OFFICE OF THE UNDER SECRETARY OF DEFENSE
4000 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-4000

PERSONNEL AND
READINESS

The Honorable Nita M. Lowey
Chairwomen
Committee on Appropriations
U.S. House of Representatives
Washington, DC 20515

MAY - 8 2019

Dear Madam Chairman:

The enclosed annual report is in response to the Senate Report 112–173, pages 132–133 accompanying S. 3254, the National Defense Authorization Act for Fiscal Year (FY) 2013, which requests that the Secretary of Defense, in consultation with the Director of the Office of Personnel Management, report on the use of the healthcare provider appointing authorities set forth in title 38, U.S.C., chapter 74, as authorized by 10 U.S.C. § 1599c, to appoint and pay for critically needed healthcare occupations.

The Department of Defense (DoD) reports annually to Congress on its use of authorities and flexibilities under 10 U.S.C § 1599c to recruit and retain trained, experienced civilian healthcare professionals in critically needed healthcare occupations. The enclosed report summarizes the extent to which such authorities are being used throughout the Department. A notable example is the robust use of Direct Hire and Expedited Hiring Authorities. Over 40 percent of Military Health System (MHS) vacancies were filled using these streamlined hiring authorities in FY 2018 compared to 22 percent in FY 2016. Another success story is the use of title 38 compensation flexibilities which, in part, account for 30 percent fewer civilian personnel in the health care occupations departing DoD during FY 2018 than during FY 2014. Notwithstanding these successes, challenges remain. For instance, in our report, we describe current and projected loss rate trends due to anticipated retirements, and the fact that there is keen competition from the private sector, exacerbated by an often-limited applicant pool. The report concludes with a description of efforts by the Military Departments and at the enterprise level to offset or mitigate hiring and retention difficulties. For instance, the MHS is participating in a Department-level effort to assess the current state of the civilian workforce, to identify skills and competencies gaps, and to forecast emerging and future workforce requirements.

Thank you for your interest in the health and well-being of our Service members, veterans, and their families. A similar letter is being sent to the Chairmen of the other congressional defense committees, the Senate Committee on Homeland Security and Governmental Affairs, and the House Committee on Oversight and Reform.

Sincerely,

James N. Stewart
Assistant Secretary of Defense for Manpower and Reserve Affairs, Performing the Duties of the Under Secretary of Defense for Personnel and Readiness

Enclosure:
As stated

cc:
The Honorable Kay Granger
Ranking Member

OFFICE OF THE UNDER SECRETARY OF DEFENSE
4000 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-4000

PERSONNEL AND READINESS

MAY - 8 2019

The Honorable Richard C. Shelby
Chairman
Committee on Appropriations
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

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Sincerely,

James N. Stewart
Assistant Secretary of Defense for Manpower and Reserve Affairs, Performing the Duties of the Under Secretary of Defense for Personnel and Readiness

Enclosure:
As stated

cc:
The Honorable Patrick J. Leahy
Vice Chairman

OFFICE OF THE UNDER SECRETARY OF DEFENSE
4000 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-4000

PERSONNEL AND READINESS

The Honorable Adam Smith
Chairman
Committee on Armed Services
U.S. House of Representatives
Washington, DC 20515

MAY - 8 2019

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Sincerely,

James N. Stewart
Assistant Secretary of Defense for Manpower and Reserve Affairs, Performing the Duties of the Under Secretary of Defense for Personnel and Readiness

Enclosure:
As stated

cc:
The Honorable William M. "Mac" Thornberry
Ranking Member

OFFICE OF THE UNDER SECRETARY OF DEFENSE
4000 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-4000

PERSONNEL AND READINESS

MAY - 8 2019

The Honorable James M. Inhofe
Chairman
Committee on Armed Services
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

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Sincerely,

James N. Stewart
Assistant Secretary of Defense for Manpower and Reserve Affairs, Performing the Duties of the Under Secretary of Defense for Personnel and Readiness

Enclosure:
As stated

cc:
The Honorable Jack Reed
Ranking Member

OFFICE OF THE UNDER SECRETARY OF DEFENSE
4000 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-4000

PERSONNEL AND READINESS

The Honorable Ron Johnson
Chairman
Committee on Homeland Security and
Governmental Affairs
United States Senate
Washington, DC 20510

