CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

February 12, 1999

S. 4
Soldiers', Sailors', Airmen's, and Marines' Bill of Rights Act of 1999

As reported by the Senate Committee on Armed Services on February 2, 1999

SUMMARY

S.4 would increase various elements of compensation for current and former members of the armed forces. Specifically, it would increase pay for military personnel, provide a special allowance for low-income members, increase retirement benefits for certain members, increase educational benefits, and allow members on active duty to participate in the Thrift Savings Plan.

Assuming appropriation of the necessary amounts, enactment of the bill would raise discretionary spending by about $1.1 billion in 2000 and $13.8 billion over the 2000-2004 period. In 2009, those costs would total about $6.5 billion. Because the increase in retirement benefits would apply only to members who entered the service after July 1986, annual costs would continue to rise for a few years after 2009. Additional benefits earned under the proposal between August 1, 1986, and the effective date would add about $4.5 billion to the unfunded liability of the military retirement trust fund.

Because the bill would affect direct spending and revenues, pay-as-you-go procedures would apply. Increased educational benefits and higher annuities for certain military retirees would increase direct spending by about $765 million a year over the 2000-2004 period. In 2009 direct spending costs would total about $2.6 billion. The annual direct spending costs for military retirement would eventually be about 11 percent higher than spending under current law. Greater use of education benefits under the bill would raise long-run costs by about $3 billion a year. By allowing servicemembers to participate in the Thrift Savings Plan, the bill would lower revenues by $311 million over the 2000-2004 period and about $141 million by 2009.

Section 4 of the Unfunded Mandates Reform Act excludes from the application of that act any legislative provisions that are necessary for the national security. That exclusion might apply to the provisions of this bill. In any case, the bill contains no intergovernmental or private-sector mandates.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 4 is shown in Table 1, assuming that the bill will be enacted by October 1, 1999. Spending from the bill would fall under budget functions 700 (veterans' benefits and services), 050 (national defense), and 600 (income security).

TABLE 1. ESTIMATED COSTS OF S. 4, AS REPORTED BY THE SENATE COMMITTEE ON ARMED SERVICES (By fiscal year, in millions of dollars)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Direct Spending and Revenues										
Proposed Changes										
Estimated Budget Authority	537	599	870	887	927	1,108	1,435	1,940	2,270	2,633
Estimated Outlays	537	599	870	887	927	1,108	1,435	1,940	2,270	2,633
Revenues	-10	-44	-67	-86	-103	-113	-120	-127	-134	-141
Spending Subject to Appropriation										
Proposed Changes										
Estimated Authorization Level	1,089	2,196	3,118	3,505	3,980	4,373	4,852	5,422	5,952	6,548
Estimated Outlays	1,075	2,164	3,103	3,487	3,963	4,354	4,832	5,400	5,928	6,520

BASIS OF ESTIMATE

The budgetary impact of the bill would stem from three sets of provisions: those affecting military retirement programs, pay of current members, and veterans' education. Table 2 shows the costs of provisions affecting military pay and retirement benefits that would raise direct spending, lower revenues, and raise discretionary costs to the Department of Defense (DoD). Table 3 shows the increases in direct spending that would result from provisions raising veterans' education benefits.

TABLE 2. ESTIMATED COSTS OF PROVISIONS AFFECTING MILITARY COMPENSATION IN S.4, AS REPORTED BY THE SENATE COMMITTEE ON ARMED SERVICES
(Outlays by fiscal year, in millions of dollars)

Category	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Spending Subject to Appropriation											
Spending Under Current Law for Military Personnel[a]	70,367	73,005	68,472	70,590	70,633	70,633	73,033	70,633	68,233	70,633	70,633
Proposed Changes											
Retirement Benefits	0	674	862	1,437	1,453	1,541	1,550	1,597	1,709	1,760	1,767
Retention Initiative	0	2	7	15	23	28	31	33	35	37	39
Pay Increases	0	386	1,269	1,625	1,985	2,368	2,773	3,202	3,656	4,131	4,714
Subsistence Allowance	0	13	26	26	26	26	0	0	0	0	0
Subtotal	0	1,075	2,164	3,103	3,487	3,963	4,354	4,832	5,400	5,928	6,520
Spending Under S. 4 for Military Personnel[a]	70,367	74,080	70,636	73,693	74,120	74,596	77,387	75,465	73,633	76,561	77,153
Direct Spending											
Retirement Annuities											
Spending Under Current Law	31,935	32,884	33,887	34,871	35,956	37,026	38,125	39,233	40,360	41,500	42,657
Proposed Changes	0	1	1	2	2	3	3	5	25	66	125
Spending Under S. 4	31,935	32,885	33,888	34,873	35,958	37,029	38,128	39,238	40,385	41,566	42,782
Food Stamps											
Spending Under Current Law	20,730	21,399	22,431	23,251	23,913	24,629	25,303	26,005	26,715	27,426	28,152
Proposed Changes	0	-3	-5	-5	-5	-5	0	0	0	0	0
Spending Under S. 4	20,730	21,396	22,426	23,246	23,908	24,624	25,303	26,005	26,715	27,426	28,152
Revenues											
Thrift Savings Plan	0	-10	-44	-67	-86	-103	-113	-120	-127	-134	-141

