SEC. ___. INCREASE IN MAXIMUM AMOUNT OF AVIATION SPECIAL PAYS FOR FLYING DUTY FOR OTHER THAN REMOTELY PILOTED AIRCRAFT.

Section 334(c)(1) of title 37, United States Code, is amended—

(1) in subparagraph (A), by striking "not to exceed—" and all that follows through "flying duty;" and inserting "not to exceed $1,000 per month;"; and

(2) in subparagraph (B), by striking "may not exceed" and all that follows and inserting "may not exceed $35,000 for each 12-month period of obligated service agreed to under subsection (d).".

[Please note: The "Changes to Existing Law" section below sets out in red-line format how the legislative text would amend existing law.]

Section-by-Section Analysis

This proposal would amend section 334(c)(1) of title 37, United States Code, to increase the statutory limits for the aviation incentive pay and retention bonus and allow the Department the flexibility to increase the aviation incentive pay limit set forth in regulations issued by the Secretary of Defense under section 374 of title 37. This would position the Department to quickly effect a change in the aviation incentive pays should the Services demonstrate a need for an increase to positively affect retention.

Section 334(c)(1) currently allows the Secretaries of the military departments to offer a maximum of $850 in monthly incentive pay to all aviators, with the exception of remotely piloted aircraft (RPA) pilots (who are capped at $1,000). Section 334(c)(1) also allows $25,000 to be paid to all aviators with the exception of RPA pilots, who are capped at $35,000, for each 12-month period of obligated service. This proposal would increase the cap amount for the monthly incentive to $1,000 for all aviators and the retention bonus to $35,000 per year based on recent RAND analysis and external factors that are projected to continue to negatively affect the Air Force's rated officer inventory. This would counter an improving economy, stabilize future rated inventories, and reduce Undergraduate Flying Training (UFT) costs needed to replace lost experience.

The airline industry is exiting a decade of consolidation and restructuring and is in a position for greater stability in the foreseeable future. This stability, new Congressional mandates (minimum hours, mandatory retirement age, and greater work/rest rules), and global hiring may exert a significant pull on military pilots as reorganized airlines start to increase compensation packages. Private industry hiring forecasts are expected to exceed pre-September 2001 levels. Three independent industry analysts have confirmed the forecasted hiring of 50,000 pilots by the airlines over the next ten years. The forecasted hiring has begun. Future and Active

Pilot Advisors (http://fapa.aero/hiringhistorymonth.asp) reflects airline hiring at ~1,000 in calendar year (CY) 2013 and with a projected increase to ~3,000 hires in CY 2014. The Air Force recently confirmed via Airlines for America (A4A) that major airline hiring is above 3,000 in CY 2014 and projected to be higher in future years. A4A has a 75-year history and collaboratively works with airlines, labor, Congress and the Administration, and other groups to improve air travel for everyone. Additionally, the total airline career income and benefit packages are lucrative in light of their first-year pay scales. As the economy improves and airlines increase pay, it is critical that the Department have the ability to retain needed aviator inventory to maintain mission readiness.

These emerging factors will make it difficult to retain pilots under the current pay caps. According to a recent RAND study, over the next 20 years the commercial airline industry will be hiring pilots in increasing numbers to replace its aging pilot workforce. Furthermore, as the commercial airlines expand and the economy grows, it is imperative for the Air Force to anticipate potential changes in pilot retention and be able to allocate the appropriate resources in a timely manner to ensure the inventory of rated aviators is maintained at required manning levels. Any delay in the allocation of resources could have a detrimental impact on the aviation community. Therefore, it is essential to increase the aviation incentive pay and aviation bonus caps now to ensure the Air Force meets future aviation manning requirements.

