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REPORT BY THE U.S.

General Accounting Office

Cost And Benefits Of Longevity Payments For Time Spent In The Delayed Entry Program

The delayed entry program allows individuals to enlist but to delay reporting for duty, up to 12 months, until appropriate jobs and training are available. Time spent in the program counts as longevity for determining base pay. GAO's analysis indicates that (1) no research exists that crediting longevity is a useful recruiting incentive; (2) most anecdotal evidence is that potential recruits are unaware of it; (3) the pay credit is an inefficient economic incentive; and (4) the pay credit for those who entered in fiscal year 1984 will cost about $41 million in fiscal year 1985. If there are no changes, pay for longevity credits earned in the delayed entry program could require about $3.7 billion in appropriations over the next 20 years.

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B-215795

The Honorable John G. Tower
Chairman, Senate Armed Services Committee
United States Senate

The Honorable Mark O. Hatfield
Chairman, Committee on Appropriations
United States Senate

The Honorable Melvin Price
Chairman, House Armed Services Committee
House of Representatives

The Honorable Jamie L. Whitten
Chairman, Committee on Appropriations
House of Representatives

This report contains information on the Department of Defense's delayed entry program. This program was discussed with your staff in meetings during February, April, and June 1984. The information presented in this report was developed in response to requests and suggestions made by the staff during those meetings. As legislation affecting this program is being considered as part of the fiscal year 1985 Department of Defense authorization bill, this information may be of value to you.

The delayed entry program allows individuals to enlist in the military and to delay reporting for active duty until appropriate jobs and training courses come open to them. The delay can extend up to 12 months. Time spent in this delayed status counts as longevity for determining base pay. Thus, a person serving a 4-year enlistment who spent 6 months in the delayed entry program will receive pay raises 6 months early after his second, third, and fourth years.

The report is in the form of a briefing paper and presents information bearing on three questions:

--What is the evidence that the longevity-pay aspect of the delayed entry program is a useful recruiting incentive?

--How efficient is it as an economic incentive?

--What does the longevity pay cost?

Our analysis indicates that (1) no empirical evidence exists that credit for longevity pay is a useful recruiting incentive, and most of the anecdotal evidence is that potential recruits are unaware of it; (2) the pay credit is an inefficient economic incentive; and (3) the pay credit for those who entered in fiscal year 1984 will cost about $41 million in fiscal year 1985. Provided that longevity increases continue to be an integral part of military pay, future appropriations of about $3.7 billion could be required over the next 20 years. Eliminating longevity pay could result in avoiding these appropriations. However, this cost avoidance might be offset if recruiting measures cause the services to provide additional, across-the-board incentives in order to attract people.

We did not obtain official agency comments on this report. However, we provided a draft version to officials responsible for establishing accession policy in the Office of the Secretary of Defense. We discussed the draft with those officials and have incorporated their comments where appropriate.

We are sending copies of this report to the Secretaries of Defense, and of the Army, Navy, and Air Force.

Frank C Conahan

Frank C. Conahan
Director

FOREWORD

In July 1983, Air Force Recruiting Service officials told us about an extremely effective management tool which they felt had become unnecessarily expensive. This tool, known as the Delayed Entry Program (DEP), is used to match the time personnel are brought into a military service with the time appropriate jobs and training courses are open to them. One of the major benefits of the program is that it allows the services to smooth out their training loads. Its major cost results from giving longevity pay credits for time spent in the program. Consequently, an individual who spends 6 months in the program will receive longevity pay raises 6 months early after the second, third, and fourth years. (After the fourth year, longevity pay raises occur every other year through the twenty-second year.)

Recruiting officials provided us with information indicating that it was quite costly to credit time spent in the program for longevity pay purposes. They also questioned the need for the credits.

In August 1983, we met with accession policy officials in the Office of the Secretary of Defense (OSD) to discuss the cost of longevity pay credits and to determine how important they were to successful recruiting. These officials did not know how much the credits were costing or how important the credits were to the recruiting effort, but they said that they would perform studies to answer these questions. However, because data on the cost and benefit of longevity credits were still unavailable by February 1984, we began an effort to make these determinations ourselves. This briefing summarizes what we found.

BACKGROUND

The Delayed Entry Program (DEP) began in mid-1960 to help recruiting in the Air Force, Navy, and Marine Corps by giving individuals draft deferments until they could enlist in one of the services. The program initially allowed an individual to enlist but to delay reporting for active duty for up to 4 months. Since the program began, the delay period has been extended first to 6 months, then to 9 months, and most recently to 12 months.