MAY - 8 2019

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Sincerely,

James N. Stewart
Assistant Secretary of Defense for Manpower and Reserve Affairs, Performing the Duties of the Under Secretary of Defense for Personnel and Readiness

Enclosure:
As stated

cc:
The Honorable Gary C. Peters
Ranking Member

OFFICE OF THE UNDER SECRETARY OF DEFENSE
4000 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-4000

PERSONNEL AND READINESS

The Honorable Elijah E. Cummings
Chairman
Committee on Oversight and Reform
U.S. House of Representatives
Washington, DC 20515

MAY - 8 2019

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Sincerely,

James N. Stewart
Assistant Secretary of Defense for Manpower and Reserve Affairs, Performing the Duties of the Under Secretary of Defense for Personnel and Readiness

Enclosure:
As stated

cc:
The Honorable Jim Jordan
Ranking Member

ANNUAL REPORT TO CONGRESSIONAL COMMITEES ON HEALTH CARE PROVIDER APPOINTMENT AND COMPENSATION AUTHORITIES FISCAL YEAR 2018

SENATE REPORT 112–173, Pages 132–133
NATIONAL DEFENSE AUTHORIZATION ACT
FOR FISCAL YEAR 2018

The estimated cost of this report or study for the Department of Defense (DoD) is approximately $3,860 in Fiscal Years 2017–2018. This includes $0 in expenses and $3,860 in DoD labor.

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2018 REPORT TO CONGRESS
DEPARTMENT OF DEFENSE HEALTH CARE PROVIDER
APPOINTMENT AND COMPENSATION AUTHORITIES

The Department of Defense (DoD) is requested to report annually to several congressional committees on its use of flexibilities to recruit and retain trained, experienced civilian healthcare professionals in critically needed healthcare occupations. This report summarizes the extent to which such authorities are being used successfully throughout the DoD. The authority granted by 10 U.S.C. § 1599c to exercise the authorities in chapter 74 of title 38, U.S.C., continues to be used extensively throughout the DoD and has contributed to successful recruitment and retention efforts for critical healthcare positions. In this report, we update fiscal year (FY) 2017 information submitted in the DoD's interim reports sent in September 2018 and December 2018, and describe progress made during FY 2018. A copy of the FY 2017 report is included for reference.

Hiring Authorities:
The DoD regularly uses a single hiring authority that is specific to the Military Health System (MHS), and a full range of hiring authorities created by the Office of Personnel Management (OPM) for use throughout the government. A summary of the MHS and OPM hiring authorities are outlined in the table below.

Authority/Flexibility	Scope & Coverage	MHS Specific	Gov't Wide
Expedited Hiring Authority (EHA) for certain Defense Healthcare Occupations	Applies to approximately 40 targeted medical and healthcare occupations MHS-wide.	✓	
OPM Government-wide Direct Hire Authority (DHA) for Medical Occupations	Approved for use at all locations and all grade levels for physicians, registered nurses, licensed practical/vocational nurses, pharmacists, and diagnostic radiologic technologists.		✓
OPM Government-wide DHA for Veterinary Medical Officer Positions	Approved nationwide for GS-11 through GS-15 veterinary positions.		✓
Delegated Examining processes	OPM authorizes agencies to fill competitive civil service jobs with applicants from outside the Federal workforce or Federal employees with or without competitive service status.		✓
Various non-competitive authorities	Such as Veterans Recruitment Appointment Authority, which allows non-competitive appointment of 30 percent disabled veterans leading to the conversion of career or career conditional appointment.		✓
Temporary and term appointments	Temporary and term appointments are used to fill positions when there is not a need for the job to be filled on a permanent basis.		✓
The Pathways Program	Targets internships and recent graduates.		✓
Presidential Management Fellows	Matches outstanding graduate students with exciting Federal opportunities.		✓
Schedule A for appointing authorities for in**d**ividuals and support positions	Allows for appointment of people with severe physical disabilities, psychiatric disabilities, and intellectual disabilities. Another Schedule A authority can be used to appoint readers, interpreters, and personal assistants for disabled employees.		✓

Table 1: MHS and OPM Hiring Authorities

Results of Using Hiring Authorities: The DoD continues to use all existing hiring authorities, particularly EHA and DHA for medical positions. There has been a sharp increase in the use of EHA and DHA during FY 2018. To demonstrate, in FY 2016, 22.9 percent of all hiring actions were accomplished using EHA and DHA authorities; in FY 2017, 26.7 percent were filled using these authorities; and in FY 2018, an impressive 41.3 percent were filled using DHA/EHA flexibilities. This clearly demonstrates a solid MHS commitment of using the enhanced hiring authorities and employing more streamlined hiring processes.

