

IMPROVING MILITARY EDUCATIONAL BENEFITS

Statement of

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Mr. Chairman, 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 should continue for the next several years at levels above the minimums required by the Congress. Thus, for the next few years, there is little apparent need for new incentives--such as improved educational benefits--to meet military manpower needs.

Problems could develop, 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 such as the Army College Fund, 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 Peacetime Veterans' Educational Assistance Act (S. 1747) 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 by the percentages of recruits holding high school diplomas and scoring high on the entrance examinations given to all recruits. These measures show that 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, increased its percentage of male high school graduate recruits to 88 percent in 1983 (compared to 49 percent in 1980). 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, and well above the minimum level of 65 percent required by law.

CBO expects that, over the next few years, the military services should still be able to continue meeting numerical goals for recruits without breaching the minimum quality requirements set by the Congress. This outlook assumes a 5.5 percent across-the-board pay raise in January 1985, as included in the Administration's budget, followed in later years by raises that keep pace with those in the private sector. Our findings are based on recent history and last year's projections. Once we receive detailed information from DoD about recruitment in 1983 and manpower requirements beyond 1985--information that has been delayed by data problems--we plan to update our earlier projections.

Of course, we cannot rule out the possibility that recruiting problems might develop. If the economy recovers at a more rapid rate than forecast

by CBO, Army and Navy recruiting might fail to meet the Congressional minimums later in this decade. 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), unexpectedly large increases in end strength, 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.

Though there is little apparent need at this time for legislation providing additional recruiting incentives, the Congress may wish to signal its continuing concern about recruiting and to ensure that it receive early notification of developing recruiting problems. Senator Simpson's recent bill, S. 1873, mandates that the President report to the Congress as soon as recruiting problems are identified but no later than July 1, 1987, and that he assess the need for new educational assistance programs to aid recruiting. In the event of a Presidential recommendation for a new program, the Congress would be required to take some action within 90 days. CBO's projection of military recruiting is consistent with the provisions of Senator Simpson's bill, which would mandate enactment of a new educational

assistance program quickly enough to forestall any harm to overall military recruiting.

VEAP AND POSSIBLE IMPROVEMENTS

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 in hard-to-fill skills such as combat arms by 3.0 percent. This finding appears to be consistent with the Army's success in 1982 and 1983 in attracting higher percentages of high-scoring high school graduates to serve in combat arms specialties.

Improving VEAP

If the Congress decided that improved educational benefits were needed to solve future recruiting problems, it could enact them by improving VEAP. CBO has previously testified on proposed improvements in VEAP, including increasing the matching ratio on members' contributions and paying interest on those contributions. Another improvement that the Committee might wish to consider is letting members receive in cash a portion of the government's matching contribution (perhaps including kickers) once a member completes a specified period of service such as ten years. This "cash-out" would reduce the incentive to leave the military in order to use one's benefits.

Based on previous analysis, CBO anticipates that such modifications in the basic VEAP would improve recruiting modestly at a cost of approximately \$100,000 per high-quality recruit. Such a cost would be 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 assistance program such as the one discussed below.

In sum, the Army College Fund appears to be an effective program that has improved recruiting in hard-to-fill Army skills. Modifications in

basic VEAP could produce further improvements in recruiting. Any new program that replaces VEAP and the Army College Fund must be judged with this success in mind.

S. 1747: A BROAD-BASED EDUCATIONAL BENEFITS PROGRAM

Key Provisions

S. 1747, the Peacetime Veterans' Educational Assistance Act, would terminate the Army College Fund and basic VEAP. In place of these programs, the act would establish a new, largely noncontributory educational benefits program. Principal features of the proposed act 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 a further three years of active duty in a designated critical skill;

- o Authorization for kickers of up to \$10,800 for the initial three years and a further \$10,800 for the second three years of active service in a critical skill;
- o A contributory program that would entitle members with ten or more years of active service to receive up to \$18,000 in educational benefits for their dependents, in return for contributions of up to \$6,000;
- o Authorization for leaves of absence to permit service members to pursue programs of education; and
- o Educational assistance for service in the Selected Reserve, limited to a basic entitlement of up to \$7,200 in return for six years of continuous service (enlistment, reenlistment, or extension).

Eligibility would be restricted to members who were high school graduates or who had earned an equivalency certificate by the completion of qualifying service. Academy graduates or ROTC scholarship recipients would not be eligible for benefits.

S. 1747 would immediately terminate new enrollments in VEAP, including the Army College Fund. Eligibility for the new benefit program

would not begin until 1987 unless the President decided prior to that date that the new program was needed for military recruitment and retention. The act would also repeal the termination date for benefits under the Vietnam-era GI Bill, currently set for December 31, 1989.

Effects on Recruiting and Costs

CBO estimates that S. 1747 would improve Army recruiting. Assuming implementation of the program in 1987, the number of high-quality recruits would increase in 1988 by a net of 1,000, or about 1.5 percent more than the Army is currently recruiting. Thus, the new program would more than offset the estimated loss of 1,500 high-quality Army recruits per year owing to termination of the Army College Fund.

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 S. 1747. 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, S. 1747 also would add to costs. Outlays by the federal government would remain low until newly eligible members had time to complete service and begin to use their entitlements. Nonetheless, total outlays under S. 1747 (net of the savings from terminating VEAP) would eventually reach over \$480 million annually (in today's dollars). This means that, for every added high-quality recruit that entered the military, the government would spend nearly \$200,000. 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 S. 1747 would be well above the \$20,000 to \$35,000 required to attract an extra high-quality recruit into the Army using more recruiters or higher cash enlistment bonuses.

The Peacetime 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 act could

overcome some of these adverse incentives, but it would tend to drive up overall cost.

If the Congress enacts S. 1747, CBO recommends the Congress consider requiring accrual funding. Under the funding approach in S. 1747, full costs would not appear for many years until members completed service and used their benefits. Accrual funding insures that costs of future liabilities appear immediately in the defense budget. CBO believes that accrual funding would help ensure that costs are properly considered in any decision to implement a new program of educational benefits.

SUMMARY

In sum, Mr. Chairman, military recruiting appears likely to exceed Congressionally-established minimums 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 Peacetime 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.