Although the program began and continues to be an active-duty enlistment program, individuals in the program are considered to be reservists by OSD and the military services. Individuals entering DEP are sworn into the reserves until they can report for duty, and they receive a discharge from the reserves immediately prior to entering active duty. Although individuals are not paid, nor are they allowed to participate in any military activities while awaiting active duty, the time they spend in the DEP counts for pay purposes for their future longevity pay raises. Individuals in the DEP who change their minds about active duty are not forced to enter the services. Defense officials cite 10 USC 511 as authority to conduct DEP.

The Air Force, Army, and Marine Corps have used the program extensively as a management tool for bringing individuals into active duty in conjunction with future training programs. The Navy did not begin to use the program extensively until fiscal year 1982. More specifically, DEP now annually accounts for

--almost 90 percent of Air Force enlisted accessions, or about 53,000 personnel;

--all enlisted entries into the Army, or about 138,000 personnel;

--over 90 percent of all Navy enlisted entries, or about 80,000 personnel; and

--about 90 percent of all entries into the Marines Corps, or about 33,000 personnel.

APPROACH

The results of our analysis of longevity payments for time spent in the Department of Defense's DEP are presented in three parts:

--First, we discuss the evidence on how important longevity pay is to the success of the military services' recruiting efforts.

--Second, we present an analysis on the past and future cost of longevity pay in DEP.

--Finally, we discuss the probable impact on recruiting if longevity pay is eliminated as a benefit in DEP.

SECTION ONE: HOW IMPORTANT TO SUCCESSFUL RECRUITING IS LONGEVITY PAY CREDIT FOR TIME SPENT IN DEP?

METHODOLOGY

To determine the importance of longevity pay credits to successful recruiting, we visited, during the period February through April 1984, accession policy officials in the Office of the Secretary of Defense and in each of the military services. Our goal was to determine if any data existed showing the cost of the program and the extent to which longevity pay credits were stressed in recruiting. Because there was no data, we asked each group to identify an authoritative source on the importance of longevity pay credits to the recruiting effort. Accordingly, we also discussed these matters with officials at Headquarters, Air Force Recruiting Service; officials at the Air Force Recruiters School; officials at the Army Recruiting Command; Air Force, Army, Navy, and Marine Corps recruiting counselors located at various Military Entrance Processing Stations (MEPS); and Air Force recruiters at various recruiting offices. In addition, we obtained and reviewed studies on what attracts young people to join the military services.

- None had data on the cost or importance of longevity pay credits.

- All had different ideas about who would be an authoritative source on the importance of credits.

AUTHORITATIVE SOURCE

Policy Office	Recommended Source
•OSD	•Recruiting counselors at MEPS
•Air Force	•Air Force Recruiters School
•Army	•Army Recruiting Command
•Navy	•Uncertain (began using program extensively only in FY 82)
•Marine Corps	•Recruiters

Visits to Military Entrance Processing Stations (MEPS)

We visited three Military Entrance Processing Stations (Dallas, Houston, and San Antonio, Texas) and met with recruiting counselors from all four military services to discuss the extent longevity pay for time spent in DEP is used in the recruiting effort. Recruiting counselors told us that they respond to specific items of interest to potential recruits. Longevity pay for time spent in DEP is not a high-level interest item of recruits and is, therefore, not used as a selling point. Instead, incentives such as enlistment bonuses, guaranteed jobs and training, and college-tuition credits are the most prevalent items of interest to potential recruits. Several recruiting counselors noted that longevity pay may be used as a sales tool to keep people interested after they are already in DEP awaiting their active-duty date.

MEPS RECRUITING COUNSELORS

--LONGEVITY PAY FOR TIME SPENT IN DEP IS NOT A HIGH-LEVEL INTEREST ITEM TO POTENTIAL RECRUITS.

--LONGEVITY PAY IS NOT USED AS A SELLING POINT TO RECRUITS.

--ENLISTMENT BONUSES, JOBS, TRAINING, AND COLLEGE TUITION CREDITS ARE PREVALENT RECRUITING INCENTIVES.

--LONGEVITY PAY MAY BE USED TO KEEP PEOPLE INTERESTED AFTER THEY HAVE JOINED THE PROGRAM WHILE THEY ARE AWAITING ACTIVE DUTY.

