

Statement of
Neil M. Singer
Deputy Assistant Director
National Security Division
Congressional Budget Office

before the
Subcommittee on Manpower and Personnel
Committee on Armed Services
United States Senate

March 24, 1987

NOTICE

This statement is not available for public release until it is delivered at 9:30 a.m. (EST), Tuesday, March 24, 1987.

Mr. Chairman, I am very pleased to appear before your committee today to testify about the costs and **effectiveness** of the "New GI Bill" test program and its companion program, the Army College Fund. The realities of the budget process require that you decide soon whether to continue the test program beyond its currently scheduled expiration date of 3une 1988. The test program, however, has been in effect for a little less than two of the three years for which it was authorized, and we in the Congressional Budget Office (CBO) have been unable as yet to complete our analysis of it. Thus, the evaluation that I will present today will have to be preliminary and largely qualitative.

Even if the program were complete and sufficient time had elapsed for us to analyze fully the data on cost and manpower effects, the evaluation of the New GI Bill would still be a complex task. The test program affects active-duty and reserve personnel in all four services. To date, CBO has been able to develop data on only two groups of active-duty beneficiaries and only two of the six reserve components. Neither CBO, the military services, the Department of Defense (DoD), the Veterans Administration (VA), the Office of Management and Budget (OMB), nor private contractors have yet conducted a thorough evaluation of the New GI Bill. No such evaluation is possible without more complete and more accurate data than currently exist.

My testimony today begins with a brief recapitulation of the principal features of the new program and our previous estimates of its costs and effects on recruiting. I will then discuss the likely effects of updating those estimates and our methods of doing so. I will also indicate what we can say about the program with some confidence and what we are unsure about.

PRINCIPAL FEATURES OF THE NEW GI BILL

The three-year test program that took effect on July 1, 1985, replaced the Veterans' Educational Assistance Program (VEAP), which in turn had been the successor to the old GI Bill (Chapter 34). The basic version of VEAP was a contributory, elective program that offered a maximum education benefit of \$5,400 (plus members' own contributions). In contrast, the old GI Bill was noncontributory, nonelective, and offered benefits of as much as \$17,000 (for a veteran in school full-time, with no dependents). The Army College Fund, tested in 1981 and introduced nationwide in 1982, was an addition to VEAP that raised the benefit amount by \$8,000 to \$12,000 (depending on length of enlistment) for qualifying participants--that is, new service members with high-school diplomas who scored above average on the Armed Forces Qualification Test and agreed to serve in hard-to-fill Army occupations.

The New GI Bill borrowed from the old GI Bill, VEAP, and the Army College Fund. Under the new program, eligibility for benefits is restricted to high-school graduates (or equivalent) who are honorably discharged from

service. Eligible active-duty members may elect to participate in the program by agreeing to forgo \$1,200 in pay during their first 12 months of service; in return, they are entitled to receive up to \$10,800 in educational assistance. Under the new program, participants may still be eligible for the Army College Fund, which currently offers additional benefits of up to \$14,400 to qualifying Army participants.

The New GI Bill differs from its predecessors by offering a benefit for Selected Reserve personnel who have no active-duty service. Unlike the active-duty program, the reserve benefit does not require a reduction in the service member's pay. A further difference is that funding for the current program is shared by the VA and DoD, with DoD funds appropriated on an accrual basis (that is, sufficient funds are set aside each year to pay long-run costs). A comparison of the principal features of the three programs appears in Table 1.

CBO'S EVALUATION OF THE NEW GI BILL

Both CBO's cost estimates and its recruiting projections depend chiefly on two factors: the portion of service members who participate in the new program (the participation rate), and the fraction of their entitlement that participants use (the rate of use of benefits). CBO's original cost estimate of the New GI Bill was prepared in 1984, when the program was enacted. CBO based its estimate on the best information then available: active-duty participation in VEAP, and veterans' use of benefits under the old GI Bill.

TABLE 1. COMPARISON OF BASIC EDUCATION BENEFIT PLANS
FOR ALL MILITARY SERVICES^{a/}

| | Chapter 34 | VEAP | New GI Bill |
|-------------------|----------------------------------|--|--|
| Eligibility | Automatic | Elective | Elective |
| Member's Payment | None | Up to \$2,700 | \$1,200 (active-duty only) |
| Basic Benefits | Varying, up to \$20,000 | Twice member's contribution | \$10,800 (including forgone pay) |
| Army College Fund | No | High-quality recruits in critical skills | Same as VEAP |
| Maximum Benefit | \$17,000 (no-dependents rate) | \$22,100 for three-year enlistment | \$25,200 for three-year enlistment |
| Reserve Benefit | None | None | \$5,040 for six-year enlistees or reenlistees |
| Funding | All VA | Originally all VA; after 1981, all DoD | VA funds basic benefit; DoD funds all else as accruals |

SOURCE: Congressional Budget Office

- a. Army College Fund benefits are available only to selected Army personnel.

