

MILITARY EDUCATIONAL BENEFITS:  
PROPOSALS TO IMPROVE MANNING IN THE MILITARY

Staff Memorandum  
(Background for Statement of  
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before the  
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PREFACE

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Concerned about military recruiting problems in the all-volunteer force, the Congress has expressed considerable interest in improved educational benefits as a way to help alleviate these problems. The House Committee on Armed Services has requested that the Congressional Budget Office prepare a report on the recruiting, cost, and other implications of proposals to improve military educational benefits.

This staff memorandum represents an interim response to support the House Armed Services Committee's authorization hearings on military educational benefits. CBO's final report should be available later this year. In keeping with CBO's mandate to provide objective and nonpartisan analysis, this paper makes no recommendations.

The memorandum was prepared by Daniel F. Huck of the National Security and International Affairs Division of the Congressional Budget Office, under the general supervision of Robert F. Hale. Jennifer Hinman, Lorin Kusmin, Eileen Maguire, and Michael Sullivan of the CBO staff provided valuable analytical assistance. Considerable data-processing support was provided by Carolyn Stoneberg of the House Information Systems and by the staff of the Defense Manpower Data Center. Al Peden of CBO's Budget Analysis Division provided the cost estimate of the educational benefit bill, H.R. 1400, cited in this report. Patricia H. Johnston edited the manuscript; Jean Haggis typed the various drafts and prepared the final version.

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## CHAPTER I. INTRODUCTION

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Improving military educational benefits has been a matter of growing concern within the Congress and the Department of Defense (DoD). In response to that concern, the House Armed Services Committee has asked the Congressional Budget Office (CBO) to analyze the current military educational assistance program and alternatives to it. This staff memorandum presents CBO's preliminary findings. While care has been taken in developing the cost estimates it contains, the reader should be aware that they are preliminary and subject to revision in the final report. Moreover, certain portions of the analysis have yet to be completed, such as cost estimates for each of the options to be included in the report.

This staff memorandum discusses six major topics:

- o Overview of problems with the Veterans Educational Assistance Program;
- . o Congressional activity on military educational benefits;
- o Effects of expansion of domestic student aid programs on military programs;
- o Recruiting and retention projections at today's pay levels;
- o Enlistment-inducement potential of a CBO illustrative educational benefits program; and
- o Cost of illustrative educational benefit programs.

Chapter II describes the current military educational benefits program--the Veterans Educational Assistance Program (VEAP). Implemented in 1977 as a successor to the Vietnam-era G.I. Bill, VEAP has not met Defense Department expectations and has been criticized as an insufficient enlistment incentive.

Chapter III reviews legislative activity on educational benefits during the 96th and 97th Congresses. In response

to concerns over the quality of the all-volunteer force and VEAP's apparent failure to induce more qualified youths to enlist, numerous proposals have been made to revise VEAP or to replace it with a more generous benefits package. Eleven such bills have been introduced to date in the 97th Congress. The version introduced by Chairman Montgomery of the House Veterans' Affairs Committee (H.R. 1400) has attracted considerable interest. Its key provisions, as well as those of the other bills now before the Congress, and its estimated costs are reviewed briefly.

Chapter IV addresses concerns by some in the defense community that the expansion of federal student aid programs in recent years has adversely affected military recruiting. While the introduction of VEAP signaled a scaling back of educational benefits by the military, funding for student aid programs that do not require military service has increased dramatically over the past decade. Despite this trend, CBO has found that post-secondary institutions have experienced a steady decline in enrollment rate of 17- to 21-year-old, male, high school graduates.

In Chapter V, CBO updates its January 1981 projections of military recruiting and retention trends over the next five years. The revised forecast shows continued growth in career force size but a progressive decline in recruit quality over the period. To arrest that decline, some changes in recruiting policies and incentives may need to be considered.

Chapter VI presents CBO's assessment of the potential of an illustrative educational benefits program to increase enlistments of male, high school diploma graduates. Particular attention is given to the program's effects on Army recruiting. CBO's preliminary findings suggest that a return to a program similar to the Vietnam-era G.I. Bill would improve recruiting, but would not, in itself, permit the Army to meet the recruit quality levels established in the fiscal year 1982 defense authorization bill. CBO's final report will also assess the likely effects on career retention of alternative educational benefit proposals, including those (such as H.R. 1400) that would permit the transfer of a participant's benefits to a spouse and/or dependents.

Chapter VII presents CBO's estimate of the long-term costs of an illustrative educational benefits program. CBO's preliminary estimates suggest that the cost of a program modeled after the Vietnam-era G.I. Bill to induce recruitment of new military personnel (new accessions) would likely remain under \$1 billion

(in constant fiscal year 1982 dollars) at least until 1995. This chapter also provides a cost estimate for H.R. 1400, the educational benefit bill recently approved by the House Veterans' Affairs Committee.

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CHAPTER II. ISSUES SURROUNDING THE CURRENT MILITARY EDUCATIONAL BENEFIT PROGRAM

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On December 31, 1976, the Vietnam-era G.I. Bill was terminated for new accessions and replaced by the Veterans Educational Assistance Program (VEAP), a contributory plan. Under VEAP, a participant contributes between \$25 and \$100 of his monthly salary, up to a maximum contribution of \$2,700; that contribution is matched on a two-for-one basis by the Veterans Administration (VA), up to a maximum VA contribution of \$5,400. In addition, DoD is authorized to make "kicker" contributions to encourage enlistments into critical skills, such as the combat arms.

Between its inception in January 1977 and the end of fiscal year 1980, VEAP has attracted nearly 280,000 participants. Of that number, more than 64,000--or nearly one-quarter of all participants--have subsequently dropped out of the program and have had their contributions refunded. Another 47,000 no longer contribute to the fund but have kept their money in the VEAP account. At the end of fiscal year 1980, the balance of funds contributed by military personnel and held in the account amounted to just over \$170 million.

There appears to be widespread disappointment in VEAP within the defense community for several reasons: (1) a lower than expected enrollment rate, approximating only about 20 to 25 percent of new accessions; (2) a considerably higher than expected dropout rate, amounting to more than 40 percent of all participants since the program's inception; and (3) an apparently smaller than expected enlistment-inducement effect, with no more than a 5 percent increase in enlistments of male high school graduates with above-average mental ability.