SOURCES: Congressional Budget Office and Joint Committee on Taxation.

a. The 1999 level is the estimated spending from amounts appropriated for 1999 and prior years. The current law amounts for 2000-2009 assume that appropriations remain at the 1999 level. If they are adjusted for inflation, the base amounts would rise by about $2,500 million per year, but the estimated changes would remain as shown.

Retirement Benefits

S. 4 contains provisions that would allow current members to participate in the Thrift Savings Plan and increase retirement benefits for members who entered the service after July 31, 1986, and are covered under the system known as REDUX.

Background. The Military Retirement Reform Act of 1986 (REDUX) governs the retirement of military personnel who initially entered the armed forces after July 31, 1986. Under REDUX a retiree's initial annuity ranges from 40 percent to 75 percent of the individual's highest three years of basic pay. Retirees with 20 years of service will receive 40 percent, and the fraction will grow with each additional year of service and reach the maximum at 30 years of service. When the retiree is 62 years old, the annuity is raised in most cases to equal 2.5 percent of the average of the highest 36 months of basic pay for each year of service up to a maximum of 75 percent. Also, under REDUX cost-of-living adjustments (COLAs) equal the change in the Consumer Price Index (CPI) less 1 percentage point. However, when the retiree reaches age 62 the annuity is raised to reflect all of the CPI growth until that point, but thereafter annual COLAs continue to equal the CPI less one percentage point.

Current law provides two different formulas for other individuals who become eligible for a nondisability retirement benefit but are not covered by REDUX. Military personnel who first became members of the armed forces before September 8, 1980, receive retired pay equal to a multiple of their highest amount of basic pay; the multiple is 2.5 percent for every year of service up to 75 percent. Retirees who first became members of the armed forces between September 8, 1980, and July 31, 1986, receive retired pay based on the average of the highest 36 months of basic pay and the multiplier of 2.5 percent for each year of service. Annuities for both of these groups are fully adjusted for changes in the CPI.

Repeal of REDUX/Optional Lump-Sum Bonus. Under section 201, members who under current law would retire under REDUX would face a choice upon reaching 15 years of service. They could elect to receive a lump-sum bonus of $30,000 and retire under the REDUX plan or they could forgo that payment and upon retirement receive annuities under the plan in effect for retirees who first became members of the armed forces between September 8, 1980, and July 31, 1986. CBO estimates that total costs to DoD under the provision would total about $674 million in 2000 and average about $1.4 billion a year through 2009.

Accrual Costs. Prior to 2009 the primary budgetary impact would stem from the payments that DoD would make to the military retirement trust fund. The military retirement system is financed in part by payments from appropriated funds to the military retirement trust fund based on an estimate of the system's accruing liabilities. Repealing REDUX would increase payments from the military personnel accounts to the military retirement fund (a DoD outlay in budget function 050) to finance the increased liability to the fund resulting from additional years of service under a more generous system.

CBO estimates that the resulting increase in discretionary spending from the accrual payments would average about $0.8 billion by 2004 and about $1.0 billion over the next 10 years. The costs to DoD would increase each year because not all military personnel are covered by REDUX. Under current law the percentage of the force covered by REDUX will grow until everyone in the force will have entered military service after July 31, 1986.

Accrual costs depend on many factors, including endstrengths, projected years of service at the time of retirement, grade structure or salary history, and projected rates of military pay raises, inflation, and interest rates. CBO's assumptions are consistent with the ones used recently by DoD's actuaries. The estimates also assume that in the long run annual pay raises are 4.0 percent, changes in the CPI are 3.5 percent a year, and interest rates for the trust fund's holdings of Treasury securities are 6.5 percent annually. CBO's assumptions about how many individuals would choose lump-sum payments instead of a higher retirement annuity are explained in the following paragraph.

