

Statement of
Robert F. Hale and Daniel F. **Huck**

National Security and
International Affairs Division
Congressional Budget Office

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Mr. Chairman, I am pleased to appear before this Subcommittee to discuss the manpower and cost implications of proposals to increase educational benefits for our military personnel. My testimony today will summarize the preliminary results of a CBO study of this issue, undertaken at the request of the full Committee. I will focus on four major areas:

- o First, the military manpower problems that educational benefits could address;
- o Second, weaknesses in the current Veterans Educational Assistance Program (VEAP);
- o Third, the costs and effects on recruiting and retention of a more generous educational benefits program; and
- o Finally, key issues before the Congress.

A more detailed presentation of our preliminary findings is included in the staff memorandum I am submitting for the record.

THE KEY **PROBLEM--MEETING** FUTURE DEMANDS FOR BETTER QUALIFIED MILITARY RECRUITS

As this Subcommittee knows, the military **services--especially** the **Army--have** had considerable difficulties since the inception of the all-volunteer force in recruiting adequate numbers of qualified enlisted personnel and in retaining career personnel in critical skills, such as the combat arms. According to our forecast, retention problems in specific skills are likely to

remain, but the aggregate enlisted career population should be adequate to meet currently stated service objectives, at least at today's force levels.

In our judgment, enlisted **recruiting--especially** in the **Army--will** probably be the more pressing problem over the next few years. Improvements in the economy, coupled with a decline in the youth population of prime enlistment age, will account for some of this difficulty, but recruiting adequate numbers of personnel under increasingly tighter enlistment entry standards poses the greatest challenge.

Pay Raise Should Help Recruiting

The October pay raise proposed by this Subcommittee should help recruiting. If a 14.3 percent across-the-board military pay raise is granted for fiscal year 1982, the Army could probably meet its numerical goals for enlisted recruits in 1982 while also achieving the various quality **standards** imposed by the **Congress**. In fiscal years 1983 to 1986, **however**, the Army may not achieve both its numerical objectives and the quality standards, even if future military pay raises keep pace with those in the private sector. By 1986, the Army could fall 5 to 6 percentage points short of the 65 percent target for male high school graduates. Moreover, these projections assume no increase in force levels beyond those proposed for the end of fiscal year

1982; the results could be much worse if Army force levels were increased substantially. All these recruiting results are based on trends through fiscal year 1980, the last full year available for analysis.

Enlistment results for fiscal year 1981 to date, however, show a significant improvement in quality over 1980 results. If sustained over the next several years, this improvement could increase the chances of meeting the recruit quality standards established by the Congress. In its final report on educational benefits, CBO plans to analyze the full effects of the 1981 results on future recruiting.

Additional Policies and Programs Will Be Needed to Help Recruiting

These results suggest that if the Army is to meet its future numerical objectives and sustain **today's** quality standards, additional policies and programs may be needed. This would be particularly true if improved trends in 1981 are not sustained, or if end strengths **increase**. For example, policies that reduce the demand for hard-to-attract qualified male recruits, such as recruiting more females and more personnel with prior military service, could bring the Army closer to its recruiting targets. Likewise, across-the-board military pay raises or bonuses and special pay incentives targeted on recruits could improve recruiting results. An improved educational benefits package could also be an important recruiting incentive.

THE EFFECTIVENESS OF VEAP IN DOUBT

On December 31, 1976, the Congress terminated the Vietnam-era G.I. Bill for new recruits and replaced it with a contributory plan, the Veterans Educational Assistance Program (VEAP).

There appears to be widespread disappointment in VEAP within the defense community for several reasons. A primary criticism is that the program has induced fewer enlistments than expected. One study, for example, found that the program has led to no more than a 5 percent increase in enlistments of male high school graduates with above-average test scores. A second and related reason is the lower than expected enrollment rate in VEAP. Only 20 to 25 percent of new recruits have elected to participate in the program. In contrast, almost two-thirds of veterans eligible for the Vietnam-era G.I. Bill have used some of their benefits. Still another reason for concern has been the considerably higher than expected dropout rate, amounting to more than 40 percent of all participants since the **program's** inception.

These difficulties can be partially attributed to the required monthly **contribution--equivalent** to between 5 and 20 percent of a new **recruit's** after-tax basic pay. Perhaps even more important, the amount of financial aid offered under the basic benefit may simply be an inadequate recruiting incentive, although this deficiency can be partially alleviated by the Defense Department's authority to make **supplemental**, or "kicker," contributions

to encourage enlistments into critical skills. As you know, last **year's** defense authorization bill mandated a test of alternative approaches ranging from an enhanced VEAP plan to new, more generous **programs**. Results are now being evaluated by the Defense Department, and I understand that, during his testimony today, **Dr.** Korb will share with us some of the preliminary findings from these **tests**.