Types of Compensation Authorities:

Compensation authorities fall into two broad categories. First, title 38 authorities are available to DoD pursuant to10 U.S.C. § 1599c. These authorities include, but are not limited to, Special Salary Rate (SSR) Authority (which allows DoD to increase rates of basic pay to amounts competitive within the local labor market, including the Department of Veterans Affairs (VA)); Physicians and Dentists Pay Plan (PDPP); Nurse Locality Pay System; Head Nurse Pay; and Premium Pay. Second, the DoD uses Government-wide authorities which include, but are not limited to, the Superior Qualifications and Special Needs Pay-Setting Authority (SQA); Recruitment, Relocation, and Retention Incentives (3Rs); Student Loan Repayment Program; Service credit for leave accrual; and Title 5 SSR Authority (which allows OPM to increase pay to address existing or likely significant handicaps in recruiting or retaining well-qualified employees due to factors such as significantly higher non-Federal pay rates than those payable by the Federal Government within the area, location, or occupational group involved; the remoteness of the area or location involved; or the undesirability of the working conditions or nature of the work involved.)

Results of Using Compensation Authorities: The use of compensation authorities continues to be robust. The MHS currently has approximately 2,158 physicians and dentists under the PDPP, and there are 270 SSR tables which authorize higher salary rates for multiple occupations, benefiting 10,301 employees. The current number of SSR tables is an increase from the 248 SSR tables in FY 2017. The DoD also continues to make use of the SQA and, where appropriate, uses a combination of SSRs and the SQA. These compensation authorities span 40 occupations (compared to 38 in FY 2017), dispersed through 191 Continental United States (CONUS) and Outside the Continental United States (OCONUS) duty stations.

Over the last five FYs, the number of losses in the 53 MHS medical occupations has continued to decrease, and a significant factor may be robust use of available compensation authorities. As the chart below demonstrates, 6,574 persons left the MHS in FY 2014, while the number leaving in FY 2018 was 4,715. This means almost 30 percent fewer civilian personnel in the health care occupations departed DoD during FY 2018 than during FY 2014. While the loss rates in FY 2017 and FY 2018 are virtually even, the five FY trend is a big success, attributable, at least in part, to the continued use of title 38 compensation authorities, combined with other compensation strategies.