Participation Rates

According to CBO's original estimates, 45 percent of those eligible for the Army College Fund and 14 percent of members eligible only for New GI Bill basic benefits would choose to participate. Experience with the New GI Bill has shown that these original estimates were too low. During fiscal year 1986, actual participation under the New GI Bill averaged 89 percent among active-duty personnel eligible for the Army College Fund, and 54 percent among those not eligible for the additional benefits.

This actual experience under the test program has been incorporated into the CBO baseline cost estimate. CBO initially anticipated that DoD's share of the funding would require appropriations for accrual costs of an average of about \$145 million (in nominal dollars) in each of the three years of the test program. DoD's share included the cost of the Selected Reserve program, projected at \$50 million annually on an accrual basis. The VA's annual share of costs, which was not required to be funded on an accrual basis, was estimated to rise to about \$165 million. These costs would be partially offset by pay reductions of some \$50 million annually for participating members.

As the result of revisions in the estimated participation rates, CBO now projects DoD accruals at an annual average of about \$230 million for as long as the New GI Bill continues in its present form. Because there is no participation rate for reservists analogous to that for active-duty personnel, the estimated cost of the reserve program has not been changed. VA

outlays are now projected to rise to about \$250 million for current program participants. The estimate of offsetting pay reductions, however, has increased to \$185 million annually as a consequence of the high active-duty participation rates.

CBO has not yet revised the original estimate of the effects of the New GI Bill on recruiting and retention. Net active-duty recruiting was projected to increase by 1,900 new high-quality Army service members (most of whom would be eligible for the Army College Fund) and an additional 500 new high-quality members in the other services. ^{1/} The cost per additional high-quality active-duty recruit was estimated in 1984 at \$100,000, lower than CBO's estimates of up to \$200,000 per recruit under some broader-based education benefit plans but considerably higher than the \$20,000 to \$35,000 cost per recruit of using additional recruiters, advertising, or bonuses.

Rates of Benefits Use

The costs and recruiting effects of the New GI Bill would change if the use of benefits is different from what CBO has previously estimated. CBO's projections have been derived largely from data on the use of benefits by

-
1. That is, male non-prior service, high-school graduate accessions who score above the median (50) on the Armed Forces Qualification Test.

those service members eligible for the old GI Bill who separated from service between 1968 and 1984. These data, compiled with the assistance of the Veterans Administration, represented the only information available until recently on post-service use of military education benefits. Because of the differences between the old GI Bill and the test program, however, use of benefits by veterans eligible for the old GI Bill might be expected to be either lower or higher than that of new GI Bill participants on active duty. These differences include:

- o Eligibility for the old GI Bill extended to all veterans who successfully completed two years of **service--including** many who had no intention of pursuing further education. The New GI Bill, by requiring members to forgo \$1,200 in return for participation, should tend to restrict eligibility to those seriously interested in using their benefits.
- o The New GI Bill requires recruits who do not wish to participate in the program to sign a waiver of **benefits**; all those who do not sign the waiver are enrolled as participants. This procedure may tend to overstate the true intentions of recruits to use education benefits.
- o Many of the veterans eligible for the old GI Bill were draftees or draft-motivated volunteers who had civilian careers to return to

after military service. In **today's** all-volunteer military, fewer veterans have their civilian careers interrupted by **service**, and those leaving service might therefore be more likely to pursue further education.

- o On the other hand, the draft-era military included a higher proportion of college students and college-bound youth than today's forces. Upon completion of service, these college-motivated veterans might have been more likely to use their **GI Bill benefits**.
- o Eligibility for the old GI Bill applied to all veterans, regardless of previous education or aptitude. Under the New GI Bill and Army College Fund, the largest benefits accrue to the service members scoring highest on the military entrance test. These members are presumably the ones most likely to benefit from higher education and thus can be expected to have higher-than-**average** use rates.
- o Basic benefit levels under the New GI Bill are lower than under the older program, even if members' forgone pay is included in the entitlement amount. CBO's estimates of rates of use may not have controlled adequately for the negative influence of

these lower benefits upon veterans' decisions to pursue post-service education.

Under the old GI Bill, an average of approximately 65 percent of those eligible for benefits actually chose to use any of their benefits, and those who did used an average of some 40 percent of their entitlements. Thus, overall use of benefits averaged only 25 percent to 30 percent of total entitlements. On balance, veterans who elect to become eligible for benefits under the test program probably should be expected to use a higher percentage of their entitlement than those eligible for the old GI Bill used. CBO's estimate of the cost of the test program, which has been based on the use of benefits under the old GI Bill, may accordingly be too low.