Several explanations have been offered for the lower than expected increase in high-quality enlistments attributable to VEAP. First, potential enlistees may not be adequately informed about the educational benefits available to them under the program. Second, the lack of flexibility in VEAP's financing schedule, especially the mandatory fixed monthly contributions and the fixed withdrawal rate, may have lessened its attractiveness to potential participants. Finally, the amount of financial aid offered may simply be inadequate to induce significant numbers of high-quality youths to enlist.

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### CHAPTER III. CONGRESSIONAL ACTIVITY ON MILITARY EDUCATIONAL BENEFIT PROPOSALS

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#### Proposed Legislation

During the 96th Congress, 38 bills were introduced to modify or replace the current military and veteran educational assistance benefits. One-half of these bills proposed improvements to the Vietnam-era G.I. Bill, a program available to most veterans and to a sizable share of active-duty personnel. Another one-quarter would have revised the current VEAP program or strengthened other educational benefits available to military personnel, such as in-service tuition assistance. The remaining one-quarter would have replaced VEAP with an entirely new post-service educational benefits package.

The legislative momentum developed during the 96th Congress has continued into the 97th Congress. To date, six bills have been introduced in the Senate and five in the House to provide for a new military educational benefits program. Most of the bills are similar in form to the proposals introduced in the 96th Congress. The House Veterans' Affairs Committee has reported out and referred to the Armed Services Committee the version introduced by Chairman Montgomery (H.R. 1400). The Senate has yet to take formal action on any of its bills.

In contrast to VEAP, all of the bills introduced to date in the 97th Congress call for a return to a noncontributory educational assistance program for active-duty personnel. Most of the bills would tie the size of benefits earned to length of service, including both active and reserve duty. Maximum benefits would range from \$14,000 to \$24,000. Some of the bills offer a tuition reimbursement plan plus a monthly stipend (an approach used under the World War II-era G.I. Bill).

A number of the bills propose supplemental benefits for service in selected skills considered critical by the Department of Defense. All but three of them would permit benefits to be transferred to a spouse and/or dependents after a specified period of active-duty service. In addition, two of the bills--S. 25 (sponsored by Senator Armstrong) and S. 742 (sponsored by Senator Cohen)--include a contributory plan for career-committed military personnel. Only one of the bills (H.R. 2399) indexes the future

benefit amount to inflation. The key provisions of the 11 bills introduced in the 97th Congress are summarized in Table 1.

#### Purposes of Proposed Legislation

Proponents of a new educational benefits plan offer a wide variety of reasons for their support. Some see termination of the Vietnam-era G.I. Bill as an undesirable erosion of military benefits and view enactment of a new, noncontributory program as an important step toward restoring a traditional right to military personnel.

Other supporters point to the need to induce more high-quality youths (particularly those with college aspirations) to enlist in the military. They cite survey evidence suggesting that youths with above-average mental abilities and high school degrees find educational benefits an appealing enlistment incentive. Still others point out that parents exert a significant influence over their children's career choices, and that a generous educational benefits package would make military service a more attractive career alternative to parents.

Some proponents note the numerous federal student aid programs that do not require military service, arguing that comparable educational benefits should be made available to military personnel. Finally, a few may see a new military educational benefits program as a means of subsidizing post-secondary institutions experiencing increased financial pressure from declining enrollments and a shrinking college-age youth population.

#### Major Concerns

In choosing among legislative alternatives, the Congress will address several major concerns. First, and most obvious, is the cost of the program. A number of the bills now before the Congress contain potentially costly provisions, such as those permitting transfer of benefits to a spouse and/or dependents. One need only look at current payments under the Vietnam-era G.I. Bill (which contains no transfer provision) to gain an appreciation of the long-term budgetary consequences. In fiscal year 1982, for instance, the Administration estimates that more than \$1.3 billion in Vietnam-era G.I. Bill benefits will be paid to veterans.

Another major concern is the likely effect of the proposals on military recruiting and retention levels. Proponents claim

TABLE 1. SUMMARY OF MILITARY EDUCATIONAL ASSISTANCE PROPOSALS a/

Proposal	Basic Benefit	Career Benefit	Transfer of Benefit	Reserve Benefit	Other Benefits
Montgomery R. 1400 House Veterans' Affairs Committee)	Three (six) years active or two years active and four years Selected Reserve, after 9/30/81, earns 36 months benefit paid at \$300 (\$600) monthly.  DoD may add to monthly benefit for service in critical skills.	None, except for transfer rights.	Ten or more years active, three of which must be after 9/30/81, allows transfer of earned benefit to spouse and/or dependents.  Transferor must be on active duty or retired while beneficiary(s) use benefit.	No benefit for those without prior active service.	For those on active duty, beyond first enlistment, up to two years educational leave of absence with basic pay.  For those with two or more years active beyond 9/30/81, in-service use of earned benefit.
Strong . 25	Two years active, after 12/31/80, earns 27 months benefit at \$250 monthly plus tuition reimbursed up to \$3,000 for each of three academic years.  Each month active beyond two years earns one additional month benefit up to maximum 36 months.	Four or more years active, beyond initial two for basic benefit, allows service member to contribute \$25-\$100 monthly for up to 120 months to education fund matched two for one by DoD	Once vested and eligible to withdraw career benefit, can transfer any portion to spouse and/or dependents.  Basic benefit not transferable.	Each four months Selected Reserve duty earns one month benefit (paid at active-duty rate) for up to 36 months benefit.	For those on active duty, beyond first enlistment (or more than four years for officers), up to 12 months leave of absence without basic pay.  For those with two or more years active, in-service use of earned benefit.

(Continued)

TABLE 1. (Continued)

roposal	Basic Benefit	Career Benefit	Transfer of Benefit	Reserve Benefit	Other Benefits
ohen . 742 nd mery .R. 2790	Two years active enlisted service, after 9/30/81, earns 18 months benefit at current Vietnam-era G.I. Bill rate (now \$342 per month); three years active enlisted service earns 24 months benefit and four years earns maximum 36 months benefit.	Six years service, beyond 9/30/81, allows enlisted member to contribute \$25-\$100 monthly for up to 60 months to education fund, matched two (or more) for one by DoD. After 10 years service, including two years as contributor, member can withdraw up to \$500 monthly for education purposes until fund exhausted.	Once vested and eligible to withdraw career benefit, can transfer any portion to spouse and/or dependents.	Two years enlisted Selected Reserve earns nine months benefit (paid at active-duty rate). Each additional three months reserve duty earns one month benefit. Cannot exceed 36 months earned benefit.	For those who reenlisted after 9/30/81, up to 12 months leave of absence without basic pay.  For those enlisted with ten or more years active, two of which occurred after 9/30/81, in-service use of earned benefit.
arner .5 nd hitehurst .R. 1206	For accessions entering DoD selected skills after 9/30/81, three years active earns 18 months benefit at \$200 monthly plus tuition reimbursed up to \$1,500 for each of two academic years. Four years active and four years reserve or six years active only earns 36 months maximum benefit.	None, except for transfer rights.	16 or more years active service, on or after 9/30/81, permits transfer of any or all of earned benefit to spouse and/or dependents.	No benefit for those without prior active service.	None.