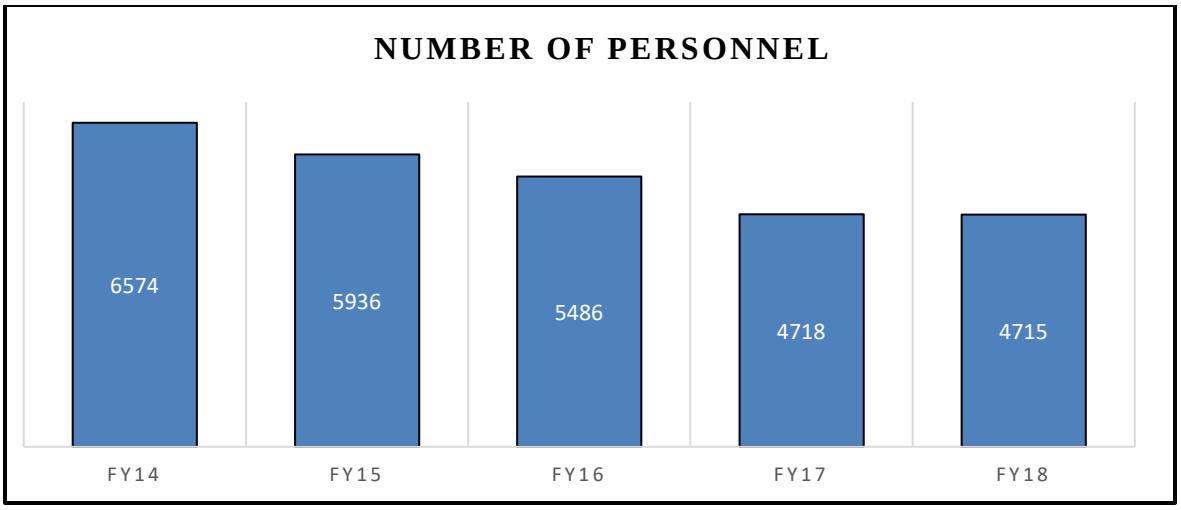

Table 2: Number of Personnel in 53 Medical Occupations Departing DoD FY 2014 – FY 2018

Mission Critical Occupations (MCO) Loss Rates: One area that is carefully monitored is loss rate trend data for MCOs. These occupations are: clinical psychologist, licensed clinical social worker, physician, physician assistant, registered nurse, licensed practical/vocational nurse, physical therapist and pharmacist. The loss rate[1] for three of the eight MCOs (registered nurse, pharmacist, and clinical psychologist) decreased slightly from FY 2017 to FY 2018, while the loss rate for the remaining five increased. When examining the chart below, the data should be reviewed not just FY to FY but over the course of the past four FYs in order to identify the data trend. For instance, while the FY 2018 loss rate for licensed clinical social workers (11.2 percent) is a significant increase over FY 2017 data (9.0 percent), it is still slightly below the FY 2015 rate of 11.8 percent.

	FY 2015	FY 2016	FY 2017	FY 2018
Lic Clin Social Workers	11.8%	10.9%	9.0%	11.2%
Physicians	11.1%	10.5%	10.4%	11.3%
Physician Assistants	17.9%	12.3%	11.2%	12.3%
Registered Nurses	11.3%	10.3%	11.0%	10.8%
Pharmacists	9.8%	9.0%	8.3%	7.8%
Clinical Psychologists	9.0%	13.8%	8.0%	7.8%
Licensed Practical Nurse	15.0%	15.2%	12.8%	13.9%
Physical Therapist	12.5%	8.9%	7.1%	9.5%

Table 3: Occupational Loss Rate FY 2015 – FY 2018

[1] Within DoD, the loss rate is defined as losses to DoD, and not internal churn within the Military Departments. Data in the Corporate Management Information System (CMIS), which houses civilian data from the Defense Civilian Personnel Data System (DCPDS), is the source for loss rate calculations.

The following are the overall loss rate averages for all MCOs across the MHS from FY 2015 through FY 2018. There was a steady decline until FY 2018, where there was a .3 percent increase.

FY 2015: 12.1 percent
FY 2016: 11 percent
FY 2017: 10.8 percent
FY 2018: 11.1 percent

When comparing gains and losses in these eight occupations, it was found that in five MCOs the MHS hired more employees than it lost from FY 2013 to FY 2018. The two MCOs that do not show the same trend over 5 years, the clinical psychologist and licensed clinical social worker, did have gains outnumbering the losses over the last three years.

Strategic Recruitment and Retention Analysis:

When the Military Departments/National Capital Regional Medical Directorate (NCRMD)[2] were asked to identify current systemic problems with hiring and retention, they indicated they are experiencing difficulties with all or most of the MCOs. The retirement eligibility of physicians, clinical psychologists and licensed clinical social workers is of particular concern and will eventually result in a greater degree of turnover that will exacerbate existing recruitment and retention problems.

The Military Departments/NCRMD have indicated that the primary barrier to becoming more competitive with other employers is that the MHS is unable to compete with compensation packages offered by private hospitals. For instance, private sector employers are often able to offer incentives such as stock options and flexibility in determining salary offers, bonuses, and benefits. This is exacerbated by supply and demand; there is an increased need for healthcare professionals as the population ages and there are insufficient people entering the healthcare field to meet the demand. Additionally, the pool of available skilled healthcare providers is also often limited by the remote geographic locations of many military installations. The length of time it takes to get security clearances is also problematic and is an issue that competitors in the private sector do not face.

Some specific examples:

- Navy has difficulty hiring speech pathologists, occupational and physical therapists with Educational and Development Intervention Service program experience. The pool of candidates in the community is small and the Military Departments have limited ability to rotate those individuals between CONUS and OCONUS. In addition, because the VA has higher pay in many localities, the MHS experiences problems competing for applicants in several fields including nurses, industrial hygienists, medical supply technicians and medical officers.

