



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

FEB 22 2018

The Honorable Thad Cochran
Chairman
Committee on Appropriations
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

This 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 annually on the use of healthcare provider appointing authorities delegated under title 38, United States Code, chapter 74, to appoint and pay for critically needed healthcare occupations.

In our interim report, submitted October 29, 2017, we outlined the successes achieved utilizing the delegated authorities to enhance the Department of Defense's human resource programs for recruitment of healthcare provider positions during FY 2017. However, the enclosed report provides a more strategic assessment of anticipated needs.

To summarize, the Military Departments report that they currently have difficulty hiring and retaining healthcare workers in such disciplines as behavioral health, family medicine, pharmacy, and physical and occupational therapy. Despite the widespread use of Special Salary Rates (SSRs) and other title 38 compensation authorities, current and projected difficulties relate to competition from the private sector and supply shortages. The Military Departments are trying to remedy these recruitment and retention problems with increased utilization of SSRs, targeted recruitment efforts, and paid advertising.

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 Government Reform.

Sincerely,

Robert L. Wilkie

Enclosure:
As stated

cc:
The Honorable Patrick J. Leahy
Vice Chairman



PERSONNEL AND
READINESS

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

FEB 22 2018

The Honorable William M. "Mac" Thornberry
Chairman
Committee on Armed Services
U.S. House of Representatives
Washington, DC 20515

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Enclosure:
As stated

cc:
The Honorable Adam Smith
Ranking Member



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The Honorable John McCain
Chairman
Committee on Armed Services
United States Senate
Washington, DC 20510

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Robert L. Wilkie

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As stated

cc:
The Honorable Jack Reed
Ranking Member



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FEB 22 2018

The Honorable Rodney P. Frelinghuysen
Chairman
Committee on Appropriations
U.S. House of Representatives
Washington, DC 20515

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Robert L. Wilkie

Enclosure:
As stated

cc:
The Honorable Nita M. Lowey
Ranking Member



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

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Robert L. Wilkie

Enclosure:
As stated

cc:
The Honorable Claire McCaskill
Ranking Member



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FEB 22 2018

The Honorable Trey Gowdy
Chairman
Committee on Oversight and Government Reform
U.S. House of Representatives
Washington, DC 20515

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Robert L. Wilkie

Enclosure:
As stated

cc:
The Honorable Elijah E. Cummings
Ranking Member

ANNUAL REPORT TO
CONGRESSIONAL COMMITTEES ON
HEALTH CARE PROVIDER APPOINTMENT AND
COMPENSATION AUTHORITIES

FISCAL YEAR 2017



**SENATE REPORT 112-173,
PAGES 132-133, ACCOMPANYING S. 3254
THE NATIONAL DEFENSE AUTHORIZATION ACT
FOR FISCAL YEAR 2013**

The estimated cost of this report or study for the Department of Defense (DoD) is approximately \$7,200 in Fiscal Year 2017. This includes \$0 in expenses and \$7,200 in DoD labor.

Generated on November 13, 2017

**2017 REPORT TO CONGRESSIONAL COMMITTEES
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 delegated authorities and 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 Department, in consultation with Office of Personnel Management (OPM). The authority granted by section 1599c of title 10, United States Code (U.S.C.), to exercise the authorities in chapter 74 of title 38, U.S.C., continues to be used extensively throughout the Department 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 Department’s interim report dated October 30, 2017, and describe progress made during FY 2017. A copy of the FY 2016 report is included for reference.

Hiring Authorities:

The Department regularly uses a single hiring authority that is specific to the Military Health System (MHS) and a full range of hiring authorities created by OPM for use throughout the government. A summary of the MHS and OPM hiring authorities is set forth 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 Authority, Veterans Employment Opportunities Act, etc.		✓
Temporary and term appointments	Temporary and term appointments are used to fill positions when there is not a continuing need for the job to be filled		✓
The Pathways Program	Targets internships and recent graduates		✓
Presidential Management Fellows	Matches outstanding graduate students with exciting Federal opportunities		✓
Schedule A for the appointment of individuals with disabilities and other similar authorities.	Allows direct hiring of people with severe physical disabilities, psychiatric disabilities, and intellectual disabilities. Also used to appoint readers, interpreters, and personal assistants for employees with severe disabilities as reasonable accommodations.		✓

Table 1: MHS and OPM Hiring Authorities

Results of Using Hiring Authorities:

The Department 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 over the past several years and a concomitant drop in the use of Delegated Examining (DE) processes. For example, at the end of FY 2011, only 65 hiring actions were executed using EHA. This equated to one percent of all hiring actions. However, by the end of FY 2017, 1,431 medical employees were hired using the same authority, representing 26.7 percent of FY 2017 hiring actions. This continues a trend from FY 2016 that showed an increase to 22.9 percent of such hiring actions having been completed using EHA. In contrast, 1,071 employees were hired via DE processes in FY 2011, as opposed to 497 in FY 2017. This decrease in the use of the longer DE process demonstrates the MHS commitment to using more streamlined hiring processes.

Types of Compensation Authorities:

Compensation authorities fall into two broad categories. First, title 38 authorities are available to DoD pursuant to title 10, U.S.C., section 1599(c). 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); Physicians and Dentists Pay Plan (PDPP); Nurse Locality Pay System; Head Nurse Pay; and Premium Pay. Second, the Department uses government-wide authorities that 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 2,184 Physicians and Dentists under the PDPP, and there are 249 SSR tables which authorize higher salary rates for multiple occupations, benefiting approximately 10,596 employees. The Department also continues to make use of the SQA, and where appropriate, uses a combination of SSRs and the SQA. These compensation authorities span 37 occupations, dispersed through 186 Continental U.S. and Outside the Continental U.S. duty stations.

Over the last six years, the number of losses has continued to decrease in our 53 medical occupations, and we believe a significant factor is the robust use of available compensation authorities. As the chart below demonstrates, 8,899 individuals left the MHS in FY 2011, while the number leaving in FY 2017 was 4,718. This means 46.9 percent fewer civilian personnel in health care occupations departed DoD during FY 2017 than during FY 2011. We view this continued drop in employee losses as a big success, attributable, at least in part, to the continued use of title 38 compensation authorities. We believe the robust use of the various title 38 compensation authorities, combined with other compensation authorities, is a major factor in this

decrease in civilian losses.

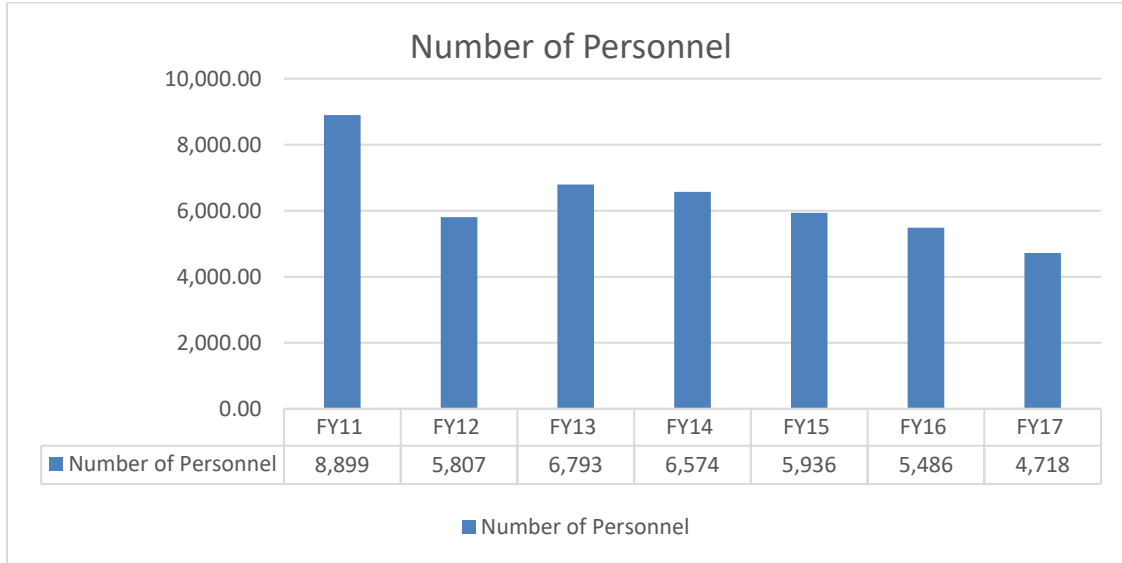


Table 2: Number of Personnel in 53 Medical Occupations Departing DoD FY 2011–FY 2017