RECRUITING EFFECTS OF IMPROVED EDUCATIONAL BENEFITS

The Effects of a Vietnam-Era-Type **G.I.** Bill Program

Despite the problems with VEAP, a package of more generous educational benefits might improve enlisted recruiting. CBO has analyzed an **illustrative**, noncontributory program that would offer a \$375 monthly stipend, roughly equivalent to benefits available to Vietnam-era veterans under the G.I. Bill. We estimate that such a program would increase the supply of male high school graduate recruits by 10 to 15 percent. If such an improved program were coupled with a special 14.3 percent pay raise and continued comparability increases thereafter, this should allow the Army to meet or exceed the 65 percent target for high school graduates over the forecast period of fiscal years 1982 through 1986.

Similar Improvements Possible with H.R. 1400

H.R. 1400, which is now before this **Subcommittee**, could result in similar **improvements**. Among other provisions, the bill would offer a noncontributory 36-month educational entitlement paying a \$300 monthly benefit in exchange for completion of an initial three-year enlistment term. At the Defense **Department's** discretion, a supplemental monthly stipend could be offered for enlistments into critical skills. Over the first-term enlistment, the average basic benefit plus the supplemental stipend might well approach \$375 a month. This benefit level could increase high-quality enlistments by 10 to 15 percent, similar to the results under the CBO hypothetical plan I just discussed.

Effects of Educational Benefits on Career Retention

CBO's findings on the adverse retention effects of an educational benefit are very tentative at this point, but suggest they may not be too large. Our analysis shows that a program offering a 36-month entitlement and paying a \$375 monthly benefit--an amount comparable to that under the Vietnam-era G.I. Bill and possibly to H.R. 1400--would increase the **Army's** annual recruiting requirements by only about 3 percent over fiscal years 1982 through 1986. We have not evaluated the effects on the other services at this point, but we believe the resulting increase in recruiting would be **proportional**.

The Department of Defense has also been exploring the effect of an earned educational benefit on retention, and its tentative findings suggest a somewhat larger effect than our estimates. But, again, I should stress this issue deserves further research before any firm conclusions can be drawn.

Like most of the educational benefit bills introduced during this Congress, H.R. 1400 contains a provision permitting transfer of a service member's earned entitlement to a spouse and/or dependents. Our analysis of H.R. 1400 does not yet fully reflect the effects of this "**transferability**" provision, which was designed to improve career retention and lessen the incentive for service personnel to leave the military and make use of their earned benefits. We expect to analyze this provision for our final report.

Estimates Could Be Optimistic

Aside from the retention problem, our estimates of improvements in recruit quality due to educational benefits could be optimistic. Larger force sizes, for example, would increase overall recruiting requirements and jeopardize the quality objectives. Also, potential recruits may not place as high a value on military educational benefits because of the availability of other federal student aid programs.

COSTS OF MILITARY EDUCATIONAL BENEFITS

The cost of a new educational assistance program has been a source of considerable concern both to the Congress and to the **Administration**. Our estimates underscore this concern, especially with respect to long-run **costs**. In the near term, however, many of the proposals before the **Congress**, including H.R. 1400, would incur no costs, given the two- or three-year active-duty term required to earn the benefit.

CBO's Cost Estimate of H.R. 1400

Our cost estimate of H.R. 1400, supplied to the House **Veterans'** Affairs Committee last May, shows current dollar outlays of \$245 million beginning in fiscal year 1984 and reaching \$1.4 billion during 1994. The costs in constant fiscal year 1982 dollars would be \$205 million in 1984, rising to \$605 million by 1994. Constant dollar costs would reach stable levels in the mid to late 1990s.

Our cost estimate of \$1.4 billion by 1994 assumes a fixed monthly benefit that is not indexed to inflation and a robust economy and a declining unemployment **rate**. A growing economy and rising prices would erode the purchasing power of a fixed benefit, thus tending to discourage training in favor of employment. Under these conditions, veteran participation rates would likely decline over the entire forecast period.