2 As part of the Defense Health Agency, NCRMD comprises Walter Reed National Military Medical Center, Fort Belvoir Community Hospital and associated clinics, and the Joint Pathology Center.

- The NCRMD's medical center hospital and clinics are located primarily in the Washington D.C. metropolitan area, which is an extremely competitive labor market. In addition to having systemic problems with hiring/retaining MCO positions, NCRMD reports systemic problems with hiring histopathology technicians and diagnostic radiologic technologists due primarily to being non-competitive with private sector salaries and benefits. There are significant high loss rates with medical support assistant positions due primarily to lack of career growth opportunities and opportunities for promotions elsewhere.

To address the negative impacts on recruitment and retention, the Military Departments/NCRMD are successfully using a number of strategies. For example, the Military Departments/NCRMD report that they are continuing the robust use of title 38 authorities and SSRs, and where warranted, are combining these two flexibilities with other existing authorities like the 3Rs incentives and SQA when candidates can demonstrate high academic achievement. The flexibilities of the PDPP are making DoD more competitive with the VA for these in-demand resources, due primarily to the fact that salaries of PDPP employees are reviewed and adjusted every 2 years, which ensures that DoD keeps up with competing salaries being offered by the VA. Some specific examples include:

- Air Force continues to use new SSRs, but when that avenue cannot be used, Air Force is evaluating and/or adjusting the skill and force mix so that alternative kinds of positions can be created to fill voids left by long-standing vacancies.

- Army is committed to leveraging all available title 38 compensation flexibilities to attract and retain a quality healthcare force: PDPP and SSR to remain competitive with the VA and the private sector; and title 38 premium pay for the other 30 healthcare specialties.

Analysis of Projected Retirement Eligibility:

While there are numerous efforts underway to improve recruitment and retention, these initiatives alone may not be successful in meeting future requirements of the MCOs. Looking ahead to 2026, the Bureau of Labor Statistics forecasts that the demand for all the MCOs is expected to rise across the U.S., led by the need for physician assistants.[3] In addition, the retirement eligibility for each of the MCOs suggests there may be potential recruiting and retention challenges in the near and long term.

[3] This is according to the Bureau of Labor Statistics (BLS), "Healthcare occupations will add more jobs than any other group of occupations. This growth is expected due to an aging population…" https://www.bls.gov/news.release/ecopro.nr0.htm

Job Series	BLS Projected Increase by 2026[4]	Retirement Eligibility by 2023[5]
Psychologists	14%	38.1%
Licensed Social Workers	7.9%	36.1%
Physicians	13.3%	45.7%
Physician Assistants	37.4%	30.4%
Registered Nurses	15%	27.8%
Licensed Practical//Vocational Nurses	12.2%	19.9%
Physical Therapists	25%	14.6%
Pharmacists	5.6%	25.1%

Table 4: Projected Demand and Retirement Eligibility

By breaking the retirement eligibility down among the Military Departments and the MHS as a whole in Table 5 below, it is clear that the projected retirements, when combined with normal attrition rates, could present retention challenges in the future. However, trends are monitored to identify circumstances which may require additional focus and use of hiring and compensation authorities to maintain the needed staffing levels. For instance, physician retirements increased from 71 in FY 2017 to 89 in FY 2018 and, since this occupation has the largest percentage of employees eligible for retirement, future trend data will have to be carefully monitored.

Occupational series	**Air Force**	**Army**	**NCRMD**	**Navy**	**MHS-wide**
180 Psychologist	36.4%	39.3%	35.7%	33.3%	38.1%
185 Licensed Social Worker	42.4%	35.1%	29.6%	47.6%	36.1%
602 Physician	50.5%	45.8%	45.3%	44.1%	45.7%
603 Physician Assistant	14.3%	31.8%	24.3%	30.3%	30.4%
610 Registered Nurse	36.9%	24.9%	37.2%	29.4%	27.8%
620 Licensed Practical Nurse	26.3%	18%	28.1%	36.2%	19.9%
633 Physical Therapist	23.5%	10.3%	25.0%	23.1%	14.6%
660 Pharmacist	33.3%	22.6%	33.3%	27.6%	25.1%