Air Force Recruiters School

We visited the Air Force Recruiters School at Lackland Air Force Base, Texas, to discuss how longevity pay for time spent in DEP is used in Air Force Recruiting activities. School officials said that DEP and longevity pay are not specifically addressed in the school's syllabus. They noted that students are informed of the program and its benefits at different places within the course. The officials said that students are taught to find the interest of a potential recruit and deal with that interest. They noted that the longevity pay benefit for time spent in DEP would not be considered a major interest item and would not ordinarily be used to sell young people on a 4-year tour in the Air Force. Instead, items such as educational benefits, guaranteed jobs, and training are the main selling items to Air Force recruiting efforts.

AIR FORCE RECRUITERS SCHOOL

--LONGEVITY PAY FOR TIME SPENT IN DEP IS NOT A MAJOR ITEM USED IN AIR FORCE RECRUITING ACTIVITIES.

--RECRUITERS ARE TAUGHT TO IDENTIFY AND STRESS ITEMS OF INTEREST TO POTENTIAL RECRUITS.

--MAIN ITEMS OF INTEREST IN AIR FORCE RECRUITING PROGRAM ARE EDUCATIONAL BENEFITS, GUARANTEED JOBS, AND TRAINING.

Army Recruiting Command

We visited the U.S. Army Recruiting Command at Ft. Sheridan, Illinois, to discuss the importance of longevity pay for time spent in DEP to Army recruiting activities. Several Command officials were unaware that longevity pay was credited for time spent in DEP. Command officials said that Army recruiters do not use or stress longevity pay as a recruiting incentive. Instead, the incentives they use to attract young people to the Army are initial enlistment bonuses ($100 million paid for 57 job categories in fiscal year 1983), education benefits, and guaranteed jobs and training.

ARMY RECRUITING COMMAND

--ARMY DOES NOT USE LONGEVITY PAY AS A RECRUITING INCENTIVE.

--SEVERAL COMMAND OFFICIALS WERE UNAWARE THAT LONGEVITY PAY WAS CREDITED FOR TIME IN DEP.

--INITIAL ENLISTMENT BONUSES, EDUCATION BENEFITS, JOBS, AND TRAINING ARE THE INCENTIVES USED IN ARMY RECRUITING ACTIVITIES.

Market Studies

Although we did not discuss the role of longevity pay credit with new recruits who are most affected by the benefit, we did obtain various studies that were conducted to determine what attracts young people to the Armed Forces. We obtained the Youth Attitude Tracking Study, published in May 1983 and performed under contract for the Department of Defense to study the attitudes, perceptions, and behavior of 16-to-21 year-olds with respect to future service in the military. We also obtained the May 1983 report on High School Attitudes Toward Recruiting Incentives, conducted under contract for the U.S. Army Recruiting Command to determine the attitudes of a representative nationwide sample of high school students, preferably seniors and juniors, with respect to an array of possible recruiting incentives. Finally, we also obtained surveys on Air Force personnel in basic training, conducted in fiscal years 1982 and 1983 by Air Force Recruiting Service personnel to determine what attracted the individuals to the Air Force.

None of these studies specifically addressed credits for longevity pay.

RECRUITING MARKET STUDIES

- Youth Attitude Tracking Study (YATS) for OSD
- High School Attitudes Toward Recruiting Incentives for Army
- Basic Training Surveys for Air Force

Youth Attitude Tracking Study (YATS)

The YATS did not address the specific topic of DEP or longevity pay, but it did address other major incentives such as starting pay and bonuses. One of the objectives in the 1982 study was to measure awareness and the expected effect of starting pay and several hypothetical cash enlistment bonuses.

The study found that only 19 percent of the male respondents and 10 percent of the female respondents gave a reasonably close estimate of starting pay. The study concluded that publicizing the level of starting pay would have a slight, but negative, effect on male propensity to enlist, and a slight, but positive, effect on female propensity.

Only about 33 percent of the males and 19 percent of the females knew that at least some services pay a bonus for enlisting. Respondents were asked their propensity to serve if they receive a $2,000, $5,000, and $8,000 bonus for enlisting for four years. The study found that an enlistment bonus of $2,000 could be expected to produce virtually no marginal gain among males, although it did improve the propensity among females by 7 percent. A bonus of $5,000 improved male propensity by 10 percent and female propensity by 13 percent. The $8,000 bonus improved male propensity by 19 percent and female propensity by 23 percent.