(Continued)

TABLE 1. (Continued)

Proposal	Basic Benefit	Career Benefit	Transfer of Benefit	Reserve Benefit	Other Benefits
Pressler S. 26 (Educational benefit portion of bill only)	Any service member or veteran with two years active, after 1/31/76, earns 24 months benefit at current Vietnam-era G.I. Bill rate (now \$342 per month). 45 months service earns maximum 45 months benefit. Service in DoD selected skills after 9/30/81 can earn 1.5 months benefit (maximum 45) for each month service.	None, except for transfer rights.	Eight or more years active service permits transfer of any or all of earned benefit to spouse and/or dependents.	Each month active duty for training earns 1.5 months benefit and each four months Selected Reserve earns one month benefit paid at Vietnam-era G.I. Bill rate.	Accelerated withdrawal of benefits permitted. Those eligible for other veteran educational assistance (Chapters 31 or 34), may receive not more than 64 months total benefit.
Cranston S. 417	Three years active or two years active and four years Selected Reserve, after 9/30/81, earns 36 months benefit paid at \$250 monthly. Each month active service beyond period required for basic benefit earns \$375 monthly supplemental benefit up to 36 months.	None, except for transfer rights.	Ten or more years active in DoD selected skills permits transfer of any or all of benefit to spouse and/or dependents.	No benefit for those without prior active service.	Earned basic and supplemental benefits can be paid out simultaneously, with supplemental paid at accelerated rate not to exceed \$500 monthly. DoD can increase benefit amounts for service in selected skills.

(Continued)

TABLE 1. (Continued)

Proposal	Basic Benefit	Career Benefit	Transfer of Benefit	Reserve Benefit	Other Benefits
Hunter I.R. 2399	Three (six) years active, after date of bill's enactment, earns 36 months maximum benefit paid at \$300 (\$600) monthly.	None, except for transfer rights.	Ten or more years active, on or after date of enactment, permits transfer of any or all of earned benefit (or un-earned if agrees to serve three [six] additional years) to spouse and/or dependents.	Two years Selected Reserve, after date of bill's enactment, earns 24 months benefits paid at \$150 monthly.	Monthly benefit indexed to annual increase in education cost.  For those with one or more years active, in-service use of accrued benefit permitted.
ennett I.R. 135	For accessions entering after 9/30/81, two years active earns 36 months benefit at \$300 monthly, plus tuition reimbursed up to \$3,000 for each of four academic years.	None.	None.	No benefit for those without prior active service.	None.
Hurmond I. 7	Two years active, after 9/30/81, earns 36 months benefit paid at \$400 monthly.	None, except for transfer rights.	Eight or more years active, two of which must be after 9/30/81, allows transfer of earned benefit to spouse and/or dependents.	Four years Selected Reserve, after 9/30/81, earns 36 months benefit paid at \$200 monthly.	None.

(Continued)

TABLE 1. (Continued)

Proposal	Basic Benefit	Career Benefit	Transfer of Benefit	Reserve Benefit	Other Benefits
Fitchell I.R. 3340	For those enlisting or reenlisting after date of enactment, two years active service earns 18 months benefit at current Vietnam-era G.I. Bill rate (now \$342 per month); three years service earns 24 months benefit and four years earns maximum 36 months benefit.	None.	None.	Two years enlisted Selected Reserve earns nine months benefit (paid at active-duty rate). Each additional three months reserve duty earns one month benefit. Cannot exceed 36 months earned benefit.  Must enlist for six-year term to be eligible for benefit.	In-service use of earned benefit.  For enlisted who have reenlisted, up to 12 months leave of absence without basic pay.
Aujan I.R. 3897 As amended (by staff)	Return to pre-Vietnam-era G.I. Bill benefits for those serving after 10/1/81.  Six months active duty service earns 6 months benefit. Each month active beyond 6 months earns one additional month benefit up to maximum 45 months.	None.	Basic benefit not transferable.	None.	None.

/ Unless specifically noted, bills apply to both enlisted and officer personnel.

that recruiting of high-quality, hard-to-attract youths would improve markedly with a new educational benefits package. (CBO's estimates of recruiting effects are presented in Chapter V.) Conscious of the fact that their proposals may act as an incentive to leave military service once the benefit has been earned, proponents have included various provisions to offset any adverse retention effects the program may have. These include cash-conversion privileges and transferability of the entitlement to a spouse and/or dependents in exchange for additional military service. The final version of CBO's report will include estimates of the retention effects of these proposals.

Of particular concern to Executive Branch agencies and Congressional committees with jurisdiction over military and veterans' benefits is the question of who should fund the program. A program structured and defended as a recruiting incentive would more logically fall within the Defense Department's jurisdiction, while a program characterized as a veteran's post-service readjustment benefit might more appropriately be the responsibility of the VA. The Education Department might also play a role, given the extensive loan and grant programs it already funds and the elaborate administrative framework already in place to monitor these programs across the nation.

Another major concern, particularly among veterans' groups, is whether a more generous educational benefits package than the Vietnam-era G.I. Bill is warranted. Unmarried Vietnam-era veterans currently are entitled to receive \$342 per month for full-time, post-secondary education. Benefits under some of the proposals offered in the 97th Congress would far exceed this monthly stipend.

#### Program Design

Both the Congress and the Administration must also decide upon a number of program design considerations. For example, should the program be contributory? The fact that VEAP is a contributory program has been cited by some as a reason for its low participation rate. Yet, the fact that military personnel must make an explicit choice to participate enables the Administration to monitor more closely the program's eventual costs.

