

IMPROVING MILITARY EDUCATIONAL BENEFITS

Statement of

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I appreciate the opportunity to testify today on proposals to improve military educational benefits.

Military educational benefits in the past have served a variety of purposes, including increasing society's educational level and helping military personnel readjust to civilian life. Recent proposals for improved benefits, however, have stressed their role in the recruiting and retention of military personnel. My testimony today will focus on that role.

Military recruiting and retention are currently at historical highs and are likely to remain high for the next several years. Thus, for the next few years, there is no apparent need for new incentives such as improved educational benefits to meet military manpower needs.

Problems could develop in the middle and late 1980s, however, if military pay and benefits do not keep pace with increases in private-sector pay, if the military grows substantially in size, or if the economy recovers from the recession more rapidly than is forecast. If recruiting problems occur, and the Congress considers meeting them with improved educational benefits, it should keep in mind several findings:

- o Modest enhancements in educational benefits, such as in the VEAP improvement bill (S. 667) now being considered by this Committee,

add little to costs but also improve recruiting by only small amounts.

- o More far-reaching improvements in educational benefits, such as the provisions of the proposed All-Volunteer Force Educational Assistance Act (S. 8), could improve recruiting more but would also raise costs substantially in the long run and pose the risk of reducing retention as service members leave the military to take advantage of their educational benefits.
- o Adding recruiters or increasing bonuses are less costly ways to increase the number of high-quality recruits than expanding educational benefits.
- o Extension of GI Bill benefits beyond the current termination date of December 31, 1989, would improve retention only marginally, and would cost far more than other, equally effective retention incentives such as selective reenlistment bonuses.

CURRENT RECRUITING FORECAST

Recruiting success is often measured in terms of the percentages of recruits holding high school diplomas and scoring high on the entrance examinations given to all recruits. By these measures, recruiting is currently at or near historical highs in all services, easily meeting the Congressional requirement that no more than 20 percent of any service's recruits score in

the lowest acceptable category on the entrance examination (see Table 1). At the same time, the Army, which traditionally has the most difficult recruiting problem, has increased its percentage of high school graduate recruits to 87 percent in 1982 (compared to 49 percent in 1980) and is projecting better than 90 percent for 1983. Indeed, the Army's recent recruiting success is not only the best since the All-Volunteer Force began--it is far better than the Army's experience during the draft era, when approximately 70 percent of its recruits were high school graduates.

CBO projects that in coming years recruiting will continue to meet numerical goals while also exceeding minimum quality requirements set by the Congress. Our projections, shown in Table 2, are based on CBO's baseline unemployment forecast and the military end strength set forth in the fiscal year 1984 defense program. We have also assumed that the Administration's proposed freeze on military pay for 1984 will be approved, followed by raises equal to those in the private sector in later years. Were the Congress to grant a pay raise in 1984 or a catch-up raise in a later year, this recruiting forecast would be revised upward.

Our projection does not rule out the possibility that recruiting problems might develop later in this decade. If the economy recovers at a more rapid rate than forecast by CBO, Army and Navy recruiting might fail to meet the Congressional minimums by 1988. Pay caps in 1985 or beyond could have a similar effect. Other factors that might harm recruiting

include reductions in recruiting resources (advertising, enlistment bonuses, or recruiters), increases in end strength beyond those anticipated under current plans, and limitations on growth in the size of the career force (which would effectively increase the requirements for recruits within a constant force size). Finally, the services--particularly the Army--might decide that they must keep recruiting success near today's highs rather than return to the minimum standards set by the Congress. Nonetheless, it seems unlikely that recruiting problems will develop in the next few years.

EXPERIENCE WITH EXISTING VEAP

The favorable current recruiting results stem in part from the current package of military pay and benefits. These benefits include the Veterans' Educational Assistance Program (VEAP), which has been widely criticized and thus deserves discussion. The basic VEAP is a voluntary program. Service members who participate contribute between \$25 and \$100 a month of their pay into a fund; their contributions are matched two-for-one by the government. Maximum benefits are \$8,100 if a member contributes \$2,700. Those who enter hard-to-fill skills can also earn up to \$12,000 in additional funds or "kickers" under the so-called Ultra-VEAP offered by the Army.

