SEC. 613. INCREASE IN MAXIMUM ANNUAL AMOUNT OF NUCLEAR OFFICER BONUS PAY.

Section 333(d)(1)(A) of title 37, United States Code, is amended by striking "$35,000" and inserting "$50,000".

Section-by-Section Analysis

This proposal would authorize the Secretary of the Navy (SECNAV) to increase, from $35,000 per year up to $50,000 per year, the maximum Nuclear Officer Bonus payable under section 333 of title 37, U.S. Code, if the SECNAV considers it necessary to address declining nuclear officer retention and growing retention uncertainty.

The Nuclear Officer Bonus was established in 1969 as a cost-effective means to fully man Navy's Nuclear Enterprise. It provides a retention incentive to technically trained, highly qualified, and proficient officers for committing to specified terms of continued service in the Naval Nuclear Propulsion Program (NNPP). Post-command Submarine Officers over 24 years of commissioned service (YCS) (approximately 90 officers) and nuclear-trained Surface Warfare Officers (SWO(N)s) (approximately 300 officers) are eligible for payment at the legislative limit of $35,000 per year. Remaining officers receive Nuclear Officer Bonuses at the rate of $30,000 per year.

Given the strategic importance of fully manning the Nuclear Enterprise, amidst an improving economy and waning retention, increasing the Nuclear Officer Bonus legislative limit is a prudent planning measure to ensure SECNAV has the necessary tools, and the discretionary authority, to address emerging manning challenges in a timely and responsible manner.

Strategic Imperative:

The Navy and the Nation are best served by a Nuclear Enterprise that is sufficiently manned with top quality personnel capable of executing the nation's missions. Thoughtful consideration goes into developing career paths and requirements for nuclear-trained officers in order to meet highly technical training demands and to provide the necessary operational experience that ensure readiness of nuclear systems. Readiness erodes when operators and supervisors are asked to do more with less due to personnel shortages, and it is difficult to recover efficiently once this type of erosion occurs. Personnel readiness is the most important factor in maintaining high standards and impeccable stewardship of nuclear systems, and when trained and experienced officers are lost, it takes years to develop their replacements. This personnel readiness, in turn, enables effective and independent operations by Navy's nuclear platforms.

The Nuclear Enterprise is an integral part of projecting power and diplomacy via Aircraft Carrier Strike Groups, maintaining a continuous and survivable strategic deterrent, and continuing to dominate the undersea domain. The Nuclear Officer Bonus provides a last line of defense for mitigating declining retention within the Nuclear Enterprise, with a proven record of

cost effectiveness. Specifically, the NNPP has demonstrated a consistent history of fiscal restraint, pursuing rate increases only when necessary in conjunction with non-monetary actions while relying on sufficient operating space below the legislative limit to take timely and deliberate action when required.

The Nuclear Enterprise has an implicit responsibility for maintaining the American public's trust in our ability to safely operate complex nuclear systems. As a result, Navy and Department of Defense must remain unassailable with the safety and integrity of nuclear systems and programs. The NNPP is a small, lean, high-performing team that must be fully manned to carry out its unique responsibilities.

Economic Indicators:

As the economy continues to improve, retention is declining among experienced nuclear-trained officers and enlisted personnel, and we anticipate further negative impacts to retention behavior. Figure 1 illustrates historic gross domestic product (GDP) and unemployment levels, and the consensus forecasts of the Blue Chip Economic Indicators (BCEI). This economic environment and improving labor market will negatively impact retention, making civilian employment opportunities more desirable for the highly qualified and talented individuals with strong academic backgrounds who man the Nuclear Enterprise. It is imperative that Navy remain poised to counter this retention challenge.