As part of the study, RAND explored possible future changes in demand for pilots in the civilian sector, analyzed civilian pay opportunities for military pilots, and developed a Dynamic Retention Model (DRM). This model estimates both how Air Force pilot retention changes in response to civilian pilot demand and what influence special and incentive pays have on an officer's decision to stay. Specifically, RAND simulated the steady state retention effects of a 2- through 8-percent across-the-board increase in civilian pilot pay. The results from the model reveal that a relatively small change in civilian opportunities leads to significant changes in Air Force pilot retention. According to the DRM, a 2-percent increase in civilian aviation pay equates to an increase in the retention bonus of 14 to 33 percent. In other words, to maintain aviation retention when there is an increase of 2 percent in civilian aviation pay, the retention bonus would need to be increased by an additional $3,500 to $8,300 per year. If the increase in real pay is higher (i.e., 8 percent), the increase in retention incentives must be even higher. RAND and the Services feel a 2-percent assumption is reasonable and likely because airline salaries have already returned to pre 9-11 levels, and the airlines are reporting record yearly profits. The alternative would be to increase basic pay for all members, which is contrary to the reason the Department uses special and incentive pays (i.e., to selectively and narrowly target additional pay to specific groups and address specific force manning challenges). RAND's increased retention bonus logic and justification also applies to aviation incentive pay.

Additionally, the DRM model provides the Air Force a capability to consider the rated retention effects of other compensation scenarios and justifies current special and incentive pays and changes in those pays. RAND has simulated the retention effects of cutting monthly aviation incentive pay for rated personnel assigned to non-flying positions. These rated personnel are typically mid-career or senior personnel filling key rated staff billets at the joint, Office of the Secretary of Defense (OSD), and Headquarters Air Force (HAF)/Major Command (MAJCOM) levels. RAND's analysis reveals that eliminating aviation incentive pay for rated

personnel assigned to non-flying positions has a similar pilot retention decline that resulted from a 1.4 to 1.5 percent increase in civilian aviation pay.

The maximum amount of aviation incentive pay was last increased to $850 in 2008. Since 2008, the incentive values of the career pay and retention bonus have eroded, degrading their ability to positively influence aviator recruiting and retention behavior. For this reason the Department is seeking to adjust the maximum payment for the incentive pay to $1,000 per month and $35,000 per year for the aviation retention bonus. The increase in the aviation incentive pay amount would allow aviators to receive an incentive pay equal to other skill incentive pays provided in section 353 of title 37. Similarly applying insight from the RAND study demonstrates the need to increase the retention bonus from $25,000 to $35,000. RAND also specifies that if the increase in real pay is higher, the increase in the retention bonus must also be higher to offset retention effects. In light of recent increases in pilot salaries, which are consistent with a re-stabilization of the airlines and with recent pilot pay contracts, an authority limit of $35,000 would provide the Services conservative flexibility should the airline pay increase trend continue. An increase in these particular incentive pays would provide the Department the necessary flexibility to respond quickly to current and unexpected retention concerns within the Services' rated force.

In summary, the economy is improving and airline hiring is increasing (from approximately 1,000 hires in CY 2013 to approximately 3,000 hires in CY 2014). Additionally, airline salaries have returned to pre 9-11 values and are expected to increase with the growing demand for air transportation as a result of the improving economy. Postponing action would severely dampen the Services' ability to recruit and retain aviators. As the economy improves and airlines increase pay, it is critical that the Department have the flexibility to retain needed aviator inventory to maintain mission readiness.

Section 317(e) of the National Defense Authorization Act for Fiscal Year (FY) 2016 requires the Secretary of Defense to submit a report to the congressional defense committees "setting forth the empirical case for an increase in special and incentive pay for aviation officers in order to address a specific, statistically-based retention problem with respect to such officers". The report must include "the results of a study, conducted by the Secretary in connection with the case, on market-based compensation approach to the retention of such officers that considers the pay and allowances offered by commercial airlines to pilots and the propensity of pilots to leave the Air Force to become commercial airline pilots". This report is due by February 1, 2016. The Air Force has commissioned RAND to conduct the study and provide the final analysis requested. That analysis will be used as additional justification for the Department's proposed modification to section 334(c)(1).

Budget Implications: The Department believes this proposal to be budget neutral. Although the rates are increasing, the number of eligible officers for the pays is decreasing. Previously, all aviators received aviation career incentive pay for the first 12 years of their aviation career as an entitlement. Under the consolidated authority of section 334 of title 37, U.S. Code, aviation incentive pay is a "may pay" and fewer aviators may qualify for the incentive for shorter periods of time. Therefore, the Services may use these savings to offset any increases due to raising the incentive pay and retention bonus amounts.