Should the program have a tuition reimbursement feature? Proponents of this approach point out that the majority of veterans receiving their education under the Vietnam-era G.I.

Bill can afford to attend only low-cost public institutions and that a tuition reimbursement plan would increase access to higher-cost (private) schools.

What, if any, eligibility standards should be imposed for participation in the program? Some have argued that eligibility should be limited to enlisted personnel, and that benefits should be restricted to shortage skills and/or to high-quality recruits so as to minimize the cost of the program yet still accomplish its recruiting objectives.

Should the military program be linked to other forms of student aid? For example, forgiveness of student loans in exchange for a commitment to a specified period of military service has already been authorized as part of a pilot program. Some have suggested that a veterans' preference be granted in federal domestic student aid programs.

How large should the benefit be? Some would argue that its size should be tied to the cost of a college education. Others contend it should be sized so as to assist the services in meeting their recruiting goals, but structured in a manner that would minimize the adverse effect on retention. As noted earlier, however, still others argue that benefits should be no larger than those now received by Vietnam-era veterans under the G.I. Bill.

How much flexibility should be permitted in using the benefits? A pilot program now being tested offers a cash-conversion privilege for reenlistment as well as transferability of benefits to a spouse and/or dependents. Other proposals would permit benefit payments to be withdrawn on an accelerated schedule.

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#### CHAPTER IV. EXPANSION OF FEDERAL DOMESTIC STUDENT AID PROGRAMS

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Proponents of an improved military educational benefits program often assert that:

- o Expansion of federal domestic student aid programs in recent years has made VEAP appear less attractive to youths seeking to further their education. Professor Charles Moskos, a well-known military sociologist, has claimed: "In effect, we have created a G.I. Bill without the G.I." 1/
- o A more generous military educational benefits program could have strong enlistment appeal to college-bound youths, thereby improving both the quality and representativeness of military enlistments.

CBO's analysis suggests that, in spite of the expansion of federal student aid programs in recent years, the military does not appear to have lost its market share to post-secondary institutions. Expanded student aid programs have increased access to more costly schools, yet they do not appear to be the major determinant of the basic decision whether or not to attend school.

Without question, funding for federal student aid programs has grown dramatically in recent years. The bulk of this aid, however, is extended in the form of loans rather than grants. Taken together, the volume of loans and grants has more than tripled over the fiscal years 1975-1980 period, rising from \$2.6 billion to \$8.9 billion (see Table 2). Moreover, CBO estimates that, under current law, costs will grow by another one-third between fiscal years 1980 and 1982.

Under the Administration's proposals, CBO projects that the volume of loans would fall markedly below current-law projections.

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1/ Statement of Charles C. Moskos, Jr., in First Concurrent Resolution on the Budget--Fiscal Year 1981, Hearings before the Senate Committee on the Budget, 96:2 (February and March 1980), Volume I, p. 265.

TABLE 2. DISTRIBUTION OF FEDERAL STUDENT AID FUNDS (By fiscal year, in billions of dollars)

Student Aid	Actual		Current Law		Administration Plan	
	1975	1980	1981	1982	1981	1982
Grants	0.9	2.6	3.0	2.9	2.5	2.3
Guaranteed Loans (volume)	1.3	5.7	7.2	8.6	6.6	4.7
College Work-Study	<u>0.4</u>	<u>0.6</u>	<u>0.6</u>	<u>0.6</u>	<u>0.6</u>	<u>0.6</u>
Total	2.6	8.9	10.8	12.1	9.7	7.6

By fiscal year 1982, both nominal and real levels of grants and loans would drop below fiscal year 1980 expenditure levels.

While the Reagan proposals would reduce future federal aid to students, the extent to which students are currently subsidized is quite striking. For example, aid in the form of grants and loans from federal, state, and local sources covers more than one-half of total education costs for students from families with below-average incomes (see Table 3). Although considerably fewer post-secondary students from families with above-average incomes receive educational aid, their education costs are heavily subsidized as well. Loans and grants to these students cover more than 40 percent of their education costs.

Considering the number of students subsidized by these programs, there indeed appears to be "a G.I. Bill without the G.I." Of course, not all students receive financial aid, but the distribution of grant and loan funds does appear, as intended, to be linked to family income level. For example, about two-thirds of post-secondary students from families with annual incomes below \$15,000 receive aid, while just over 40 percent of students from families with annual incomes above \$35,000 are benefiting from financial aid programs.

TABLE 3. PROPORTION OF POST-SECONDARY, FULL-TIME EDUCATION COSTS  
SUBSIDIZED THROUGH FEDERAL, STATE, AND LOCAL GRANTS AND  
LOANS (Base: 1979-1980 full-time student population  
receiving aid)

	Parental Income of Students			
	\$15,000	to	\$25,000	
Below \$15,000			to \$35,000	Above \$35,000
	\$15,000	\$25,000	\$35,000	\$35,000
Mean Education Costs for Those Receiving Aid	\$3,600	\$4,000	\$4,800	\$5,400
Percent of Total Education Costs Subsidized by Grants and Loans	56	54	48	43

Despite the dramatic expansion in student aid programs over the decade of the 1970s, the proportion of high school graduates attending post-secondary institutions has declined across all income brackets (see Table 4). In 1971, for example, slightly more than one-half of all 17- to 22-year-old male high school graduates were enrolled in post-secondary schools on a full-time basis. By 1979, that percentage had dropped to just under 40 percent. These data do not support the hypothesis that, in its efforts to recruit more qualified applicants for military service, the military has lost its market share to post-secondary institutions.

In an attempt to investigate this matter further, CBO is processing Current Population Survey files for 18- and 19-year-old male, high school graduates to determine how their educational status may have changed over the past decade. One explanation for the decline in the percentage of male full-time college students may be a proportional shift from four-year schools to two-year institutions, thus lowering the percentage of 20- and 21-year-olds attending school. Data on the 18- to 19-year-old population, the prime recruiting targets for the military, should be available for the final report.