If the costs of the New GI Bill differ from earlier CBO estimates, it is likely that the net recruiting effects of the test program will also differ. The reason is that the recruiting effects depend critically on the value of benefits, which in turn reflects the extent to which participants expect to use their entitlements. If CBO's earlier estimates of the use of benefits prove to be too low, then so will the estimates of net recruiting.

CBO's estimates of cost and effectiveness might also change for Chapter 106, the benefit program for members of the Selected Reserve. Experience to date with Chapter 106 indicates that CBO's original cost estimate may have been too low. Actual payments by VA to Chapter 106

beneficiaries in fiscal year 1986 totaled over \$24 million, but CBO's original cost estimate did not project outlays of \$24 million until fiscal year 1990.

Chapter 106 differs from other military education benefits in important ways: benefit levels are different; reservists do not have to contribute; eligibility is elective, based on the length of the reservist's service commitment; and reservists can use their entitlements either immediately (if they are reenlistees) or within six months (if they are new enlistees). Since there was no reserve benefit under any previous education benefit program, CBO's original cost estimate had to rely on assumed or projected patterns of use of benefits by reservists. But the higher-than-projected outlays to date suggest that more of the unique features of the Chapter 106 program need to be incorporated explicitly into our estimate of its cost.

ESTIMATING PROGRAM COST _____

CBO has **reestimated** the costs of the New GI Bill to reflect actual participation and is currently engaged in further **reestimates** of the test program's costs and manpower **effects**. I have just noted some of the likely results of this effort. I will turn now to a discussion of some aspects of our approach, to indicate both the complexity of the problem and why it is so difficult to draw any conclusions at this time about the merits of the New GI Bill.

Active-Duty Personnel

With the help of the Veterans Administration and the Army Recruiting Command, CBO has compiled data on the use of benefits by Army VEAP participants, including both those participating only in basic VEAP and those eligible for the Army College Fund as well. Data were available for two- and three-year active-duty enlistees who entered service in 1982 and two-year enlistees from 1983. Although only one to two **years'** worth of data on the use of VEAP benefits could be compiled, this information is probably the best basis currently available for projecting future use of New **GI** Bill benefits.

Nevertheless, the available data have severe shortcomings: they do not address later use of benefits by the 1982 and 1983 enlistees; they do not indicate how members with longer service **commitments--four** years in the Army, or up to six years in the Navy and Air **Force--will** use their benefits; and they do not show how use might decline as the real value of benefits erodes. Data that would address these additional issues will only become available with the passage of time.

To mitigate these problems, CBO is attempting to pool the data on newly separated VEAP participants with the observed use of **benefits** under the old GI Bill. The data on veterans who used their old GI Bill benefits showed that their use of benefits typically began within two years after separation. The likelihood of use declined with the length of time since separation from service and with the age of the veteran. Our earlier

analysis of Chapter 34 beneficiaries also found that use was positively correlated with the real (inflation-adjusted) value of benefits and the unemployment rate.

CBO intends to use these patterns of use of old GI Bill benefits to project use by VEAP participants beyond the two-year period of the data, controlling statistically for differences between VEAP and the New GI Bill. Based on some of the factors discussed earlier, we anticipate that VEAP participants will use a higher percentage of their benefits than did veterans eligible for old GI Bill benefits. Overall, the estimated pattern of use will be consistent with both the current behavior of VEAP participants and the historical experience under the old GI Bill.

Estimates derived from analyzing the use of VEAP benefits are not a perfect basis for projecting the costs and effects of the New GI Bill. CBO will need to control for differences in benefit levels, the availability of refunds under VEAP, the negative waiver of benefits instead of the positive decision to participate, and demographic differences, among other factors. Nonetheless, similarities between the New GI Bill and VEAP seem greater, on balance, than those between the test program and the old GI Bill.

Reserve Personnel

Reservists who otherwise qualify for Chapter 106 benefits must elect to become eligible by agreeing to six-year terms of (initial or extended)

service. 2/ Because extenders are able to use their Chapter 106 benefits immediately and new entrants must wait only six months, we can already begin to tabulate actual experience under the New GI Bill as a basis for projecting program cost and recruiting effects. Unfortunately, data are not available for all components because of shortcomings in personnel records.