FINDINGS FROM THE 1982 YOUTH ATTITUDE TRACKING STUDY

--MORE THAN HALF OF THE RESPONDENTS DID NOT KNOW THE AMOUNT OF STARTING PAY.

--PUBLICIZING STARTING PAY WOULD HAVE ONLY A SLIGHT EFFECT.

--LESS THAN ONE-THIRD OF THE RESPONDENTS KNEW ABOUT ENLISTMENT BONUSES.

--DIFFERENT BONUS LEVELS WOULD HAVE DIFFERENT EFFECTS ON MALES AND FEMALES.

High School Students Attitudes Toward Recruiting Incentives

This study, which was performed for the U.S. Army Recruiting Command, also did not address either DEP or longevity pay. The study noted that one popular means of raising interest in the Armed Services has been the periodic offering of recruiting incentives. After evaluating various incentives, the study concluded the following:

--Financial assistance for post-high school education appears to be of primary interest to students in Mental Categories I and II.

--Work experience in a job skill that would be useful in civilian life appears to be the second most desirable incentive for individuals in Mental Categories I and II, and relatively high for those in IIIa, IIIb and IVa.

--Recruiting incentives related to personal economic security, such as medical and dental care, a steady salary, and retirement benefits rank relatively high for those in Mental Categories I and II, and very high for those in IIIa, IIIb, and IVa.

--Out of 15 measured incentives, starting pay of $550 per month ranked tenth overall.

FINDINGS FROM THE 1983 SURVEY OF HIGH SCHOOL STUDENTS' ATTITUDES TOWARD RECRUITING INCENTIVES

--STARTING PAY OF $550 PER MONTH RANKED TENTH OUT OF A TOTAL OF 15 MEASURED INCENTIVES.

--EDUCATIONAL ASSISTANCE, WORK EXPERIENCE, AND JOB SECURITY WERE TOP INCENTIVES.

Air Force Basic Military Training Surveys

The Air Force Recruiting Service performs periodic surveys on personnel undergoing Basic Military Training to gather information that can be used to improve Air Force Recruiting Service Programs. One part of the survey is designed to determine why individuals decided to join the Air Force and how important Air Force benefits and entitlements are. Although longevity pay for time spent in the DEP is not a listed benefit in the survey, many other benefits--such as education assistance, training, pay, and allowances--are listed.

The surveys for fiscal years 1982 and 1983 show that out of 13 listed benefits, pay and allowances ranked fifth. Incentives ranking higher than pay and allowances included medical and dental care, education assistance, and training.

FINDINGS FROM 1982-83
AIR FORCE BASIC MILITARY TRAINING SURVEYS

--PAY AND ALLOWANCES RANK FIFTH OUT OF 13 BENEFITS.

--MEDICAL AND DENTAL CARE, EDUCATIONAL ASSISTANCE, AND TRAINING RANKED MORE IMPORTANT THAN PAY.

SECTION TWO: HISTORICAL AND FUTURE COSTS OF DEP

METHODOLOGY

Since data on the cost of longevity pay credits did not exist, we attempted to determine how much the credits have cost the military services since the inception of DEP. Historical data, necessary to determine this cost, such as number of accessions from the program and retention data, were not available in the Army, Navy, or Marine Corps. We were able to obtain historical data on DEP from the Air Force only for fiscal year 1977 and subsequent years. Recognizing that a large block of cost for fiscal years 1965 through 1976 would not be included, we nevertheless computed the cost of the pay credits for time spent in the program for fiscal year 1977 through fiscal year 1985.

While the historical data necessary to determine present cost were generally not available, we were able to obtain data needed to determine the future appropriations needed to pay longevity credits for DEP.

Using fiscal year 1983 data as the base, we projected out-year appropriations based on the following assumptions:

--Accessions remain constant. We recognized that many factors could impact accession goals in the future. However, after consultation with service officials, we believe this assumption to be conservative.

--Average time in DEP remains constant at the fiscal year 1983 level. Available historical data shows that time in the program has generally increased in all the services. Since inception of the program, the authorized maximum delay period has been increased from 4 to 12 months.

--The percent of accessions from the DEP remains constant. The services stress that the DEP is an important tool to smooth out the flow of people into the military. Based on comments made by service officials, we believe that the majority of enlistees in the future will enter the military through the DEP. We therefore applied the fiscal year 1983 DEP accession percentage to future years.