TABLE 4. PERCENTAGE OF 17- TO 22-YEAR-OLD MALE HIGH SCHOOL GRADUATES ENROLLED IN SCHOOL AS MAJOR ACTIVITY (For selected years, by parental income)

Parental Income (In 1979 dollars)	1968- 1969	1971	1974	1977	1979
Below \$12,800	42	38	34	30	30
\$12,800-\$ \$21,400	55	44	35	32	30
\$21,401-\$ \$29,400	61	48	38	38	34
\$29,401-\$ \$40,100	64	58	47	42	40
Above \$40,100	77	69	61	58	60
All Income Levels	60	51	43	40	39

Given recent survey results showing a rigid, lock-step attendance behavior between high school and college, it is not surprising that the military has experienced difficulty in recruiting college-bound youths. For example, the National Longitudinal Survey of the High School Class of 1972 shows that more than 80 percent of males who planned to enter a four-year college in the fall of 1972 actually did so (see Table 5). In sharp contrast, fewer than 24 percent of those who planned to enter military service after graduation actually enlisted. Admittedly, these data could be clouded by the fact that the draft was still in effect at the time. When the results of the 1980 Longitudinal Survey ("High School and Beyond") become available, the extent to which this pattern has changed will be more apparent.

A more recent measure of youth career plans can be obtained from survey data from the Armed Services Vocational Aptitude Battery (ASVAB) test (see Table 6). Ten percent of the male

TABLE 5. PERCENTAGE OF 1972 MALE HIGH SCHOOL SENIORS WHO FULFILLED ORIGINAL CAREER PLAN IMMEDIATELY AFTER GRADUATION AND WERE STILL IN THAT STATUS ONE YEAR LATER

Plans in Spring 1972	Percent Who Fulfilled Original Plan as of October 1972	Percent Who Continued with Original Plan as of October 1973
Military Service	24	18
Vocational/Technical School	43	20
Two-Year College	66	42
Four-Year College	80	65

SOURCE: National Longitudinal Survey of the High School Class of 1972. A new 1980 cohort of youths has been selected for study, but subsequent follow-up data on this cohort are unavailable.

TABLE 6. COMPARISON OF CAREER PLANS WITH ACTUAL ENLISTMENTS FOR MALE HIGH SCHOOL SENIORS TAKING THE ASVAB TEST DURING THE 1976-1977 SCHOOL YEAR

Career Plan	Percent Distribution of Test Takers by Career Plan	Percent in Each Career Plan Group Enlisting Within One Year
Military Service	10	60
Vocational/Technical School	8	11
Two-Year College	7	10
Four-Year College	30	7
Work	17	10
Undecided	28	18
Total Test Takers	100	16

high school seniors who took the ASVAB test during the 1976-1977 school year indicated they planned to enter military service after graduation. Another 30 percent said they intended to enroll in a four-year college, while 28 percent were undecided. A check of the military enlistment files one year later revealed that 60 percent of those who had planned to enter the military actually enlisted, while only 7 percent of those who had planned to attend a four-year college decided to enlist in the military instead. Only 18 percent of the undecided group chose to enter the military.

Overall, these data show that high school seniors are not likely to change their immediate career plans. Unlike the results from the 1972 National Longitudinal Survey (see Table 5), however, these later data reveal that a much higher percentage of youths who plan to enter military service actually do so one year later. Again, uncertainty over the status of the draft in 1972 could have affected the career intentions measured by the National Longitudinal Survey.

The decline in the youth population of prime enlistment age has been a source of continuing concern to the military. The data in Table 7 show, for example, that while an overall decline of 15 percent can be anticipated over the next six years, the number of youths from lower- to middle-income families will decline less sharply than the number of youths from families with above-average incomes. The military generally draws its recruits from the middle- to lower-income groups, while the colleges draw their metriculants much more heavily from the above-average income category. From this perspective, the military will experience less of a decline in its traditional enlistable market than the colleges, which may experience considerably more difficulty. These data could also presage a more competitive environment between the military and post-secondary institutions.

TABLE 7. PROJECTED POPULATION OF 19-YEAR-OLD MALES, BY FAMILY INCOME a/ (In thousands)

Annual Family Income (In 1978 dollars)	1982	1983	1984	1985	1986	1987	Percentage Decline 1982-1987
Below \$15,000	820	840	840	780	780	760	7
\$15,000-\$24,999	700	690	650	630	620	610	13
Above \$25,999	590	560	500	490	440	430	27
Total	2,110	2,090	1,990	1,890	1,840	1,800	15

a/ These data were produced by converting the 11- through 16-year-old male population counts by family income on the March 1979 Current Population Survey files into the projected proportion of 19-year-old males by family income. For example, the 1987 figure of 1,800,000 males aged 19 represents the actual population projected by the Census Bureau. (See U.S. Bureau of the Census, Projections of the Population of the United States: 1977 to 2050, Series P-25, No. 704 (July 1977).) This figure was then reapportioned by family income according to the population income stratification of 11-year-olds found on the March 1979 Current Population Survey.

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CHAPTER V. CBO'S FORECAST OF RECRUITING AND RETENTION TRENDS  
UNDER CURRENT POLICY

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As part of its January 1981 review of defense resources for fiscal years 1982-1986, CBO prepared forecasts of enlisted career strengths and quality recruiting trends under current policy assumptions. In deriving these estimates, CBO assumed that end strengths would achieve levels proposed by the Administration for fiscal year 1982 and would remain roughly constant over the next five years. It also assumed that other personnel policies, such as those affecting the recruitment of females and of those with prior service, would remain unchanged. Most important, CBO assumed that future pay raises would keep pace with the appropriate reference group in the private sector, and that no further special pay increases would be provided.

CBO's analysis shows that, under these assumptions, the size of the career force (defined as those with four or more years of service) will continue to grow over the next five years (see Table 8). Except for the Navy, each service should meet or exceed the career force objectives established last year, although these

TABLE 8. PROJECTED INCREASE IN CAREER FORCE LEVELS, FISCAL YEARS 1982-1986 (In thousands)

	Number with Four or More Years of Service					Current Objectives
	1982	1983	1984	1985	1986	
Army	291	300	315	320	326	281
Marine Corps	53	55	59	61	63	50
Navy	209	213	219	227	232	218
Air Force	<u>225</u>	<u>225</u>	<u>228</u>	<u>234</u>	<u>239</u>	<u>210</u>
Total	777	793	821	842	860	759

could be increased. Simply meeting or exceeding these objectives does not, however, ensure that skill imbalances can be resolved.