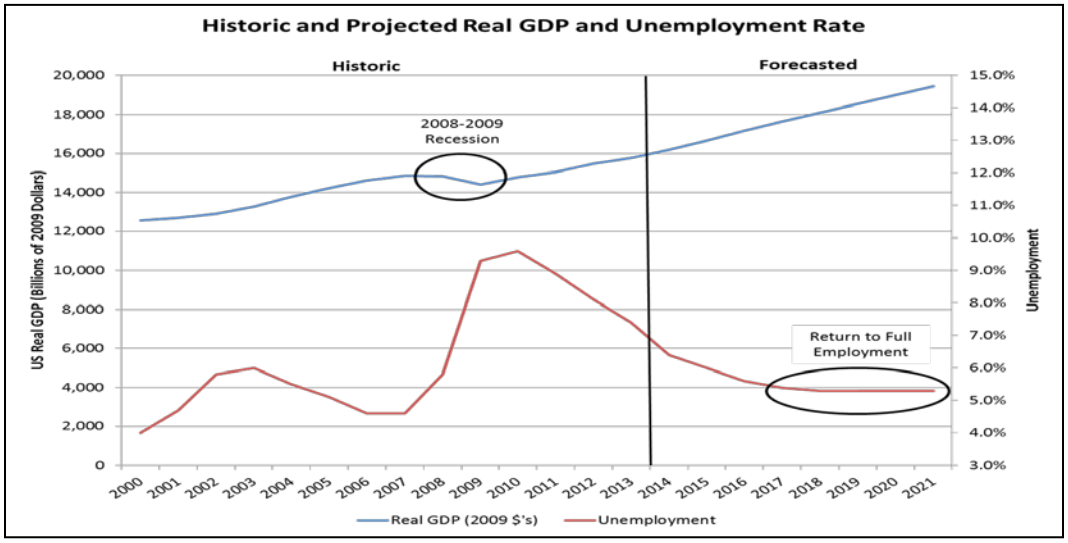

Figure 1. Economic trends and forecasts (2000–2021)

NNPP officers have more civilian options available than officers in most other military occupations and are highly recruited into technical fields and management positions. For example, civilian placement services report over 80 percent of transitioning SWO(N) and submarine officers find opportunities in technical management positions that leverage their unique combination of leadership skills and technical expertise (Lucas Group, 2014). NNPP officers are valued in the private sector for their combination of a strong work ethic, an ethos of resourcefulness, and an aptitude for quickly learning new skills. A "graying" technical workforce across the United States increases the draw of the civilian sector on military officers in general, with many employers willing to pay a premium for nuclear-trained officers. As the economy continues to improve, there will be an increasing draw of NNPP officers away from

Navy careers. Table 1 summarizes the estimated annual civilian compensation for transitioning nuclear-trained officers (Lucas Group, 2014).

	O-3	O-4	O-5	O-6
Base Salary	$75-120K	$85-130K	$90-150K	$110-200K
Total Compensation	$85-145K	$95-155K	$120-170K	$130-250K

Table 1. Summary of Civilian Earning Potential for Nuclear-Trained Officers

The civilian nuclear industry remains an attractive career option for nuclear-trained officers who require significantly less time and fewer resources to train. The nuclear industry employs over 120,000 people in the United States with annual salaries between $80,000 and $115,000; there are also additional bonuses, overtime wages, and other incentives targeted at officers with NNPP backgrounds. The industry estimates 38 percent of its employees will be retirement eligible between 2013 and 2017, increasing demand for trained nuclear operators and supervisors to fill more than 45,000 positions (Atlanta Journal-Constitution, 2012; Nuclear Energy Institute, 2013). According to the Bureau of Labor Statistics, careers in Nuclear Engineering had a median income in 2013 of $101,600. The nuclear industry provides a direct translation of acquired skills to a high-paying career, and with 64 commercial nuclear reactors in 31 states, the civilian nuclear industry provides geographic stability, which is a factor often cited by resigning and retiring officers.

The Nuclear Officer Bonus was recently raised to the current legislative limit to retain senior nuclear-trained officers with command experience who remain in great demand in the private sector. With civilian companies offering $200,000 or more per year for these retirement-eligible officers, it remains critical that the NNPP preserve the flexibility to effectively address pay dis-satisfiers.

Retention Trends:

Over the past few years, the NNPP observed several troubling retention indicators. These trends, coupled with an improving economy and the absence of any positive retention indicators, are cause for concern. As shown in Figure 2, SWO(N) retention has shown a steady decline since 2009, with a marked decrease over the past two years. In 2012, year-group (YG) 06 missed the aircraft carrier Principal Assistant (PA) retention *goal* of 24 officers, but met the minimum PA retention *requirement* of 21 officers. In 2013, YG07 missed both the retention *goal* and the minimum retention *requirement* with only 18 officers retained to PA. This YG07 shortfall will result in longer PA tour lengths and less selectivity for PA screening. If this retention trend continues over the long term, it will also reduce selectivity for aircraft carrier Reactor Officer (RO) screening, which is the community's preeminent nuclear assignment. YG08 and YG09 SWO(N) retention is still in progress, but appears to be trending even worse than YG07. As of July 2014, YG08 has 13 officers retained to PA, with 36 officers undecided. Based on one-to-one engagement with each of these officers, the SWO(N) Community Manager estimates YG08 will ultimately retain approximately 15 officers to PA, well below the minimum retention *requirement* of 21 PAs. This estimate is indicated by the red dashed line in Figure 2. This estimate is not a mere extrapolation, but is based upon specific discussions with each eligible officer.