One area that is carefully monitored is the loss rate trend data for the “Mission Critical Occupations” (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 rate¹ for seven of our eight MCOs decreased from FY 2016 to FY 2017, while the loss rate for Registered Nurses increased slightly. The following table illustrates the changes:

Mission Critical Occupation	FY 2015 Loss Rate	FY 2016 Loss Rate	FY 2017 Loss rate
Licensed Clinical Social Workers	11.8%	10.9%	9.0%
Physicians	11.1%	10.5%	10.4%
Physician Assistants	17.9%	12.3%	11.2%
Registered Nurses	11.3%	10.3%	11.0%
Pharmacists	9.8%	9%	8.3%
Clinical Psychologists	9%	13.8%	8.0%
Licensed Practical Nurse	15%	15.2%	12.8%
Physical Therapist	12.5%	8.9%	7.1%

Table 3: Mission Critical Occupations Loss Rate FY 2015–FY 2017

The loss rate averages for all of our MCOs over the past three FYs show a steady decline; FY

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.

2015: 12.1 percent; FY 2016: 11 percent; and FY 2017: 10.8 percent.

In the FY 2016 report, we noted a significant increase in the loss rate of Clinical Psychologists, but as the data shows, FY 2016 appears to have been an anomaly as the loss rate for FY 2017 is below both previous FYs.

Strategic Recruitment and Retention Analysis:

When the Military Departments/National Capital Region Medical Directorate (NCRMD) were asked to identify current systemic problems with hiring, they indicated that they are experiencing hiring difficulties with all or most of the MCOs. They noted that an increase in retirement eligibility of Psychologists, Licensed Clinical Social Workers, Physicians, and Registered Nurses will eventually result in a greater degree of turnover that will exacerbate existing recruitment problems.

Additionally, the Military Departments/NCRMD report difficulty in hiring properly credentialed Medical Coders. While not designated as MCOs, Medical Coders are very important to the business side of health administration as they are the interface between the military treatment facilities (MTFs) and insurance companies. There is significant competition from the private sector for this highly specialized occupation (The Medical Coder functional community across the DoD is collaborating on possible ways to offset/mitigate this hiring and retention issue. If completed, we will report on their efforts in our FY 2018 report.). Many of the difficulties we have are a function of 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.

Another barrier to becoming more competitive with other employers, is that the MHS is unable to compete with compensation packages offered by private and public-sector 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. 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 our competitors in the private sector do not face.

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 some report they are combining these two flexibilities with other existing authorities like the 3Rs incentives and SQA when candidates can demonstrate high academic achievement. It is good to note that 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 two years, which ensures that DoD keeps up with competing salaries being offered by VA. Additionally, the Military Departments/NCRMD are addressing their specific issues. For instance, the Department of Army began an enterprise-wide review of title 38 SSR Tables in 2014 and by mid-FY 2017, 111 new/revised SSRs had been approved and implemented and 12 are pending. The Military Departments/NCRMD are all also exploring and/or have implemented

various efforts to “build the bench” by seeking out and hiring recent college graduates as civilian employees. Department of Navy is centering its attention on the Nurse occupation and is testing an accelerated promotion program at one of its MTFs to determine its applicability across the enterprise. Department of Air Force has established a Medical Civilian Corps which, in part, seeks to actively promote civilian force development. This effort will be used not only to attract new talent to the Department but also to retain existing talent, increase employee satisfaction, and positively impact employee retention.

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 MHS MCOs is expected to rise across the United States.² In addition, the retirement eligibility for each of our MCOs suggests there may be potential recruiting and retention challenges in the near and long term.

Job Series	BLS Projected Increase by 2026 ³	Retirement Eligibility by 2022 ⁴
Psychologists	14%	36.9%
Licensed Social Workers	7.9%	36.4%
Physicians	13.3%	45.4%
Physician Assistants	37.4%	29.9 %
Registered Nurses	15%	27.8%
Licensed Practical//Vocational Nurses	12.2%	19.5%
Physical Therapists	25%	13%
Pharmacists	5.6%	26.3%

Table 4: Projected Demand and Retirement Eligibility

² 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>

³ See BLS website: <https://data.bls.gov/projections/occupationProj>

⁴ 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.

Breaking down retirement eligibility among the Military Departments and the MHS as a whole, Table 5, below, makes clear that projected retirements, when combined with normal attrition rates, could present retention challenges in the future. However, trends are monitored to identify circumstances that may require additional focus and use of hiring and compensation authorities to maintain the needed staffing levels.