Lump-sum Payments. In addition, CBO estimates that DoD would spend about $500 million a year for the lump-sum payments, assuming that 50 percent of enlisted personnel and about 40 percent of officers would elect to receive the lower annuity in retirement. That estimate is based on DoD's experience under two buy-out programs in recent years. The Voluntary Separation Incentive (VSI) and the Special Separation Benefit (SSB) were two programs that DoD used extensively during the 1992-1996 period. VSI was a payment over a period of years, and SSB was a lump sum payment that had a lower present value than VSI. About 86 percent of enlisted personnel selected SSB, and about half of the officers did. Because the present value of forgoing the annuity reduction under REDUX is significantly greater than $30,000 and because that difference tends to be greater than the difference between VSI and SSB, CBO assumes that smaller fractions of officers and enlisted personnel would opt for the lump-sum payment than chose SSB. The members who would be affected by this provision entered service in 1986; thus, they would not be eligible for the lump-sum payment until 2001.

Direct Spending Under Section 201. Section 201 would also increase direct spending from the military retirement trust fund by $1 million in 2000 and by about $233 million over the 2000-2009 period. The outlay impact before 2006 is primarily due to higher cost-of-living allowances for individuals who receive a disability annuity. Starting in 2006 the impact is almost all due to regular retirements. In the long run, direct spending for military retirement would be about 11 percent higher than under current law.

Thrift Savings Plan. Section 202 would allow members of the uniformed services on active duty for a period of more than 30 days to participate in the Thrift Savings Plan (TSP). Contributions would be capped at 5.0 percent of basic pay plus any part of special or incentive pay that a member receives. The Joint Committee on Taxation estimates that the revenue loss caused by deferred income tax payments would total $10 million in 2000, $103 million in 2004, and about $141 million by 2009.

Special Retention Initiative. Under section 203, the Secretary of Defense could make additional contributions to TSP for military personnel in designated occupational specialties or as part of an agreement for an extended term of service. CBO estimates that the discretionary costs from the resulting agency contributions to TSP would total $2 million in 2000 and would increase to $28 million by 2004, based on DoD's use of similar authority to award bonuses for enlistment or reenlistment.

Compensation of Military Personnel

S. 4 contains two sets of provisions that would affect compensation for those currently serving in the military. One would increase annual pay raises and change the table governing pay according to grade and years of service. The other would increase compensation to members who would otherwise be eligible for food stamps.

Pay Increases. Sections 101 and 102 contain provisions that would provide across-the-board and targeted pay raises. Across-the-board pay raises would be a total of 4.8 percent in 2000 and 0.5 percent above the Employment Cost Index (ECI) in future years. Because those raises would be 0.5 percent above the full ECI raise called for in current law, CBO estimates that incremental cost would be about $197 million in 2000 and average about $1.7 billion over the 2000-2009 period. The estimate is based on current projections of military strength levels and its distribution by pay grade.

Additional pay raises would be targeted at personnel in specific grades and with certain years of service. The changes to the military pay table would increase basic pay by about $189 million in 2000 and an average of about $860 million annually over the 2000-2009 period, based on the pay schedule and pay raises specified in the bill as well as current projections of military strength levels and its distribution by pay grade.

Special Subsistence Allowance. Section 103 would create a new allowance through 2004 for military personnel who qualify for food stamps. Eligibility for the allowance would terminate if the member no longer qualified for food stamps due to promotions, pay increases, or transfer to a different duty station. In addition, a member would not be eligible for the allowance after receiving it for 12 consecutive months, although they would be able to reapply. CBO estimates that the allowance would increase personnel costs by roughly

$13 million in 2000 and $26 million annually through 2004, based on information from DoD on the number of military personnel who currently receive food stamps.

CBO estimates that most of the 11,000 personnel in grades E-5 or below will remain on food stamps and apply for the special subsistence allowance. However, the additional $180 of monthly income would reduce the average household's monthly food stamp benefit by $54, resulting in savings of about $7 million each year in the Food Stamp program over the 2001-2004 period. The special subsistence allowance might also serve as an incentive for eligible but nonparticipating military personnel to apply for food stamps. CBO estimated that 1,500 additional service members would participate in the Food Stamp program in an average month at an annual cost of $2 million. Thus, this provision is estimated to result in a net savings to the Food Stamp program of $3 million in 2000 and $5 million each year over the 2001-2004 period.