In contrast to the improving condition of the career force, CBO's forecast suggests that recruit quality may continue to decline in all four services over the next five years (see Table 9). The Army will experience particular difficulty meeting the 65 percent target for male high school diploma graduate recruits established by the Congress for fiscal year 1981. This can be attributed in part to the dwindling supply of high school graduates willing to enlist, as well as to constraints on the percentage of recruits the services may take from the lowest acceptable test-score category on the standard entrance examination. These estimates were based on recruiting trends through fiscal year 1980. More recent results covering fiscal year 1981 point to a significant improvement in recruit quality. To the extent these recent results represent an upward trend, the prospect improves for achieving future enlistment objectives under Congressionally mandated quality constraints.

TABLE 9. PROJECTED DECLINE IN RECRUIT QUALITY, FISCAL YEARS 1982-1986 (In thousands)

	Percentage of Male Recruits Without Prior Service Who Hold High School Diplomas					Average 1978-1980	Target
	1982	1983	1984	1985	1986		
Army	60	54	56	55	53	58	65
Navy	73	78	68	70	70	74	--
Air Force	71	86	72	66	68	83	--
Marine Corps	74	73	71	69	68	75	--
All Services	68	70	67	63	62	70	--

NOTE: All estimates assume test-score objectives are met, and an across-the-board comparability raise of no more than 9.1 percent is granted in fiscal year 1982.

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CHAPTER VI. IMPACT OF AN EDUCATIONAL BENEFIT ON RECRUITING

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CBO has estimated the enlistment potential of an illustrative educational benefits program by converting a stream of future monthly benefit payments into the present cash value equivalent at the time of enlistment. The present worth, and thus the enlistment potential of the program, varies not only with the size of the benefit, but also with the length of service required to earn the entitlement. Table 10 shows the discounted cash value equivalent of various monthly stipend plans. For example, a \$375 monthly benefit paid over a 36-month period in exchange for a three-year term of service yields a maximum payout of \$13,500. If six years of service were required to earn the entitlement, the discounted cash value equivalent at the time of enlistment would be only \$2,700. But if only a two-year enlistment were required to earn the entitlement, that same benefit would have a present worth slightly more than twice that amount, or \$5,900.

TABLE 10. CASH-VALUE EQUIVALENT AT TIME OF ENLISTMENT FOR 36-MONTH ENTITLEMENT (20 percent real discount rate)

Term of Service Required to Earn 36-Month Entitlement	Monthly Stipend		
	\$375		
	\$250	(Vietnam Era)	\$475
Two Years	\$3,900	\$5,900	\$7,400
Three Years	3,200	4,800	6,100
Four Years	2,600	3,900	5,000
Six Years	1,800	2,700	3,400
<hr/>			
Undiscounted Value	9,000	13,500	17,100

The significance of these comparisons becomes more apparent when the present cash value equivalent is used to estimate the benefit's enlistment potential. For example, Table 11 shows that a \$375 monthly stipend paid out over a 36-month period in exchange for a two-year enlistment may yield a 22 to 29 percent increase in quality enlistments. In contrast, a four-year enlistment requirement in exchange for a 36-month entitlement and a \$375 monthly stipend would yield only an 8 to 11 percent increase in quality enlistment supply.

TABLE 11. PERCENTAGE GAIN IN ENLISTMENTS OF MALE HIGH SCHOOL DIPLOMA GRADUATES SCORING IN TEST CATEGORIES I-III UNDER ALTERNATIVE EDUCATIONAL BENEFIT PLANS (36-month entitlement earned for successful completion of the various enlistment terms)

Monthly Entitlement	Two-Year		Three-Year		Four-Year		Six-Year	
	Low	High	Low	High	Low	High	Low	High
\$375 <u>a/</u>	22	29	13	17	8	11	4	5
\$475	28	37	16	21	11	14	5	7

NOTE: The percentages shown are equivalent to the relative increase in the present value of regular military compensation (RMC) when both the benefit and the RMC are discounted at 20 percent over the various enlistment terms. The low estimate employs a supply elasticity of 0.75, while the high estimate uses 1.00.

a/ Approximate level of current Vietnam-era G.I. Bill benefits.

Table 12 shows the anticipated enlistment response under alternative term-of-service accession patterns. For instance, an educational benefit plan that provided a \$375 monthly stipend for a total of 36 months might result in a 12 to 16 percent increase in the key quality enlistment group under the current

TABLE 12. PERCENTAGE GAIN IN ARMY ENLISTMENTS OF MALE HIGH SCHOOL DIPLOMA GRADUATES UNDER ALTERNATIVE INITIAL TERM-OF-SERVICE AND EDUCATIONAL BENEFIT PLANS (36-month entitlement earned for successful completion of required initial enlistment terms)

Amount of Monthly Entitlement	Current Army Terms: 2-73-25 a/		Alternative Plan Terms: 33-57-10 a/		Alternative Plan Terms: 50-45-05 a/	
	Low	High	Low	High	Low	High
\$375	12	16	15	20	17	23
\$475	15	20	20	26	22	29

NOTE: Present value calculations use discount rates of 20 percent for the educational benefit and regular military compensation (RMC). The enlistment supply elasticity of response to the educational benefit is presumed to be 0.75 under the low estimate and 1.00 under the high estimate. For example, an educational benefit whose present worth at enlistment is equivalent to a 10 percent increase in RMC would yield a 7.5 percent ( $10 \times 0.75$ ) increase in enlistment supply under the low-estimate elasticity.

a/ Numbers portray the percentage mix of two-, three-, and four-year enlistments. The current Army pattern consists of 2 percent two-year, 73 percent three-year, and 25 percent four-year enlistments.

pattern of required enlistment terms. If, however, the Army converted half its enlistment contracts to a two-year term, a 17 to 23 percent increase in quality enlistment supply could be expected. Of course, higher benefit levels would produce further supply increases.

While an educational benefit coupled with a shorter term of service might significantly increase the quality enlistment supply, the services would pay a penalty in increased recruiting requirements resulting from the higher turnover induced by the

shorter enlistment terms. For example, if the Army offered one-third of its enlistments as two-year terms, coupled with an educational benefit comparable to the Vietnam-era G.I. Bill, recruiting requirements would deviate little from CBO's current policy estimates for fiscal years 1982 and 1983 (see Table 13). Some modest decline in aggregate training attrition rates could be expected because of the increase in high school diploma graduate recruits. This could lower recruiting requirements by less than one thousand. In fiscal years 1984 and beyond, however, recruiting requirements would rise about 15 percent above CBO's current policy estimates. This increase would occur because, in spite of the positive retention effects of better accession quality, the shorter enlistment terms would lead to a higher turnover rate, thus driving up recruiting requirements.