<u>Occupational series</u>	<u>Air Force</u>	<u>Army</u>	<u>DoD Activities</u>	<u>Navy</u>	<u>MHS-wide</u>
180 Psychologist	30.0%	38.2%	31.8%	31.8%	36.9%
185 Licensed Social Worker	37.7%	35.6%	29.4%	48.3%	36.4%
602 Physician	46.1%	45.0%	42.8%	44.1%	45.4%
603 Physician Asst	19.0%	31.0%	17.1%	32.4%	29.9%
610 Registered Nurse	36.1%	24.3%	38.2%	30.3%	27.8%
620 Licensed Practical Nurse	26.0%	16.9%	28.7%	34.1%	19.5%
633 Physical Therapist	23.5%	9.3%	23.5%	18.3%	13%
660 Pharmacist	31.8%	23.1%	34.2%	29.3%	26.3%

Table 5: Projected retirements in FY22 broken down by MD/MHS
Source: CMIS as of September 30, 2017

The Military Departments/NCRMMD provided information regarding initiatives underway to address the potential impact of the retirement bubble; examples of two such efforts follow. The Department of the Air Force has established the Medical Civilian Corps and is working several initiatives, the central focus of which is civilian force development. It is also looking at increase the use of “Pathways” to recruit of new/recent graduates, particularly targeting untapped, underutilized population segments, as part of a comprehensive recruitment strategy. At the same time, Air Force is exploring ways to increase employee satisfaction and retention by enhancing opportunities for professional growth and leadership development and optimizing talent management. Army reported that it could no longer compete by relying on inadequate salaries that were supplemented by recruitment, relocation and retention incentives that did not translate to an adequate annuity on retirement. The U.S. Army Medical Command started reducing the use of retention incentives in 2013 by 50 percent and instead increased physicians’ salaries by adding the reduced retention incentive into the market pay element of pay applicable to the physician and dentist pay plan (which mirrors the VA pay tables and leverages title 38 authorities available to the Military Departments). An additional step Army took relates to the systemic review of Special Salary Rates reported above.

Enterprise-level efforts:

On June 6, 2017, the Deputy Secretary of Defense announced that the Department was assuming responsibility from OPM to approve new requests for DHA.⁵ Although it is very early in this

⁵ 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

process and no requests have been received from the Military Departments/NCRMD, it is anticipated that having approval authority vested in the Under Secretary of Defense for Personnel and Readiness will likely speed up the process and facilitate our ability to hire critical shortage/critical need positions. We will update Congress in the FY 2018 report as to the MHS's efforts in this regard.

As we reported in the FY 2016 Report to the Congressional Defense Committees, the Department is pursuing its authority to request approval from 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 essential to providing world-class care to our military personnel and their families. Over the past year we conducted a comprehensive review of 20 MHS occupations. Working groups of subject matter experts for each of these occupations were formed and in the case of five occupations, the current OPM qualification standards were not producing an acceptable pool of well qualified candidates in sufficient numbers to meet our needs. Proposed new qualification standards have been developed and are being staffed internally before we submit them to OPM. A positive outcome of our review of these 20 occupations was that 15 did not require revision. This means that OPM's standards for these occupations are still current and do not pose barriers to hiring well qualified candidates.

In previous Reports to Congressional Committees, we described various efforts by the MHS Chief Human Capital Officer (CHCO) and a cadre of subject matter experts to assess the "health" of civilian registered nurses and advanced practice registered nurses. This group considered a wide variety of options, including the feasibility of a Demonstration Project, however, the final determination was that this level of change should not be pursued until the existing flexibilities and authorities had been fully utilized. This conclusion and three recommendations on the way forward were briefed to the Military Departments Chief Nurses. The recommendations were: Increase new/recent graduate recruitment; expand the use of hiring and scheduling flexibilities; and optimize advertising efforts. Based on the input from the Military Departments Chief Nurses the CHCO is in the process of convening a work group comprising the Chief Nurses' designated POCs to study how we can implement these courses of action. An update on the progress of this group will be included in our FY 2018 report.

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 employment applications to address their unique circumstances. It is clear that no single solution will resolve the MHS recruitment and retention issues. The Department believes that the Military Departments' 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 compensation flexibilities bears fruit, we will explore the options and report progress in subsequent Reports.