--Individuals progress through the ranks with average time-in-grade. Career progression had to be considered in the computations. The military services provided average time-in-grade and continuation rates for each enlisted rank. Time-in-service and time-in-grade were used to obtain pay rates per annum. Continuation rates were used to determine the number of people in each grade for each year.

--Annual pay increases accrue in 4 percent increments. We reviewed enlisted pay increases over a 19-year period and calculated the average at 6.6 percent. We chose 4 percent increases because that figure more closely approximated the average historical inflation rate.

These assumptions were generally made to ensure conservatism in our projection. For instance, the assumption of a constant level of accessions would not reflect the cost of currently programmed end-strength growth. Nor, of course, would it reflect savings from any future end-strength declines. It should also be noted that the data being used for the projection were collected during a favorable time for military recruiting.

ASSUMPTIONS IN COST PROJECTIONS

- Constant level of accessions
- Constant amount of DEP time
- Constant percentage of accessions from the Program
- Normal career progressions
- Pay increases at a rate of 4 percent per annum

AIR FORCE DEP
HISTORICAL COST*
IN MILLIONS OF DOLLARS

Fiscal Year	78	79	80	81	82	83	84	85
Cohort Group 1	$ 2.3	$ 2.5	$ 3.5	$ .0	$ 1.5	$ .0	$ .7	$ .0
Cohort Group 2		4.1	4.1	6.1	.0	2.3	.0	1.2
Cohort Group 3			2.6	3.5	4.5	.0	1.6	.0
Cohort Group 4				3.7	4.4	6.0	.0	2.0
Cohort Group 5					8.9	8.2	13.1	.0
Cohort Group 6						9.9	8.4	14.0
Cohort Group 7							9.3	7.9
Cohort Group 8								10.8
Totals	$ 2.3	$ 6.6	$10.2	$13.3	$19.3	$26.4	$33.1	$35.9

*Data necessary for cost calculations from 1965 to 1978 are not available.

Table 1

Historical Air Force Cost

Although Air Force data on DEP were complete only for fiscal years 1977 and subsequent years, we did compute how much longevity pay for time spent in DEP was costing the Air Force through fiscal year 1985. The analyses show longevity pay growing from $2.3 million in fiscal year 1978 (there is no longevity pay costs in the first year of the program) to $35.9 million for fiscal year 1985. These costs are extremely conservative because data for fiscal year 1965 (inception of the program) to fiscal year 1976 are not included.

FISCAL YEAR DEP RELATED APPROPRIATIONS FOR ALL SERVICES IN MILLIONS OF DOLLARS

Fiscal Year	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	00	01	02	03
Army	$16	$ 33	$ 43	$ 44	$ 53	$ 54	$ 60	$ 61	$ 67	$ 68	$ 73	$ 75	$ 81	$ 83	$ 87	$ 89	$ 93	$ 95	$100
Air Force	9	18	33	34	40	41	45	46	49	51	54	55	58	60	63	65	68	70	72
Navy	11	24	35	36	45	47	53	54	59	61	66	67	74	76	81	83	88	90	94
Marines	5	10	13	13	15	16	17	18	19	19	20	20	22	23	24	24	25	26	27
Services Total	$ 41	$ 85	$124	$127	$153	$158	$175	$180	$194	$200	$213	$219	$235	$242	$255	$261	$274	$281	$293

