Financial Retention Incentive (FRI) as well as a Recruitment and Retention Payment (RRP). The FRIs “are aimed at encouraging personnel to remain within specific specializations.”<sup>18</sup> Although the targeted cadres and amounts vary and are not openly disclosed by the Ministry of Defence (MOD), the key takeaway is, that the MOD has a mechanism for dispensing FRIs as required and it has an independent Armed Forces’ Pay Review Body that recommends rates.<sup>19</sup> The CAF has neither the mechanism to offer retention bonuses nor has it internally communicated the rationale for or against increased compensation.

13. In summary, all FVEY allied navies have a mechanism to dispense retention bonuses. They are all targeted as opposed to broadly applied and are continually adjusted depending on the needs of the service. The rates and target cohort changes as conditions change but based on publicly available information, \$10,000-\$20,000 per year would be a fair baseline.

14. Given the operational need, the actions and arguments made by allied navies in similar situations, and the continuing decline in our TES, the RCN has ample justification and sufficient metrics to support the introduction of an FRI. Presented below are several proposed lines of reasoning that can form the basis for a treasury board submission (TBS).

15. Operational Requirement – Similar to the RAN approach, link personnel shortages to the capabilities required by published defence policies and strategies. In the context of the RCN, this means the targeted cohorts are those specific qualifications needed to meet the MRP, which reflects our operational commitments around the globe. The FRIs costs are rationalized as a needed resource to execute the IPS or Arctic and Northern Policy Framework.

16. Linked to TES – If the policy documents such as the IPS and Arctic and Northern Policy Framework are not specific enough, then instead a target TES metric can be used as part of the reconstitution strategy. For example, retention bonuses of \$10,000 a year will be offered to rank bands in all occupations below 80% TES, \$15,000 a year to rank bands below 70% TES, etc. This sets defined start and end triggers that are transparent, trackable, and justifiable.

17. Business Case – Retention amounts can also be linked to a replacement cost. For example, we know that 61 Sailor First Class MAR TECHs released in 2022/23.<sup>20</sup> If that rank band were to be one of the targeted retention groups, the program cost of the proposed FRI can be measured against the replacement cost of any retained S1s. This allows the organization to reevaluate year to year based on the program cost vs any incremental benefits realized.

18. The point is there are various ways the RCN could put together a quantitative, fact-based submission. The data will never be perfect, but the organization has enough to act. In the final section of this paper, some common counterarguments against FRIs will be presented.

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<sup>17</sup> New Zealand Defence Force, “Interim Workforce Plan”.

<sup>18</sup> Ryan, Mark, “Email – JSP 754 – Financial Incentives Policy”.

<sup>19</sup> Armed Forces’ Pay Review Body, “Fifty-Second Report 2023”.

<sup>20</sup> Klemm, Gordon, “PowerPoint Marine Technician”.

19. Effectiveness – Studies on the effectiveness and efficiency of FRIs are inconclusive. USN research has stated that “while SRB has been shown to be effective in retaining individuals in critical skill categories, the fixed nature of SRB may lead to overpayment or underpayment of military personnel”<sup>21</sup>, meaning FRIs may be effective but not necessarily efficient. Another common counterargument is that FRIs only delay the inevitable. Nonetheless, in a 2021 WorldatWork survey of 336 US organizations, it was found that 57% offered a retention bonus.<sup>22</sup> In the 2023 Payscale compensation report, 35% of managers cited “compensation” as most to blame for high turnover. This was well ahead of the 11% second-place factors of “employee entitlement” and “limited advancement opportunities”.<sup>23</sup> Within the Federal Government, EX pay categories offer between a 15-26% “performance award”<sup>24</sup>, which would serve a similar purpose to a retention bonus. Even if not efficient, the high utilization rate of retention bonuses in practice makes them a factor in maintaining employer competitiveness.

20. The RCN needs to buy time until recruitment can catch up. So even if all an FRI does is delay the inevitable, it is still a needed temporary solution. The RCN relies heavily upon an apprenticeship style of learning, meaning that the training system alone cannot FG the required qualifications and the RCN requires experienced sailors in the fleet to perform on-the-job training. Taking Marine Technicians (MAR TECHs) as an example, the entire rank band from Master Sailor (MS) to Chief Petty Officer (CPO2) is under 70% TES. The missing middle creates a negative feedback loop, reducing the size of the training pipeline. Inability to provide a supportive training environment will degrade the effectiveness of new recruiting initiatives, including the Naval Experience Program.

21. Recruiting vs Retention – The FY 22/23 RCN attrition rate is 8.8%, which is not significantly above the 10-year historical average of 7.4%.<sup>25</sup> Recruiting on the other hand is troubled, having only met 41% of the SIP, nine months into the fiscal year.<sup>26</sup> Although a clear argument can be made that recruiting, not retention is the problem, the two factors are likely linked. Recruiting is primarily performed and influenced by uniformed members and at least on social media, enthusiasm for a career in the CAF appears to be low. Improving sentiment among the current members sets the conditions for increased recruitment. Sentiment can be measured, and the RN, for example, conducts an “Armed Forces Continuous Attitude Survey”. The 2021 survey shows that satisfaction with pay is at 45%, which is a 14% increase compared to 2018.<sup>27</sup> Therefore, the link between compensation and sentiment is quantifiable, but the link between job satisfaction and recruiting will be difficult to demonstrate, even if it seems intuitive. However, it seems reasonable to try and improve sentiment in the current workforce if the workforce is the face of recruiting and this initiative would be as much about the financial compensation as about demonstrating that leadership is serious and actively engaged in reconstitution.

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<sup>21</sup> Blackstone, Tanja. “Compensation: USN Research”

<sup>22</sup>World At Work, “Bonus Programs and Practices”.

<sup>23</sup> Payscale, “2023 Compensation Best Practices Report”.

<sup>24</sup> Government of Canada, “Salary Ranges and maximum performance pay”.

<sup>25</sup> Straver, Michelle, “Overview of Ref F Attrition in RCN-Managed Occupations”.

<sup>26</sup> DGMPPRA, “Reg Force Intake Performance Measurement, 31 Dec 2024”.

<sup>27</sup> Ministry of Defence, “UK Armed Forces Continuous Attitude Survey 2021”.

## **CONCLUSION**

22. The RCN needs tangible initiatives to address the people problem and restore capability. Setting “people” as the top priority is not enough. Without tangible initiatives that directly impact the careers and well-being of junior sailors, words lose their impact and credibility in leadership erodes. The Retention Strategy and Reconstitution Directive was published in 2022 and there is a finite amount of time to act to restore trust and meet operational requirements. Although an FRI would ideally be a CAF-wide initiative, it may be more expedient for a single L1 to take the lead in building the needed momentum. The target occupations, target rank bands, and compensation amounts can be adjusted as required but just having a mechanism to dispense an FRI will offer the RCN flexibility.

## **RECOMMENDATION**

23 The RCN, with guidance from Director Pay Policy and Development (DPPD), takes the lead in drafting a Treasury Board Submission (TBS) seeking approval to implement a financial retention incentive based on the needs of the Navy.

- a. Once the framework is complete, other components should be consulted and the document turned into a joint submission;
- b. A rough order of magnitude estimate of \$10,000 CAD per year be used for targeted occupations and rank bands. A small working group (WG) be used to define the target groups and to further refine the ROM into a definitive estimate; and
- c. The results of this work, whether the decision ultimately is to proceed with a submission or not, be transparently communicated to the membership.



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