In Table 14, recruiting requirements and enlistment supply have been pulled together to show the projected percentage of Army non-prior-service, male high school diploma graduate enlistments under alternative term-of-service plans and an educational benefit similar to the G.I. Bill. In fiscal years 1982 and 1983, when recruiting requirements will remain relatively stable, coupling an educational benefit with a shorter term of service yields a quality content improvement, with male high school diploma graduate recruits increasing by 20 percent. But in fiscal year 1984 and beyond, as recruiting requirements increase, quality content shows no improvement over current policy levels. By coupling educational benefits with the current term-of-service mix, however, the Army experiences a relatively significant long-term improvement in quality content, amounting to six percentage points over current policy estimates of male non-prior-service enlistees with high school diplomas.

Tables 11-14 do not tell a complete story with respect to recruiting requirements and supply, however; the potentially adverse effects on retention must also be considered. Turnover rates could rise under a more generous educational benefits program, given the added incentive to leave the military and use the benefit once the entitlement has been earned. Table 15 shows that recruiting requirements will rise 2 percent over those displayed as Option II in Table 13 solely because of the adverse effect on retention of the earned educational benefit. Moreover, if eligibility were extended to all enlisted personnel (rather than to new accessions only) after serving two years on active duty, recruiting requirements would rise by nearly 3 percent.

The recruiting projections presented in Tables 12 through 15 may overstate the enlistment potential of an educational benefits

TABLE 13. COMPARISON OF ARMY NON-PRIOR-SERVICE ENLISTMENT REQUIREMENTS UNDER ALTERNATIVE TERM-OF-SERVICE PATTERNS (By fiscal year, in thousands)

	Average Actual 1978-1980	Objective 1981	CBO Forecasts				1982-1986 Average
			1982	1983	1984	1985	1986
CBO Current Policy a/	137	119	129	128	120	119	120
Options With \$375 Monthly Benefit and 36-Month Entitlement Vested at Two Years							123
I: Current term-of-service mix	137	119	129	128	120	119	119
II: One-third two-year enlistments	137	119	129	128	139	133	129
III: One-half two-year enlistments	137	119	129	128	150	139	136
							138

a/ CBO projections with fiscal year 1981 pay and benefit package of improvements, including maintenance of pay comparability, continued through 1986. Two-year enlistment terms amount to no more than 2 percent of non-prior-service enlistments through 1986. Congressionally mandated aptitude test-score constraints remain in effect.

TABLE 14. ARMY MALE HIGH SCHOOL DIPLOMA GRADUATES AS A PERCENTGE OF NON-PRIOR-SERVICE MALE ENLISTMENTS (By fiscal year)

	Average Actual 1978-1980	Objective 1981	CBO Forecasts					1982-1986 Average
			1982	1983	1984	1985	1986	
CBO Current Policy <u>a/</u>	58	65	60	54	56	55	53	55
Term-of-Service Options with Education Benefit <u>b/</u>								
I: Current term-of-service: 2-73-25	58	65	66	60	62	60	58	61
II: One-third two-year terms: 33-57-10	58	65	67	61	56	57	56	59
III: One-half two-year terms: 50-45-5	58	65	69	62	54	56	55	58

a/ CBO projections with fiscal year 1981 pay and benefit package of improvements, including maintenance of pay comparability, continued through 1986. Two-year enlistment terms amount to no more than 2 percent of non-prior-service enlistments through 1986. Congressionally mandated aptitude test-score constraints remain in effect. Results based upon a statistical analysis of recruiting trends through fiscal year 1980 and thus fail to explicitly account for recent improvements in recruiting during fiscal year 1981.

b/ Educational benefit amounts to 36-month entitlement at \$375 monthly stipend (in 1982 dollars) for no less than two years' active-duty service. For example, the second option would contain 33 percent two-year, 57 percent three-year, and 10 percent four-year enlistments, each receiving a 36-month entitlement upon successful completion of the enlistment term.

TABLE 15. EFFECTS OF ADVERSE RETENTION ON ARMY RECRUITING (With \$375 monthly stipend, 36-month entitlement, and one-third two-year option)

	1982-1986 Average Non-Prior-Service Requirement	1982-1986 Average Percent of Male Non-Prior-Service Recruits With High School Diplomas
Without Estimate of Adverse Retention	132,600	59
Adverse Retention Effect for New Accessions Only	135,100	58
Adverse Retention Effect for All Enlisted Completing Two Years	135,700	58

program for two reasons. First, the estimates assume that those who enlist primarily because of the program will eventually use all of their entitlement. But if Vietnam-era G.I. bill utilization rates can be taken as a guide, most people could be expected to use less than half of their total benefits. Thus, for those who expect to attend school for less than 36 months, the value of the benefit as an enlistment incentive would decline.

Second, by deferring their post-secondary schooling while serving in the military, youths may lessen their prospects for receiving other federal student aid funds upon separation from service. This would depend on the extent to which need-based criteria served to limit student aid for a veteran entitled to military educational assistance. To the extent this occurs, the value of the military benefit as an enlistment incentive would diminish.

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CHAPTER VII. COSTS OF ALTERNATIVE EDUCATIONAL BENEFIT PROGRAMS

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CBO is currently developing estimates of the cost of various educational benefit alternatives, including those with special provisions permitting the entitlement to be transferred to a spouse and/or dependents. This chapter contains estimates for an illustrative program and CBO's preliminary estimates of the cost of H.R. 1400, the educational benefit bill sponsored by Chairman Montgomery of the House Veterans' Affairs Committee.

Illustrative Educational Benefit Program

CBO has estimated the costs and numbers of veterans training under an illustrative educational assistance program similar in form to the Vietnam-era G.I. Bill (see Table 16). These projections rest on several key assumptions:

TABLE 16. PROJECTED COSTS OF AN ILLUSTRATIVE EDUCATIONAL BENEFITS PROGRAM USING 1979 VIETNAM-ERA G.I. BILL UTILIZATION RATES (For all services, minimum two years' active duty, 36-month entitlement, \$375 monthly stipend) a/

Fiscal Year	Number of Veterans Training	Cost in Current Dollars (in millions)	Cost in 1982 Dollars (in millions)
1982	0	0	0
1984	8,500	21	17
1986	90,900	262	184
1992	443,000	1,873	893
1995	535,000	2,677	1,085

a/ Assumes only new accessions eligible beginning in fiscal year 1982 and monthly entitlement indexed to inflation.