The basic VEAP appears to have had little effect on either recruiting or retention. CBO estimates that it improved high-quality recruiting by 0 to 0.2 percent and hurt retention by equally modest amounts. ("High-quality"

recruits are high school graduates who score in the upper half on the recruit entrance examination.) Participation rates in basic VEAP have been rather stable since 1978 at about 30-35 percent. The program obviously does not have as broad an appeal as did its GI Bill predecessor; we anticipate that only about 20 percent of service members will use VEAP benefits, compared to over 60 percent of eligible members who are estimated to have used at least a part of their entitlement. While its effects are modest, there is no evidence to suggest that dissatisfaction with basic VEAP is increasing; for example, dropout rates from VEAP have been quite stable over the past three years.

The addition of kickers to VEAP has improved its effectiveness as a recruiting incentive. CBO's analysis concluded that VEAP kickers could improve recruiting in hard-to-fill skills such as combat arms by 3.5 percent. This finding appears to have been borne out by the Army's success in 1982 in attracting higher percentages of high-scoring high school graduates to serve in combat arms specialties. It is too early to know whether the kickers will also make retention poorer as a result of the separation incentive built into them; however, the Army has maintained that retention is not a problem in most of the skills eligible for kickers.

On balance, VEAP seems to be a program valued by a constant percentage of service members. But only last year, with the advent of Ultra-VEAP, did these benefits have major effects on recruiting. As part of

the current package of recruiting programs (including recruiters, advertising, and bonuses), Ultra-VEAP should contribute to continued satisfactory recruiting in hard-to-fill skills for at least the next several years.

IMPROVEMENTS IN VEAP

If the Congress decides to meet any future recruiting problems by improving educational benefits, it could do so by modifying current programs. The VEAP improvements bill currently before this Committee proposes three such changes. CBO's analysis suggests that two of these changes are likely to improve force manning in a cost-effective way.

One provision of the bill would increase the basic VEAP matching ratio from 2:1 to 3:1, providing a maximum educational fund for members of \$10,800 in return for a contribution of \$2,700. A second provision would require the Defense Department to pay interest on contributions into VEAP from the date of payment until the member begins to use his benefits. At present, members receive no interest on funds contributed into their VEAP accounts, and thus their incentive to participate is attenuated.

Our analysis indicates that the overall number of high-quality recruits ultimately would increase by roughly 1,000 as the result of these two improvements to current VEAP. Poorer retention, however, would eventually offset some 30 percent of the gain. Most of the benefit from these provisions would be felt by the Army, the service with the highest VEAP

participation rates. The cost per net additional high-quality recruit would reach approximately \$100,000, higher than using other recruiting incentives such as bonuses (about \$35,000 per recruit) or recruiters (about \$22,000) but only about half the cost of a broad, noncontributory educational benefits program such as the one discussed below.

The VEAP improvements bill would also eliminate the termination date, currently specified as December 31, 1989, for benefits under the Vietnam-era GI Bill. This provision is supported by the Department of Defense, which contends that it is unfair to penalize those who would lose benefits and that many members who are eligible to receive GI Bill benefits may separate from service prematurely if the termination date is not extended. CBO analyzed this proposal last year and concluded that, while many members are indeed eligible to use their benefits, few can be expected to separate prematurely in order to use rather than lose them. We estimated that only 1,300 of the 220,000 eligible members would be lost to the services prematurely, and that the cost of retaining them by extending the GI Bill termination date would be over \$500,000 per member--far greater than the \$40,000-\$120,000 that it would cost to retain the same members using reenlistment bonuses.

If implemented at the beginning of 1984, these three provisions would together add only about \$3 million to budget costs in 1984 and a total of \$135 million over the next five years (all costs in constant 1983 dollars). By

1990, when full costs were more nearly apparent, added spending would equal about \$210 million, of which \$120 million would be the cost of the GI Bill benefits extension.