Table 5: Projected retirements in FY 2023 broken down by component and occupation
Source: CMIS as of September 30, 2018

Other Military Department/NCRMD efforts:

The Military Departments/NCRMD provided information regarding initiatives underway to address the potential impact of the retirement bubble; examples of two such efforts follow. As reported last year, the Department of Air Force continues to work several initiatives associated with the newly created Medical Civilian Corps, specifically efforts centered around civilian force development. It is also looking at increasing "Pathways" recruitment of new/recent graduates, particularly targeting untapped, underutilized population segments, which will be part of a

[4] See BLS website: https://data.bls.gov/projections/occupationProj

[5] Source for retirement projections is the CMIS which houses DCPDS data. Optional retirement eligibility is determined by a combination of age and years of service.

comprehensive recruitment strategy. At the same time, Air Force is exploring ways to increase employee satisfaction and retention by exploring professional growth and leadership development and optimize talent management.

The Military Departments/NCRMD are also exploring and/or have implemented various efforts to "build the bench" by seeking out and hiring recent college graduates as civilian employees. The Department of Navy is centering its attention on the nurse occupation and is testing an accelerated promotion program at one of its military medical treatment facilities to determine its applicability across the enterprise.

Enterprise-level efforts:

As noted in the FY 2017 report, the then-Deputy Secretary of Defense announced on June 6, 2017, that the DoD was assuming responsibility from the OPM to approve new requests for DHA.[6] No requests have been received yet from the Military Departments/NCRMD, but it is anticipated that having approval authority with the Under Secretary of Defense for Personnel and Readiness will likely speed up the process and in turn will facilitate the ability to hire critical shortage/critical need positions.

As reported in the FY 2016 report to Congress, the DoD is pursuing its authority to request approval from the OPM to use agency-specific qualification standards. Use of agency-specific standards is fundamental to recruiting the highest quality applicants who have the knowledge, skill and credentials required in the 21st century medical environment and that are vital to providing world-class care to military personnel and their families. Over the past year, qualification standards for three occupations have been developed and refined, and new MHS policies are being refined to ensure selective factors and conditions of employment are used consistently across the MHS to fill vacancies in three other occupations. The study is currently in Phase 3, which entails having subject-matter experts evaluate the validity of recently-issued OPM standards for approximately 13 professional medical occupations. Subject matter expert input has been received and working groups will convene in those cases where the subject matter experts believe the standards are inadequate.

During FY 2018, the Chief Human Capital Officer of the Office of the Deputy Assistant Secretary of Defense for Health Services Policy and Oversight became part of a DoD effort to systemically conduct workforce planning and development. The program uses Strategic Human Capital Planning methodologies to assess the current state of the civilian workforce; to identify skills and competencies gaps; and to forecast emerging and future workforce requirements. Work is just beginning on the development of a Functional Community Maturity Model which will help guide an enterprise level assessment of the medical functional community which may eventually lead to developmental and educational opportunities for MHS employees in the future. It is anticipated that the opportunities for career growth and development that may come out of this effort will serve as a motivator for employees to remain with the MHS for years to come.

[6] Section 9902(b)(2) of Title 5 is the authority for DoD to assume approval authority for new DHA. See Deputy Secretary of Defense Memorandum dated June 6, 2017, Subject: Implementation of Direct-Hire Authority for Shortage Category and/or Critical Need Positions.

Conclusion:

The Military Departments/NCRMD are using a multi-pronged approach to proactively address current and future projected shortages of healthcare professionals. Their data suggest that the Military Departments/NCRMD are successfully using available authorities and are adapting their application to address their unique circumstances. It is worth mentioning that, although the data is showing a downward trend on overall loss rates (Table 3) from FY 2011 to FY 2018, the DoD will carefully monitor loss rate trend data for MCOs that experienced increases from FY 2017 to FY 2018. It is clear that no single solution will resolve MHS recruitment and retention issues. The DoD believes that the Military Department/NCRMD efforts will, in combination with efforts at the MHS enterprise level, positively impact the ability to recruit and retain highly-qualified healthcare professionals. Additionally, if the current exploration of a targeted compensation flexibility bears fruit, further options will be explored and progress will be documented in subsequent reports.