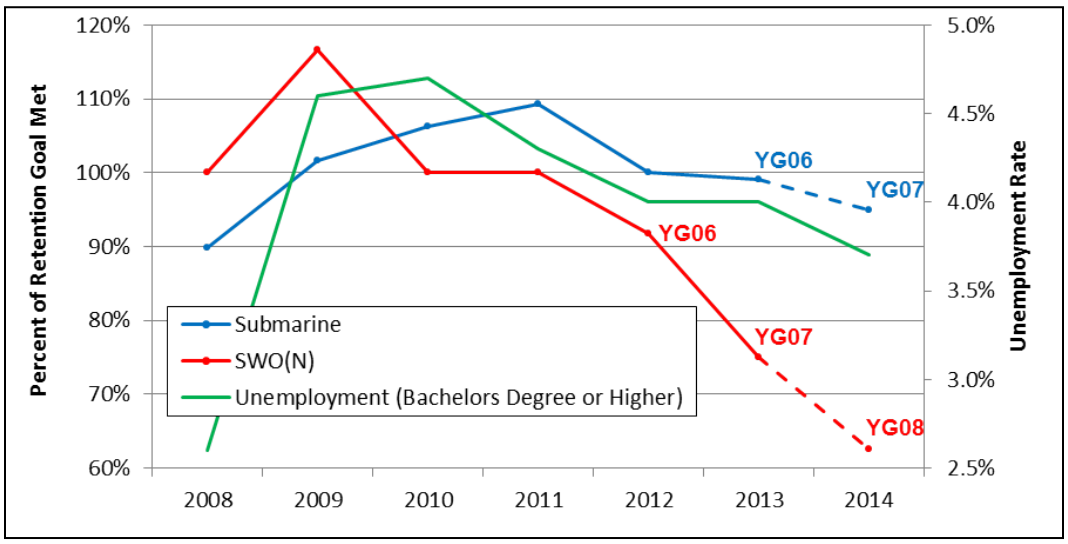

Figure 2. Submarine and SWO(N) Final Retention (2008–2014)

In June 2014, Navy raised the Nuclear Officer Bonus rate for the SWO(N) community to the legislative limit of $35,000 per year to meet nuclear-powered aircraft carrier PA requirements. Navy is monitoring the impact of this change, in combination with other non-monetary measures, prior to recommending a subsequent Nuclear Officer Bonus increase. However, a 2007 Lewin Group model that correlates bonus increases to retention behavior indicates a Nuclear Officer Bonus rate increase above the current legislative limit may be required as early as 2016 to meet minimum PA requirements for YG08 and YG09.

Figure 2 also shows a decline in Submarine Officer retention, with recent YGs just meeting Department Head (DH) requirements. Submarine YG07 retention is still in progress and is predicted to be just below the DH retention goal. This estimate is indicated by the blue dashed line in Figure 2. Of note, both Submarine Officer and SWO(N) retention trended with the unemployment rate for college graduates with a bachelor's degree or higher during this same period (Bureau of Labor Statistics, 2014).

Submarine Officers and SWO(N)s are also delaying retention decisions, resulting in increasing uncertainty and decreasing "reaction time" for Community Managers if and when retention continues to decline. Figure 3 illustrates this delay by showing the percentage of each group's retention goal met at 4.5 YCS. Most NNPP officers are eligible to sign a Nuclear Officer Bonus contract as early as 4 YCS, obligating them to additional service that begins at five YCS. In the past, the majority of Submarine Officer retention decisions were made by 4.5 YCS, with over two thirds of DH retention requirements met at that point. SWO(N) retention decisions were typically made between four and six YCS, with approximately half of PA retention requirements met by 4.5 YCS. Submarine Officer contract signing at 4.5 YCS has dropped to below 40 percent, and SWO(N) contract signing at 4.5 YCS is below 10 percent for recent YGs. As retention decisions shift later, retention uncertainty grows, and the time available for NNPP Community Managers to respond to declining retention is limited. The ability to respond deliberately, but not prematurely, is a primary purpose of this proposal to increase the Nuclear Officer Bonus legislative limit.