CUMULATIVE DEP LONGEVITY APPROPRIATIONS IN BILLIONS OF DOLLAR

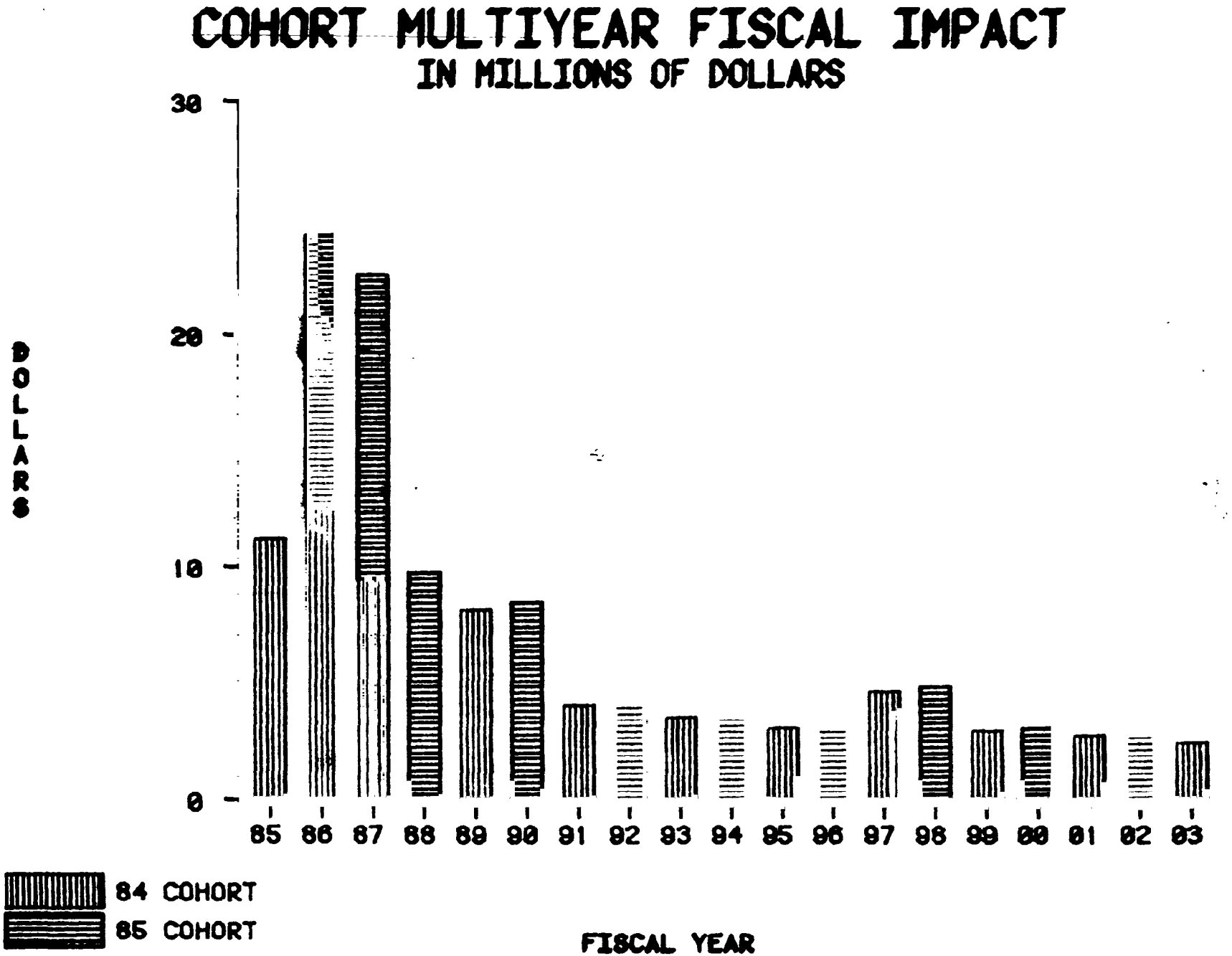
Year	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	00	01	02	03
Longevity Cost All Services	$.04	$.13	$.25	$.38	$.53	$.69	$.86	$1.04	$1.24	$1.44	$1.65	$1.87	$2.10	$2.35	$2.60	$2.86	$3.14	$3.42	$3.71

Table 2

Future Cost

Annual longevity pay appropriations for time spent in DEP is arrayed for each service by fiscal year. While the initial annual appropriation is relatively small at $41 million, the annual appropriation increases to $293 million per year by fiscal year 2003.

We also analyzed data to see the cumulative impact of the longevity pay appropriations for time spent in the DEP for the 20-year period. Although the immediate costs of longevity pay are relatively small, the cumulative appropriation grows to over $1.2 billion by fiscal year 1992 and to $3.7 billion by fiscal year 2003.


COHORT MULTIYEAR FISCAL IMPACT
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85 COHORT
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Figure 1

Longevity Pay Requires Continual Fund Commitments

Credit for longevity pay, while costing nothing the first year, obligated the government to pay increased appropriations for about the next 20 years for members of a cohort year who retire from the service. For example, the fiscal year 1984 cohort group will require appropriations to pay for longevity pay in fiscal years 1985, 1986, and 1987, and then every other year through fiscal year 2003 for those who serve that long. Each additional cohort group adds additional layers of costs. Using just two cohort groups, the preceding figure illustrates the requirement for a continued commitment of funds throughout the 20-year period. When all four services are considered, each cohort group's life-cycle appropriation for a 20-year period exceeds $290 million.