The budget table details Air Force resource requirements associated with this proposal based on a projected increase in authority for aviation special pays. The Air Force estimates it will immediately need to restructure the yearly aviation incentives bonus to preserve up to 130 Fighter pilots each year for an additional $1.3 million per year. The $1.3 million consists of 130 Fighter pilots times an additional $10,000 per pilot. Funding for this assumption will first be sourced through program contract length and up-front amount restructuring to fit the need of the Services and, if needed, internal programing actions within the Special and Incentive Pay budget.

The resources reflected in the table below are funded within the FY 2017 President's Budget.

RESOURCE REQUIREMENTS ($MILLIONS)									
	FY 2017	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**Appropriation From**	**Budget Activity**	**Dash-1 Line Item**	**Program Element**
USN	$0.23	$0.45	$0.68	$0.90	$1.13	Military Personnel, Navy	01	035	
Navy Reserve does not intend to use this authority, which would have been funded in the following account: Reserve Personnel, Navy.									
Marine Corps does not intend to use this authority, which would have been funded in the following account: Military Personnel, Marine Corps.									
Marine Corps Reserve does not intend to use this authority, which would have been funded in the following account: Reserve Personnel, Marine Corps.									
USAF	$1.3	$2.6	$3.9	$5.2	$6.5	Military Personnel, Air Force	01	035	
ANG	$0.6	$1.2	$1.8	$2.4	$3.0	National Guard Personnel, Air Force	01	090	
USAFR	$0.1	$0.2	$0.3	$0.4	$0.5	Reserve Personnel, Air Force	01	090	
Army does not intend to use this authority, which would have been funded in the following accounts: Military Personnel, Army; Reserve Personnel, Army; and National Guard Personnel, Army.									
Total	2.23	4.45	6.68	8.90	11.13				

NUMBER OF PERSONNEL AFFECTED								
	FY 2017	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**Appropriation To**	**Budget Activity**	**Dash-1 Line Item**
USN	75	150	225	300	375	Military Personnel, Navy	01	035
Navy Reserve does not intend to use this authority, which would have been funded in the following account: Reserve Personnel, Navy.								
Marine Corps does not intend to use this authority, which would have been funded in the following account: Military Personnel, Marine Corps.								

Marine Corps Reserve does not intend to use this authority, which would have been funded in the following account: Reserve Personnel, Marine Corps.								
USAF	130	130	130	130	130	Military Personnel, Air Force	01	035
ANG	60	60	60	60	60	National Guard Personnel, Air Force	01	090
USAFR	10	10	10	10	10	Reserve Personnel, Air Force	01	090
Army does not intend to use this authority, which would have been funded in the following accounts: Military Personnel, Army; Reserve Personnel, Army; and National Guard Personnel, Army.								
Total	275	350	425	500	575			

Changes to Existing Law: This section would make the following changes to section 334 of title 37, United States Code:

§ 334. Special aviation incentive pay and bonus authorities for officers

(a) AVIATION INCENTIVE PAY.—

(1) INCENTIVE PAY AUTHORIZED.—The Secretary concerned may pay aviation incentive pay under this section to an officer in a regular or reserve component of a uniformed service who—

(A) is entitled to basic pay under section 204 of this title or compensation under section 206 of this title;

(B) maintains, or is in training leading to, an aeronautical rating or designation that qualifies the officer to engage in operational flying duty or proficiency flying duty;

(C) engages in, or is in training leading to, frequent and regular performance of operational flying duty or proficiency flying duty;

(D) engages in or remains in aviation service for a specified period; and

(E) meets such other criteria as the Secretary concerned determines appropriate.

(2) OFFICERS NOT CURRENTLY ENGAGED IN FLYING DUTY.—The Secretary concerned may pay aviation incentive pay under this section to an officer who is otherwise qualified for such pay but who is not currently engaged in the performance of operational flying duty or proficiency flying duty if the Secretary determines, under regulations prescribed under section 374 of this title, that payment of aviation incentive pay to that officer is in the best interests of the service.