In consultation with CBO, the Defense Manpower Data Center is compiling data on eligible members of the Air National Guard and the Air Force Reserve. The use of benefits by reservists will be tabulated separately for officer and enlisted personnel, for new entrants and those who extended their commitments, and for personnel in each of the two Air Force components. For each group, actual experience under Chapter 106 will be used to estimate an equilibrium or steady-state program cost.

Extrapolations to Other Services

Although data currently are available only for Army active-duty VEAP participants and Air Force reserve component personnel, the experience of these groups provides a basis for projecting the use of benefits by other groups of eligible service members. Under present DoD practices, no service other than the Army offers significant enhancements to the basic

-
2. That is, they are high-school graduates who do not intend to use benefits for post-graduate education, and who have not received military academy or ROTC training.

education benefits of the New GI Bill. ^{3/} Therefore, the Army data on basic VEAP participation will provide the basis for estimating the use of benefits by the other **services'** VEAP participants. For reservists, projections of use by members of the non-Air Force components will be based on the Air Force data.

EFFECTS ON RECRUITING AND RETENTION_____

In its previous analyses, CBO estimated the effect of education benefits on recruiting by calculating the value that the benefits will have to the typical potential enlistee. The present value of benefits was assumed to influence the enlistment decision in the same way as an increase in pay or bonuses. That is, a pay increase that recruits could save was assumed to be equally as valuable as the same present value amount of education benefits.

This methodology has yielded plausible estimates of the recruiting effects of both basic VEAP and the Army College Fund. The present value of basic VEAP, net of the member's own contribution and forgone interest, was close to zero under most interest rate assumptions. Thus, CBO projected little recruiting impact for the basic VEAP program, which was

-
3. The **Navy's** Sea College program, begun in fiscal year 1986, includes restrictions that have limited eligibility to comparatively few service members.

consistent with the observed relatively low enrollment and high disenrollment rates. In contrast, basic VEAP plus the Army College Fund had a significant net present value, and both projected and actual participation rates proved to *be* much higher than **for** the basic program.

An alternative estimate of the recruiting effects of education benefits is available from the results of the 1981 Educational Assistance Test Program (EATP). This Congressionally mandated test compared the effects of four different education benefit programs, including the Army College Fund. Subsequent evaluations by DoD concluded that the Army College Fund added approximately 9 percent more high-quality recruits to the **Army's** accession pool, without reducing the number of high-quality recruits in the other services.

CBO will combine the results of this test with our analysis of the use of benefits by VEAP participants as a basis for **reestimating** the active-duty recruiting effects of the New **GI** Bill test program. The new estimate will take into account the extent to which education benefits encourage service members to leave in order to make full use of their entitlements. If projected use of benefits proves to be higher than previously anticipated, the value to members and therefore the net recruiting effect will also be higher.

For reserve personnel, the estimate of the manpower effects of the Chapter 106 program must be inferred from observed changes in accession and retention. After comparing the numbers of six-year entrants and

extenders before and after the inception of the test program, CBO will adjust for changes in pay, personnel pools, recruiting resources, and the state of the economy. On the basis of DoD's Congressional testimony about reserve recruiting, it appears that the Chapter 106 program has increased six-year enlistments by roughly two percentage points during the first 15 months of the program, before adjustments for these other factors. No information has become available about the effect of Chapter 106 on six-year reenlistments or extensions.

CONCLUSION

Mr. Chairman, my testimony today has centered on what we know about the costs and effects of the New GI Bill test program, and what we hope to learn in the course of analyzing the limited data that are only now becoming available.

We know that the test program has proved to be more popular among active-duty recruits than CBO originally anticipated. This factor has been incorporated in our cost estimates. We hope to learn as well whether rates of use of benefits will be higher than CBO has anticipated. If they will be, then the cost of the active-duty program could be above CBO's current estimate.

Our analysis will also indicate whether the net recruiting effect of the New GI Bill will be stronger than CBO's initial estimate. If it is, then the

higher-than-anticipated cost of the program would be balanced by a larger-than-projected improvement in manning our forces.

We know that the use of benefits among reservists has been higher than expected, so that the cost of the reserve benefit will be above CBO's initial estimate. Our analysis will study whether these benefits have attracted many new reservists to enlist or reenlist for six-year terms. If they have, then the program might be an attractive way to achieve goals for reserve manpower, as well as an attractive benefit for reservists.

I regret that we have not completed updating our estimates for your use in evaluating the New GI Bill at this time, especially since our results may well suggest that the program is both more costly and more effective than previously estimated. Nor are updated analyses available from the Administration and the military services, which have based their estimates on the same information available to CBO. Conclusions about the merits of the New GI Bill will become clearer only with time. Only then can we obtain information on how active-duty veterans use their entitlements and on how the decisions reservists make about accession and retention are affected by the availability of education benefits.