SECTION THREE: THE POTENTIAL IMPACT ON RECRUITING IF LONGEVITY PAY IS REMOVED AS A BENEFIT OF DEP

METHODOLOGY

We conducted a simple economic analysis of the possible impacts on recruiting of eliminating the current policy of crediting time spent in the DEP for calculation of military pay longevity.

The methodology used in this analysis compares payments accruing to the enlistees during their first term of service under a DEP service credit and under a bonus program designed to provide equivalent recruiting incentives. Equivalent incentives are those necessary to overcome any possible adverse effects from eliminating payments due to DEP credits. The analysis assumes that these adverse effects, if any, would occur in occupations which are hard-to-fill--where bonuses are currently being paid. Other occupations are assumed to have enough potential recruits that if anyone changed an enlistment decision because of the absence of DEP credit, they would be easily replaced by someone else waiting in line. Thus, the analysis focuses on how much in additional bonuses might be needed to offset the effects of eliminating the credit in hard-to-fill occupations.

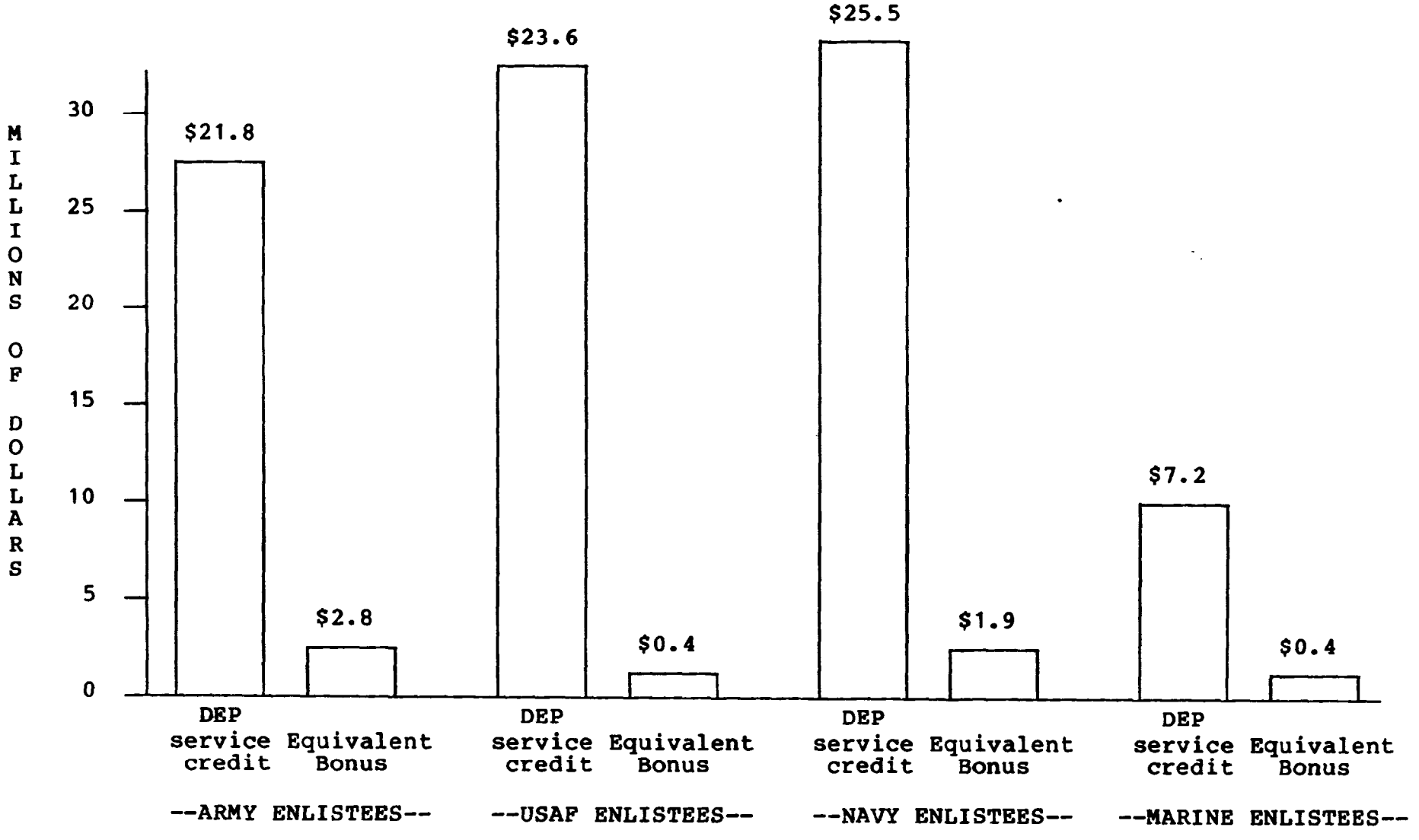
Data for this analysis were obtained from the recruiting services of the Army and Air Force, from Volume III of the FY85 Manpower Requirements Report published by the Office of the Secretary of Defense, and from the Defense Manpower Data Center.