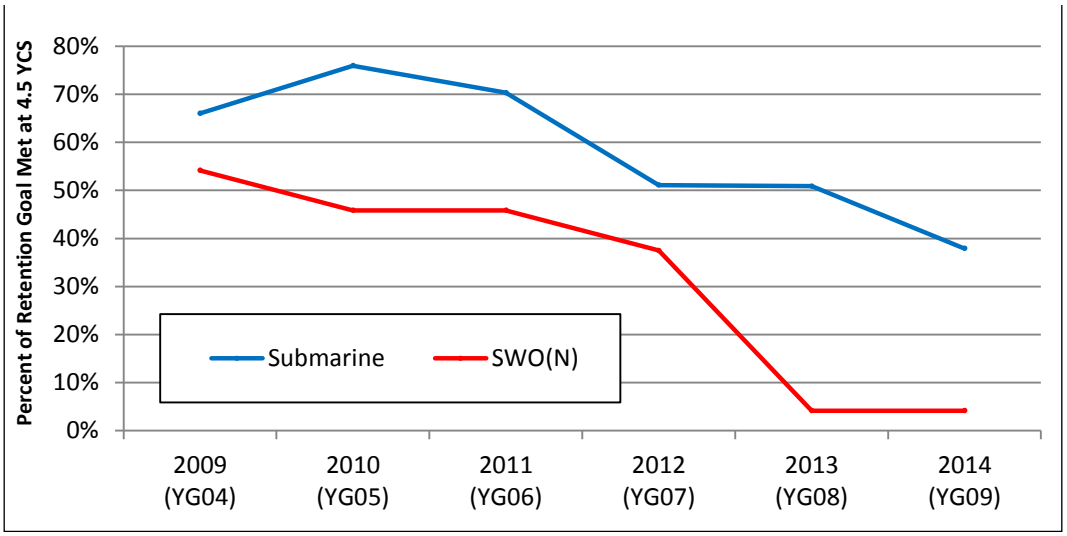

Figure 3. Submarine and SWO(N) Contract Signing at 4.5 YCS (2009–2014)

Increasing operational tempo and compressed maintenance cycles for the Navy's nuclear-powered aircraft carriers and submarines is also negatively impacting officer retention. The 2014 Quadrennial Defense Review (QDR) made it clear that the Navy will be increasingly relevant, and employed, building security globally by projecting U.S. influence and deterring aggression. At the same time, budgets across the Department of Defense continue to tighten. Over the past decade, the Navy downsized by approximately 60,000 personnel while other Services grew to support war efforts. As the United States military rebalances toward the Asia-Pacific region, the demand for forward naval presence will likely continue to increase. Aircraft carriers and submarines are central to this strategy, and the officers who man them reasonably expect higher operational tempos in the future. An uncertain aircraft carrier force structure and a declining submarine force structure will only exacerbate this situation. In short, the expectation of being asked to "do more with less" is making retention less attractive, and will continue to do so as civilian career opportunities increase.

Increasing maintenance workloads associated with aging aircraft carrier and submarine fleets are also negatively impacting in-port workload and associated quality of service for NNPP officers. The average age of NIMITZ-class aircraft carriers is approaching 24 years, placing greater demands on the nuclear-trained workforce and increasing the risk of insufficient manning. Similarly, 84 percent of the submarine force is between 16 and 33 years old. The increased complexity and scope of maintenance to keep these ships mission-ready requires retention of experienced NNPP officers with proven technical expertise and supervisory skills. As the fleet continues to age, these challenges will grow—a trend recognized by nuclear-trained officers.

In short, all indicators point toward a more challenging retention environment for NNPP officers in the future.

Cost Effectiveness:

Throughout its history, the Nuclear Officer Bonus has remained a cost-effective method of mitigating declining retention trends. Proper management of Nuclear Officer Bonuses maintains nuclear manning while minimizing growth in accessions. Nuclear-trained DHs and

PAs require a minimum of five years of training and experience—they cannot be directly accessed. Increasing accessions to mitigate actual or anticipated declining retention trends is much less cost-effective.

