

IMPROVING MILITARY EDUCATIONAL BENEFITS

Statement of

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I appreciate the opportunity to testify today on the status of military recruiting and the need 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, especially 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 "Targeted" programs, which restrict eligibility for benefits to high-quality recruits who serve in hard-to-fill military occupations, can achieve moderate improvement in recruiting at relatively modest cost.

- o Broad-based improvements in educational benefits--which provide benefits to all personnel--would improve recruiting. But broad-based improvements like those in the proposed Veterans' Educational Assistance Act of 1983 (H.R. 1400) are an expensive way to improve recruiting and generally do not focus benefits where they are most needed.
- o Adding recruiters or increasing bonuses are generally less costly ways to increase the number of high-quality recruits than improving educational benefits.

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. Each of the services is easily meeting the Congressional requirement that no more than 20 percent of its recruits score in the lowest acceptable category (category IV) on the entrance examination. 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 nearly 90 percent for 1983. 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 the next few years recruiting will continue to meet numerical goals while also exceeding minimum quality requirements set by the Congress. Our projections, shown in Table 1, are based on the military end strengths set forth in the conference report on the fiscal year 1984 defense authorization bill, and on CBO's latest economic projection, which shows unemployment declining to 7.5 percent in 1986. We have also assumed an across-the-board 4 percent pay raise (excluding E-1s with less than four months of service) for 1984, followed by raises equal to those in the private sector in later years.

Despite the favorable outlook for the next few years, we cannot 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 recruit

quality near today's highs rather than return to the minimum standards set by the Congress. Even if they occur, however, these changes are unlikely to cloud the favorable outlook for recruiting in the next few years.

EXPERIENCE WITH EXISTING VEAP

Current recruiting success stems in part from the existing package of military pay and benefits, which includes the Veterans' Educational Assistance Program (VEAP). The basic version of VEAP has been widely criticized as an ineffective recruiting tool, which appears to be true. But in recent years VEAP has been improved in ways that make it more effective, especially for the Army.

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. In recent years, those who enter hard-to-fill skills have been allowed to earn up to \$12,000 in additional funds or "kickers." Thus, in return for contributing \$2,700, some recruits can receive \$20,100 toward school. The Army, currently the only service to offer VEAP with kickers, calls its program the Army College Fund.

The older, 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.)

The VEAP program obviously does not have as broad an appeal as did its GI Bill predecessor. Participation rates in basic VEAP have been rather stable since 1978 at about 30-35 percent. We anticipate, however, that only about 20 percent of service members will ultimately use VEAP benefits, compared to over 60 percent of eligible members who are estimated to have used at least a part of their GI Bill 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 extra funds or kickers to VEAP, however, dramatically improved its effectiveness as a recruiting incentive. CBO estimates that the VEAP kickers available under the Army College Fund improve recruiting by about 3 percent, with the increases occurring chiefly in hard-to-fill skills such as combat arms. This finding appears to have been borne out by the Army's success in 1982 and 1983 in attracting higher percentages of high-scoring high school graduates to serve in combat arms specialties.

In sum, the Army College Fund appears to be an effective program that has improved recruiting in hard-to-fill Army combat skills. Any new program that replaces it must be judged with this in mind.

H.R. 1400: A BROAD-BASED EDUCATIONAL BENEFITS PROGRAM

Key Provisions

H.R. 1400, the Veterans' Educational Assistance Act of 1983, would terminate the Army College Fund and the basic VEAP. In its place, the act would establish a new, noncontributory educational benefits program. The principal features would include:

- o A basic educational entitlement of \$10,800 after three years of active duty or two years' active duty followed by four years in the Selected Reserve;
- o A supplemental entitlement of an additional \$10,800 for those who complete eight years of active duty or four years' active duty followed by eight years in the Selected Reserve;
- o Authorization for kickers of up to \$14,400 for an initial enlistment and a further \$10,800 for a reenlistment, restricted in both cases to hard-to-fill skills;
- o Authorization to permit members in hard-to-fill skills who completed more than ten years of service to transfer their earned entitlements to their dependents;
- o Authorization for leaves of absence to permit service members to pursue programs of education; and
- o Educational assistance for the Selected Reserve, limited to an entitlement of \$5,040 in return for an enlistment, reenlistment, or extension of service of at least six years in the Selected Reserve.

In all cases, eligibility would be restricted to members who were high school graduates or who had earned an equivalency certificate by the completion of qualifying service. Service academy graduates or ROTC scholarship recipients would not be eligible for benefits, and the Selected Reserve program would be further restricted to members not holding baccalaureate degrees.