Important parameters used in this analysis are the elasticity of recruit supply, the discount rate of military recruits and of the U.S. government. The elasticity of recruit supply, set at 0.8, is consistent with research results reported by Ash, Udis, and McNown in "Enlistments in the All-Volunteer Force," American Economic Review, March 1983. The discount rate of military recruits, set at .20, is consistent with usual assumptions made by military manpower analysts. The discount rate of the U.S. government, set at .1263, is calculated as the average yield of government securities with maturities between one and four years as of July 16, 1984.

The analysis also assumes that all enlistees who might change their enlistment decision if the credit were not given are fully informed about the value of the DEP service credit. To the extent that such enlistees are not aware of the credit, the equivalent bonus expenses are overestimated.

FIGURE 2

COMPARISONS OF COSTS OF A DEP LONGEVITY CREDIT WITH EQUIVALENT BONUS PROGRAMS FOR EACH OF THE FOUR SERVICES: FY84 ENLISTMENT COHORTS



APPENDIX

COST AND BENEFITS OF LONGEVITY PAYMENTS FOR TIME SPENT IN THE DELAYED ENTRY PROGRAM

Results of Economic Comparisons

Figure 2 shows the results of our economic analysis. It provides a comparison of the costs of DEP service credit to increased enlistment bonuses using enlistees during FY84 as a base case. The cohort of FY84 enlistees in the Army will receive an additional $28 million in pay due to the DEP service credit during their initial enlistment. This $28 million, paid out over the first enlistment term, has a present value of $22 million, when discounted back to the beginning of the enlistment term. It is this present value of $22 million which is displayed in the figure. The analysis shows that increased enlistment bonuses of only $3 million would have the same incentive for this enlistment cohort. The replacement of the DEP service credit with an enlistment bonus thus yields a saving of $19 million dollars over the course of the first enlistment of this cohort of Army enlistees.

Figure 2 also shows similar results for the FY84 enlistment cohorts of the other services. For the Department of Defense as a whole, DEP service credits are expected to result in additional pay during the first enlistment of the FY84 cohort which has a present value of $78 million. Only $5.5 million in bonuses would provide equivalent recruiting incentives. Comparison of these two present values yields a cost benefit ratio of 13.2 in favor of the enlistment bonus option.

It should be noted that the cost savings of replacing DEP service credits with enlistment bonuses presented in this analysis represent the first term of enlistment only. Additional savings from elimination of the DEP service credit are available in succeeding terms of enlistment.

ECONOMIC INEFFICIENCIES IN THE DEP SERVICE CREDIT

- Paid to All Enlistees Regardless of Whether Needed
- Works Opposite of Sound Economic Reasoning
- Creates Deferred Payments Which Are Not Highly Valued

Economic Inefficiencies

Because nearly all recruits currently entering military service spend time in DEP, the DEP service credit has become a general recruiting benefit available to all enlistees even if they are enlisting in occupations for which numerous other recruiting candidates are available. In fact, the structure of the DEP service credit makes it a perverse recruiting incentive--paying more to recruits when additional incentives are not needed and less when additional incentives are most needed. When the supply of recruits is plentiful, DEP queues grow and the dollar values of DEP service credits grow as well. When the supply of recruits dwindles, so do DEP queues and the value of the service credit.

Military recruits are a young, "now oriented" population. Such a population assigns a very low value to incentives which are received on a deferred basis. No benefit can be received from the DEP service credit until two years from entry into the DEP. Benefits available from a DEP service credit are potentially payable to an enlistee throughout the first 26 years of service--a length of time nearly incomprehensible to most 19-year-old recruits.

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