Despite the added costs, our evaluation of the provisions of S. 667 suggests that the increased matching ratio and payment of interest on members' contributions are effective, reasonably efficient improvements that would improve recruiting modestly. Extension of GI Bill benefits beyond 1989, however, does not seem a cost-effective way to improve retention, though it may be desirable on equity grounds.

BROADER EDUCATIONAL BENEFITS PROGRAMS

Another bill currently before this Committee is the All-Volunteer Force Educational Assistance Act, which would establish a new, noncontributory educational benefits program on a standby basis, to take effect whenever the President decided that force manning required it. The Educational Assistance Act would provide a basic educational benefit entitlement of \$9,000 after three years of active duty (or two years' active duty followed by four in the Selected Reserve) plus a supplemental entitlement of up to \$13,500 more for service beyond three years of active duty. The Act also would authorize kickers for hard-to-fill skills and would eliminate the current GI Bill termination date of December 31, 1989.

CBO has not yet analyzed this bill in detail. But it is quite similar to a typical educational benefits plan analyzed last year by CBO in our study, Improving Military Educational Benefits. That plan was a "two-tier" approach consisting of a basic benefit of \$8,100, a supplemental benefit of up to \$8,100 for longer service, and kickers. We projected that our plan could improve high-quality recruiting by up to 7 percent, but that--as members left to take advantage of their benefits--poorer retention would cancel out five percentage points of that gain. The overall cost of our two-tier plan was projected at \$1.1 billion annually in today's dollars in steady state, resulting in a cost of over \$200,000 per additional high-quality recruit. Near-term costs, of course, would be much more modest until eligible members were able to complete service and begin to use their benefits. The Educational Assistance Act proposals would be likely to improve recruiting more, although it would add more to costs because of its larger benefit levels and the provision to extend GI Bill benefits beyond 1989. But the cost per recruit would probably be about the same as for our two-tier plan.

The Educational Assistance Act, like all broad-based benefits, might also fail to focus added incentives where they are most needed. For example, under the two-tier provision--which provides more benefits for longer service--the Air Force and the Navy, which have longer minimum terms of service, would benefit more than the Army and Marine Corps, even

though the latter two services have greater recruiting problems. Combat arms skills, with short tours, would be less attractive than long-tour skills in which there are no current shortages. Extensive use of the authorization for kickers provided in the Educational Assistance Act could overcome some of these adverse incentives, but it would tend to drive up overall cost.

A positive aspect of this bill is the grant of standby authority to the President to begin the program upon a finding that force manning and cost considerations so warrant, as specified in the bill. In the event that the Congress decides that a new, broad-based educational benefits program for service members is desirable, the standby provision of the bill would help to ensure that the program is not begun before it is needed, and thus would hold down its cost.

To ensure a careful decision on the use of educational benefits, the Congress should consider adding "accrual" funding to the Educational Assistance Act or any new program. This provision would require that the full costs of liabilities being incurred would appear immediately in the budget; under the current financing approach the costs would not appear until members completed service and used their benefits. Accrual financing would help ensure that costs are properly considered in any decision to implement a new program of educational benefits for military personnel.

In sum, Mr. Chairman, there is no apparent need for new programs to improve military recruiting in the next few years. In later years, of course,

problems could develop. If the Congress decides to meet any future recruiting problems with improved educational benefits, it should design the added benefits with care to minimize the chance that poorer retention will offset recruiting gains and to hold down costs by focusing added benefits on areas of the greatest recruiting need.

TABLE 1. CONGRESSIONAL CONTROLS ON "QUALITY" OF ACCESSIONS

Fiscal Year	Maximum Percent Category IVs	Minimum Percent High School Graduates
1981	25% DoD Average	Army - 65%
1982	25% Each Service	Army - 65%
1983+	20% Each Service	Army - 65%

TABLE 2. PROJECTIONS OF HIGH SCHOOL GRADUATE PERCENTAGES BY SERVICE (Numbers in parentheses show the effects of limiting the growth of the career force)

	1984	1985	1986	1987	1988
Army	86 (84)	75 (73)	75 (73)	73 (72)	70 (69)
Navy	81	78	82	71	70
Air Force	87	87	87	87	87
Marine Corps	84 (79)	81 (76)	80 (75)	80 (73)	79 (72)