The cost of accessing, training, and paying a nuclear-trained officer for their initial period of obligated service is approximately $950,000. To mitigate a hypothetical five percent drop in retention rates compared to current values, for example, the accession need would increase by approximately 100 ensigns (pay grade O-1) at a steady-state cost of approximately $95 million per year. By comparison, a notional across-the-board increase in the Nuclear Officer Bonus rate to $40,000 (a $10,000 increase for most officers on contract) would require less than $16 million per year. This cost could be further reduced by targeting only select groups, limiting eligibility, or using a smaller bonus increase.

Fiscal Discipline:

The 44-year history of the Nuclear Officer Bonus has been one of restraint, with Navy only raising bonus rates when absolutely required to meet retention needs. Since inception in 1969, the legislative limit was raised seven times, and the paid bonus rate was raised 10 times. Since 1985, in conjunction with the third legislative limit increase in the program's history, Navy has attempted to maintain operating space between the legislative limit and paid bonus rates to allow flexibility to respond with rate changes only when required. Since then, the overall paid bonus rate has only been set at the legislative limit ten percent of the time (three of the past 30 years). The current Nuclear Officer Bonus legislative limit of $35,000 was established six years ago, and the majority of nuclear-trained officers continue to be paid below this limit. Some post-command Submarine Officers became eligible for payment at the legislative limit in 2013, and SWO(N)s became eligible in 2014.

The 2008 National Defense Authorization Act (NDAA) consolidated over 60 military special and incentive pays into eight broad legislative categories. A conscious decision was made by DoD and Congress to maintain a distinct category for Nuclear Officer Pays under section 333 of title 37, U.S. Code. This affords flexibility to manage and adjust NNPP bonuses consistent with the unique requirements of the Nuclear Enterprise and explicitly ties eligibility to nuclear proficiency and career progression. Also in 2008, the Tenth Quadrennial Review of Military Compensation (QRMC) recommended increasing the Nuclear Officer Bonus legislative limit, up to $60,000 per year, to allow sufficient operating space to manage the Nuclear Enterprise. Navy's current proposal would align the Nuclear Officer Bonus legislative limit with the General Officer Bonus legislative limit of $50,000 per year under section 332 of title 37, U.S. Code.

The NNPP reduces costs through an eligibility system based on detailed management of NNPP qualifications to ensure only proficient, career oriented, due-course officers receive bonus incentives. The NNPP assigns an officer dedicated to managing nuclear additional qualification designators (AQDs) to track nuclear proficiency and nuclear related billets. An AQD audit is performed quarterly to ensure only personnel meeting the high standards of the NNPP with AQDs intact, and hence eligible for assignment in the supervision of naval nuclear propulsion plants, are eligible and may receive bonus incentives. Any officer who fails to accept career milestone assignments, meet and complete career requirements, promote to the next grade, or perform at an acceptable level loses eligibility for bonuses and, to the maximum extent possible by law, is recouped any unearned portions of bonuses paid.

The NNPP uses non-monetary incentives such as follow-on homeport guarantees, shore duty guarantees, and graduate education opportunities to promote retention and enhance quality of service along with considerations to adjust the Nuclear Officer Bonus rate, and will continue to execute this program with responsible and judicious stewardship. The NNPP uses one-to-one engagement with undecided officers, using flag officers and captains to communicate the importance of retention to qualified officers. In all cases, NNPP has looked for ways to minimize the cost of the Nuclear Officer Bonus and to maximize the yield of any rate increases.

Summary:

The Nuclear Officer Bonus is a cost-effective means for managing retention trends, particularly in a challenging and uncertain environment. A legislative limit increase from $35,000 to $50,000 is a low-risk proposal that provides the operating space necessary to ensure the Navy can quickly respond to retention trends and meet Nuclear Enterprise manning requirements in the future. The Nuclear Officer Bonus is currently at the legislative limit for approximately 22 percent of eligible nuclear-trained officers, including SWO(N)s and some post-command Submarine Officers. Appropriate action now, coupled with the NNPP's commitment to responsible management of the Nuclear Officer Bonus under the proper oversight of SECNAV, mitigates future retention risks with no downside.

Budget Implications: This provision is estimated to affect approximately 320 officers, a $3.2 million increase in annual obligations, which is included in the FY 2016 budget. This cost was determined by applying the $10,000 bonus rate increase to eligible SWO(N)s.

RESOURCE REQUIREMENTS ($MILLIONS)									
	FY 2016	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**Appropriation From**	**Budget Activity**	**Dash-1 Line Item**	**Program Element**
Bonus Increase	$3.2	$3.2	$3.2	$3.2	$3.2	Military Personnel, Navy	01	40	N/A
Total	$3.2	$3.2	$3.2	$3.2	$3.2	--	--	--	--

Table 2. Budget Projections for a SWO(N) Bonus Rate Increase to $45,000 per Year.