- o Two years of active-duty service would be required to earn the entitlement.
- o Monthly benefits would equal \$375, paid over a 36-month period.
- o The program would begin in fiscal year 1982, and would be restricted to new accessions.

Under such a program, no costs would be incurred until fiscal year 1984. Measured in fiscal year 1982 dollars, costs would not exceed \$1 billion until 1995, when the transition to the program would be complete and steady-state conditions began.

CBO's preliminary analysis suggests that a program that offered benefits comparable to the Vietnam-era G.I. Bill would fall short (under CBO enlistment-supply assumptions) of the requirement that 65 percent of the Army's male, non-prior-service recruits be high school graduates. Either higher benefit levels or additional enlistment incentives would have to be offered if the Army is to achieve this 65 percent goal over the long run.

Estimates of program cost and number of veterans training are also contingent upon the monthly stipend being fully indexed to inflation. CBO has observed from earlier research that eventual use of the entitlement is partially dependent on the real value of the benefit. As that value erodes through inflation, the number of veterans who choose to train will decrease and the recruiting-inducement effect of the benefit will similarly diminish. Measured in current dollars and using CBO's latest inflation estimates, the cost of this G.I. Bill-like program will exceed \$2.6 billion by 1995 (see Table 16).

#### H.R. 1400 Educational Benefits Program

A more comprehensive and costly legislative proposal--H.R. 1400, the Veterans Educational Assistance Act of 1981--has recently been reported out by the House Veterans' Affairs Committee and is now under consideration by the House Armed Services Committee. The provisions of the legislation, summarized in Table 1, include:

- o A 36-month entitlement paying \$300 monthly in exchange for three years of active-duty service or two years of active-duty service and four years in the Selected Reserve.

- o An increase in the monthly benefit to \$600 upon completion of six years' active duty.
- o A supplemental increase, in amounts to be determined by DoD, in the basic benefit for service in DoD-selected skills.
- o The right of a service member to transfer the earned entitlement to a spouse and/or dependents after 10 years' active duty.
- o An educational leave program for career personnel and a loan forgiveness program in which outstanding federal educational loans can be converted into grants in exchange for a specified term of military service.

CBO estimates that H.R. 1400's basic entitlement, along with the modest supplemental benefit for service in critical skills, should increase the quality enlistment supply by 10 to 15 percent --only slightly less than the increase depicted in Table 12 under an illustrative program paying a \$375 monthly stipend for 36 months after completion of a first enlistment under the current mix of enlistment terms. This 10 to 15 percent increase in supply approximates what CBO estimates to be the enlistment-supply effects of a return to a Vietnam-era G.I. Bill for new accessions.

Like the illustrative program, outlays for H.R. 1400, under present accounting procedures, would not begin until fiscal year 1984 (see Table 17). Near-term costs, however, would be higher under H.R. 1400 because, rather than restricting eligibility to new accessions, the bill would make full benefits available to all current military personnel with three or more years of active-duty service. In-service use of the benefits by career personnel would also be permitted. In fiscal year 1986, for example, the more streamlined illustrative program would cost \$184 million, while H.R. 1400 would cost \$410 million (in 1982 dollars). Most of the difference in cost can be attributed to the provision permitting in-service use of the earned benefit and, to a lesser extent, to the initial costs associated with the benefit-transfer provision.

The provisions linking benefit size to length of service and permitting career members to transfer their entitlement to spouses and/or dependents were intended in part to mitigate the adverse effects on retention. While these will undoubtedly be attractive retention incentives, they will increase costs substantially. Given projected continued improvements in career force numbers

TABLE 17. ESTIMATED COSTS OF H.R. 1400 (By fiscal year, in millions of fiscal year 1982 dollars) a/

	1984		1986		1990		1994	
	VA	b/ DoD	VA	DoD	VA	DoD	VA	DoD
Post-Service Program	23	7	101	29	529	257	718	480
In-Service Use	170	32	170	32	214	176	214	176
Transfer of Earned Benefit	<u>0</u>	<u>0</u>	<u>0</u>	<u>78</u>	<u>0</u>	<u>829</u>	<u>0</u>	<u>1,252</u>
Total Agency Cost	193	39	271	139	743	1,262	932	1,908
Total Program Cost	232		410		2,005		2,840	

a/ Although not stated in the legislation, this estimate assumes that benefit amounts are increased to keep pace with inflation.

b/ Veterans Administration.

over the next five years, some may question whether another retention incentive is needed. While long-term costs of these programs cannot be predicted with a high degree of certainty, the cost of the benefit-transfer provision could match or exceed costs of the basic benefit by the mid-1990s.

Long-run costs of the legislation could vary considerably, depending on future economic conditions and the extent to which the benefit is indexed to inflation. Costs could range from \$1.4 billion to \$3.3 billion by 1994. Because of the transferability provision, the legislation would not approach full costs and peak participation until 1998, or 16 years after enactment.

It is of interest to compare the historical costs and utilization rate of Vietnam-era G.I. Bill benefits (see Table 18) to

TABLE 18. VIETNAM-ERA G.I. BILL COSTS FOR VETERANS SEPARATED FROM ACTIVE DUTY AFTER 1966 a/

Fiscal Year	Number of Veterans Training (in thousands)	Cost (in millions of dollars)
1967	48	29
1970	623	506
1973	1,577	1,770
1976	1,913	3,696
1979	1,174	2,377
1982 <u>b/</u>	576	1,346

a/ Figures exclude eligible and training veterans separated during the peacetime Korean era, 1956-1965.

b/ VA projection.

CBO's illustrative program, shown in Table 16. Because of the large size of the Vietnam-era force, the population of veterans training under the G.I. Bill and the resulting costs are considerably larger than what CBO would project for a new, but similar, program. Note that in spite of the fact that the Vietnam-era G.I. Bill was terminated for new accessions beginning in 1977, the VA projects that outlays in fiscal year 1982 alone will exceed \$1.3 billion.

The previous five tables underscore the long-term cost implications of any decision to return to a G.I. Bill-like entitlement program. Thus, such a program might lend itself to an accrual accounting approach so that the future costs of the benefits would be more clearly reflected in the current military budget.