Alternative Economic Assumptions Can Raise Future Costs of H.R. 1400

We also provided the **Veterans'** Affairs Committee with an alternative set of estimates showing that costs could be much higher under different economic assumptions. If, for example, one assumes no change from **today's** level of unemployment or real wages and a benefit fully indexed to inflation, the number of veterans who would choose to use their benefits could nearly triple from CBO's estimate. Under these assumptions, costs in constant fiscal year 1982 dollars would rise to \$3.3 billion by 1994. Most of this growth in costs can be attributed to the assumption that benefit levels are indexed to inflation. Given the willingness of the Congress to raise benefit levels under the Vietnam-era G.I. Bill in response to inflation, this assumption may prove realistic.

Component Costs and Agency Cost-Sharing Under H.R. 1400

Under the provisions of H.R. 1400, costs would be shared by the Defense Department and Veterans **Administration**. The bill stipulates that the Veterans Administration would pay the basic \$300 monthly stipend and that the Defense Department would absorb all remaining costs, including any supplemental benefits and the costs of the entitlement transfer provision. Benefits paid directly to veterans would account for only about one-half the cost of H.R. 1400. The transferability provision would consume

another 40 percent, and the provision permitting in-service use of benefits by career personnel would account for the remaining 10 percent. Thus, because of this cost-sharing arrangement and the actual allocation of costs by provision, the Defense Department would pay about two-thirds of the total program cost and the Veterans Administration the remaining one-third.

Costs Under a Program Similar to the Vietnam-Era G.I. Bill

The CBO illustrative program, which is similar to the Vietnam-era G.I. Bill, would cost less than the \$3.3 billion estimate for H.R. 1400 because it would not permit transfer of the earned entitlement. If such a program were fully indexed to inflation, CBO estimates the cost in 1994 would be about \$1.0 billion in constant fiscal year 1982 dollars. This estimate is tentative, and CBO will provide detailed cost estimates of various options in its final report to the full Committee.

KEY ISSUES TO CONSIDER

My remarks today have concentrated on the costs and recruiting effects of H.R. 1400 and a new G.I. Bill with Vietnam-era benefit levels. I have not tried to identify specific alternatives, which would go beyond our work to date. Nonetheless, I would like to conclude my statement with some key issues that may suggest alternative approaches.

Targeting of Benefits. As a general rule, manpower costs can be held down by focusing improvements in pay and benefits on those skills with the greatest recruiting and retention problems. Most of the legislative proposals on educational benefits, including H.R. 1400, do not fully adopt this approach. Instead, they extend eligibility to all military personnel after a specified period of service, regardless **of** recruiting and retention conditions. Under H.R. 1400, for example, all officer and enlisted personnel who complete three years of active-duty service, after the date of the **bill's** enactment, would be eligible for a basic benefit worth \$10,800, even though officer recruiting problems are very **limited**. H.R. 1400 does, however, move in the direction of targeting by proposing supplemental benefits to recruit and retain personnel in critical skills.

Transferability of Benefits. Most of the educational benefit bills, including H.R. 1400, would further increase the eligible population of users, and thus raise costs, by allowing career personnel to transfer their earned benefits to their spouses and/or **dependents**. Proponents contend that such provisions will encourage career retention, but analysis to date leaves the effects of this provision unclear. Given the high costs, the Congress may wish to await further research before considering enactment of such a provision.

Coupling Educational Benefits with Other Incentives.

Given their potentially high cost and selective appeal, educational benefits should probably be coupled with other incentives to ensure that the services can reach the broadest possible market of enlistable youths. College-bound youths, who are most likely to find a military educational benefit appealing, may also be less inclined to enlist in the combat arms skills, which have had the most problems attracting recruits. Under these conditions, providing cash bonuses for enlistments into critical skills may prove to be an effective recruiting incentive for qualified high school graduates who do not plan to attend college.

Adopting an Accrual Accounting Approach. Because of the required term of active-duty service before the entitlement is earned, an improved educational benefits program will not increase federal outlays in the first few years after enactment. Yet the long-run costs could be quite substantial. The Congress may, therefore, wish to adopt an accrual accounting approach, so that future liabilities will be more clearly reflected in the current budget. This could greatly improve management of the educational benefits program and would be consistent with Administration proposals for an accrual accounting system for military retirement.

Mr. Chairman, our analysis suggests that improved military educational benefits will enhance military recruiting. At the same time, the costs of these proposals could eventually amount to several billion dollars a year, and there are important reasons for believing that the actual recruiting effects would be modest. These concerns argue for careful scrutiny of H.R. 1400, perhaps with focus on the key issues that I have outlined today.