(b) AVIATION BONUS.—The Secretary concerned may pay an aviation bonus under this section to an officer in a regular or reserve component of a uniformed service who-

(1) is entitled to aviation incentive pay under subsection (a);

(2) has completed any active duty service commitment incurred for undergraduate aviator training or is within one year of completing such commitment;

(3) executes a written agreement to remain on active duty in a regular component or to serve in an active status in a reserve component in aviation service for at least one year; and

(4) meets such other criteria as the Secretary concerned determines appropriate.

(c) MAXIMUM AMOUNT AND METHOD OF PAYMENT.—

(1) MAXIMUM AMOUNT.—The Secretary concerned shall determine the amount of a bonus or incentive pay to be paid under this section, except that—

(A) aviation incentive pay under subsection (a) shall be paid at a monthly rate, ~~not to exceed—~~

~~(i) $1,000 per month for officers performing qualifying flying duty relating to remotely piloted aircraft (RPA); or~~

~~(ii) $850 per month for officers performing other qualifying flying duty; and~~

not to exceed $1,000 per month; and

(B) an aviation bonus under subsection (b) ~~may not exceed, for each 12-month period of obligated service agreed to under subsection (d)—~~

~~(i) $35,000 for officers performing qualifying flying duty relating to remotely piloted aircraft; or~~

~~(ii) $25,000 for officers performing other qualifying flying duty.~~

may not exceed $35,000 for each 12-month period of obligated service agreed to under subsection (d).

(2) LUMP SUM OR INSTALLMENTS.—A bonus under this section may be paid in a lump sum or in periodic installments, as determined by the Secretary concerned.

(3) FIXING BONUS AMOUNT.—Upon acceptance by the Secretary concerned of the written agreement required by subsection (d), the total amount of the bonus to be paid under the agreement shall be fixed.

(d) WRITTEN AGREEMENT FOR BONUS.—To receive an aviation officer bonus under this section, an officer determined to be eligible for the bonus shall enter into a written agreement with the Secretary concerned that specifies—

(1) the amount of the bonus;

(2) the method of payment of the bonus under subsection (c)(2);

(3) the period of obligated service; and

(4) the type or conditions of the service.

(e) RESERVE COMPONENT OFFICERS PERFORMING INACTIVE DUTY TRAINING.—A reserve component officer who is entitled to compensation under section 206 of this title and who is authorized aviation incentive pay under this section may be paid an amount of incentive pay that is proportionate to the compensation received under section 206 for inactive-duty training.

(f) RELATIONSHIP TO OTHER PAY AND ALLOWANCES.—

(1) AVIATION INCENTIVE PAY.—Aviation incentive pay paid to an officer under subsection (a) shall be in addition to any other pay and allowance to which the officer is

entitled, except that an officer may not receive a payment under such subsection and section 351(a)(2) or 353(a) of this title for the same skill and period of service.

(2) AVIATION BONUS.—An aviation bonus paid to an officer under subsection (b) shall be in addition to any other pay and allowance to which the officer is entitled, except that an officer may not receive a bonus payment under such subsection and section 332 or 353(b) of this title for the same skill and period of service.

(g) REPAYMENT.—An officer who receives aviation incentive pay or an aviation bonus under this section and who fails to fulfill the eligibility requirements for the receipt of the incentive pay or bonus or complete the period of service for which the incentive pay or bonus is paid, as specified in the written agreement under subsection (d) in the case of a bonus, shall be subject to the repayment provisions of section 373 of this title.

(h) DEFINITIONS.—In this section:

(1) The term "aviation service" means service performed by an officer in a regular or reserve component while holding an aeronautical rating or designation or while in training to receive an aeronautical rating or designation.

(2) The term "operational flying duty" means flying performed under competent orders by rated or designated regular or reserve component officers while serving in assignments in which basic flying skills normally are maintained in the performance of assigned duties as determined by the Secretary concerned, and flying performed by members in training that leads to the award of an aeronautical rating or designation.

(3) The term "proficiency flying duty" means flying performed under competent orders by rated or designated regular or reserve component officers while serving in assignments in which such skills would normally not be maintained in the performance of assigned duties.

(4) The term "officer" includes an individual enlisted and designated as an aviation cadet under section 6911 of title 10.

(i) TERMINATION OF AUTHORITY.—No agreement may be entered into under this section after December 31, 2016.