H.R. 1400 would terminate new enrollments in VEAP, including the Army College Fund, and the current Selected Reserve educational benefits program. Members now covered under these programs or under the Vietnam-era GI Bill would be permitted to earn benefits under H.R. 1400 provided that they served the additional time specified to become eligible for the various categories of benefits.

Effects on Recruiting and Costs

CBO estimates that H.R. 1400 would improve Army recruiting. The number of high-quality recruits would increase by a net of 2,800 or about 4 percent more than the Army expects to recruit in 1984. Thus Army recruiting results in the next few years would be slightly better though, as I noted above, they are already well above the legal minimum and draft-era results.

Supporters also hope that educational benefits will attract large numbers of college-bound youth into the military. Data do not permit

estimates of how many college-bound persons might join under H.R. 1400. Survey data suggest, however, that most high school seniors who say they are bound for college actually begin school within a year of graduation. Thus it may be difficult to divert college-bound youth into the military, especially into the combat arms skills.

While improving recruiting, however, H.R. 1400 also would add to costs. Costs in the defense budget would increase by \$435 million in the first year. The immediate increase would stem from the accrual funding of educational benefits required by H.R. 1400. Accrual funding insures that costs of future liabilities appear immediately in the defense budget; under the normal funding approach, full costs would not appear for many years until members completed service and used their benefits. We believe that accrual funding is a positive aspect of this bill. It helps ensure that costs are properly considered in any decision to implement a new program of educational benefits.

Although defense costs would rise immediately because of accrual funding, actual outlays by the federal government would remain low until newly eligible members had time to complete service and begin to use their entitlements. Nonetheless, by the year 2000 total outlays under H.R. 1400 would reach about \$1 billion annually, or \$530 million in 1984 dollars. This means that, for every added high-quality recruit that entered the military, the government would spend about \$140,000 in today's dollars. For every

extra high-quality recruit that entered the Army--which is the service that will experience the most serious recruiting problems if they recur--the government would spend about \$185,000. Costs per recruit would be high because many would receive benefits even though they were going to enlist anyway, and because educational benefits cause people to leave in order to use their benefits. These costs per recruit for H.R. 1400 would be well above the \$25,000 to \$40,000 required to attract an extra high-quality recruit into the Army using more recruiters or higher cash enlistment bonuses, and also well above the \$65,000 per recruit under the VEAP program with kickers.

The Veterans' 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 offers more benefits in return 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.

OLDER VERSION OF H.R. 1400

The version of H.R. 1400 now before this Committee is similar to the bill under the same number that the Committee approved in the preceding Congress. That plan, however, provided for lower basic and supplemental benefits of \$7,200 and \$3,600 respectively. We estimate that last year's plan could improve high-quality Army recruiting by a net of 2,200 members, or 3 percent of the 70,000 high-quality recruits the Army expects for 1984. By the year 2000, the cost of that plan would reach \$650 million annually (\$345 million in 1984 dollars), resulting in a cost of over \$115,000 per additional high-quality recruit and \$150,000 per additional high-quality Army 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.

SUMMARY

In sum, Mr. Chairman, military recruiting appears likely to do well in the next few years even without added recruiting incentives. Moreover, the educational benefits program now in place appears to be effective for the Army, which most needs the help. In later years, of course, recruiting problems could develop. If the Congress decides to meet any future recruiting problems with improved educational benefits, it should be aware that broad-based benefits such as those in the Veterans' Educational

Assistance Act, while they may attract some college-bound youth into the military, are an expensive way to improve overall recruiting and generally do not focus benefits where the need is greatest.

TABLE 1 PROJECTIONS OF HIGH SCHOOL GRADUATE PERCENTAGES BY SERVICE

	1984	1985	1986	1987	1988
Army	88	70	73	70	68
Navy	87	79	82	82	79
Air Force	88	87	88	88	88
Marine Corps	86	84	82	79	83

NOTE: Projections assume the following:

End strengths after 1984 increase at the relatively high rate planned for in the President's budget for fiscal year 1984.

No change in recruitment of women or people with previous military service through 1988 (that is, Army enlists 19,000 women and 10,000 recruits with previous military service).

Services restrict enlistments of recruits scoring in category IV; Army restricts recruits in category IV to the Congressional requirement; Navy, to 11 percent; Marine Corps, to 8 percent; and Air Force to 5 percent. Also, the Army recruits no women who score in category IV.

A pay raise of 4 percent in 1984, except no raise for E-2 with fewer than four months service; projections assume pay comparability thereafter. Unemployment is assumed to decline gradually to 6.9 percent by 1988.