NUMBER OF PERSONNEL AFFECTED					
	FY 2016	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**
USN	320	320	320	320	320
Total	320	320	320	320	320

Table 3. Affected Officers for a SWO(N) Bonus Rate Increase to $45,000 per Year.

Changes to Existing Law: This proposal would make the following change to section 333 of title 37, United States Code:

§ 333. Special bonus and incentive pay authorities for nuclear officers

(a) NUCLEAR OFFICER BONUS.—The Secretary of the Navy may pay a nuclear officer bonus under this section to a person, including an officer in the Navy, who—

(1) is selected for the officer naval nuclear power training program in connection with the supervision, operation, and maintenance of naval nuclear propulsion plants and agrees to serve, upon completion of such training, on active duty in connection with the supervision, operation, and maintenance of naval nuclear propulsion plants; or

(2) has the current technical qualification for duty in connection with the supervision, operation, and maintenance of naval nuclear propulsion plants and agrees to remain on active duty in connection with the supervision, operation, and maintenance of naval nuclear propulsion plants.

(b) NUCLEAR OFFICER INCENTIVE PAY.—The Secretary of the Navy may pay nuclear officer incentive pay under this section to an officer in the Navy who—

(1) is entitled to basic pay under section 204 of this title; and

(2) remains on active duty for a specified period while maintaining current technical qualifications, as approved by the Secretary, for duty in connection with the supervision, operation, and maintenance of naval nuclear propulsion plants.

(c) ADDITIONAL ELIGIBILITY CRITERIA.—The Secretary of the Navy may impose such additional criteria for the receipt of a nuclear officer bonus or nuclear officer incentive pay under this section as the Secretary determines to be appropriate.

(d) MAXIMUM AMOUNT AND METHOD OF PAYMENT.—

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

(A) a nuclear officer bonus paid under subsection (a) may not exceed ~~**$35,000**~~ **<u>$50,000</u>** for each 12-month period of the agreement under subsection (e); and

(B) the amount of nuclear officer incentive paid under subsection (b) may not exceed $25,000 for each 12-month period of qualifying service.

(2) LUMP SUM OR INSTALLMENTS.—A nuclear officer bonus or nuclear officer incentive pay under this section may be paid in a lump sum or in periodic installments.

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

(e) WRITTEN AGREEMENT FOR BONUS.—

(1) AGREEMENT REQUIRED.—To receive a nuclear officer bonus under subsection (a), a person or officer determined to be eligible for the bonus shall enter into a written agreement with SECNAV that specifies—

(A) the amount of the bonus;

(B) the method of payment of the bonus under subsection (d)(2);

(C) the period of obligated service; and

(D) the type or conditions of the service.

(2) REPLACEMENT AGREEMENT.—An officer who is performing obligated service under an agreement for a nuclear officer bonus may execute a new agreement to replace the existing agreement if the amount to be paid under the new agreement will be higher than the amount to be paid under the existing agreement. The period of the new agreement shall be equal to or exceed the remaining term of the period of the officer's existing agreement. If a new agreement is executed under this paragraph, the existing agreement shall be cancelled, effective on the day before an anniversary date of the existing agreement occurring after the date on which the amount to be paid under this paragraph is increased.

(f) RELATIONSHIP TO OTHER PAY AND ALLOWANCES.—A nuclear officer bonus or nuclear officer incentive pay paid to a person or officer under this section is in addition to any other pay and allowance to which the person or officer is entitled, except that a person or officer may not receive a payment under this section and section 332 or 353 of this title for the same skill and period of service.

(g) REPAYMENT.—A person or officer who receives a nuclear officer bonus or nuclear officer incentive pay under this section and who fails to complete the officer naval nuclear power training program, maintain required technical and operational qualifications, complete the period of service, or meet the types or conditions of service for which the bonus or incentive pay is paid, as specified in the written agreement under subsection (e) in the case of a nuclear officer bonus, shall be subject to the repayment provisions of section 373 of this title.

(h) REGULATIONS.—This section shall be administered under regulations prescribed by the Secretary of the Navy.

(i) TERMINATION OF AUTHORITY. —No agreement may be entered into under this section after December 31, 2014.