Veterans' Readjustment Benefits

As shown in Table 3, the bill contains four provisions that would raise direct spending for veterans' readjustment benefits, specifically the Montgomery GI Bill (MGIB).

Rates of Assistance. Section 301 would raise the rate of educational assistance to certain veterans with service on active duty. Participating veterans who served at least three years on active duty would receive as much as $600 a month instead of $528 a month as under current law. Similar veterans with at least two years of active duty would be eligible for a maximum benefit of $488 a month, an increase of $59 dollars a month. Under section 301, the cost-of -living allowance scheduled for 2000 would not occur. CBO estimates that this provision would increase direct spending by over $100 million a year over the next 10 years, based on current rates of participation in this program.

Termination of Member Contributions. Section 302 would eliminate the contribution that MGIB participants pay under current law. Unless members elect not to participate in the MGIB, current law requires a contribution of $1,200 toward the program. Based on current rates of participation, which is nearly universal, CBO estimates that this provision would result in forgone receipts of about $195 million a year.

Accelerated Payments. Section 303 would permit veterans to receive a lump-sum payment for benefits they would receive monthly over the term of their training, for example, a semester in college or the period of a course's instruction for other forms of training. CBO estimates that this provision would increase direct spending in 2000 by about $134 million and by about $27 million in 2001. Increased costs would occur initially as payments from one fiscal year are made in the preceding year. There would be no net effect in subsequent years because in a given year payments shifted to the preceding year would be offset by payments shifted from the following year. CBO estimates that about 50 percent of MGIB beneficiaries would elect to receive an accelerated payment in 2000 and that a total of 60 percent would make that election in 2001 and later years. The estimate is also based on current rates of participation in this program.

TABLE 3. ESTIMATED COSTS OF PROVISIONS AFFECTING VETERANS' READJUSTMENT BENEFITS IN S. 4, AS REPORTED BY THE SENATE COMMITTEE ON ARMED SERVICES
(Outlays by fiscal year, in millions of dollars)

Category	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Direct Spending											
Spending Under Current Law for Veterans' Readjustment Benefits	1,374	1,366	1,372	1,385	1,397	1,400	1,405	1,411	1,424	1,446	1,472
Proposed Changes											
Rates of Assistance	0	98	100	101	103	104	105	106	108	110	113
Member Contributions	0	197	195	195	195	195	195	195	195	195	195
Accelerated Payments	0	134	27	0	0	0	0	0	0	0	0
Transfer of Entitlement	0	110	281	577	592	630	805	1,129	1,612	1,899	2,200
Subtotal - Proposed Changes	0	539	603	873	890	929	1,105	1,430	1,915	2,204	2,508
Spending Under S. 4 for Veterans' Readjustment Benefits	1,374	1,905	1,975	2,258	2,287	2,329	2,510	2,841	3,339	3,650	3,980

Transfer of Entitlement. Section 304 would provide DoD with the authority to allow military personnel to transfer their entitlement to MGIB benefits to any combination of spouse and children. CBO expects that DoD would use the authority in 2000 to enhance recruiting and retention and that the benefit would be limited to current members of the armed forces and those who might join for the first time. Over the first five years almost all of the estimated costs would stem from transfers to spouses, who would tend to train on a part-time basis. Transfers to members' children are estimated to begin in 2004, and spending for children's education would account for more than half of the program's cost beginning in 2006. CBO estimates that the provision would raise costs by about $110 million in 2000, about $2.2 billion over the first five years, and about $9.8 billion over the 2000-2009 period. In the long run, costs would rise to about $3 billion a year. If the benefit were awarded to current veterans, CBO estimates that the costs would be a couple of billion dollars higher over the 2000-2009 period.

CBO assumes that about 35 percent of all MGIB participants would transfer their entitlement to their spouses and children. Currently, about half of all MGIB participants do not use their benefits, thus about 70 percent of the remaining half are expected to transfer it. CBO estimates that about a third of the transfers would be to spouses and that eventually about 200,000 spouses each year would receive a benefit for part-time training, averaging about $2,700 in fiscal year 2000. CBO estimates that in the long run over 500,000 children of members or former members would use the educational assistance each year but that level would not be reached until about 2013. Full-time students would receive about $5,400 in 2000 under the bill.

PAY-AS-YOU-GO CONSIDERATIONS

Section 252 of the Balanced Budget and Emergency Deficit Control Act of 1985 sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays and governmental receipts that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

	By Fiscal Year, in Millions of Dollars										
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Changes in outlays	0	537	599	870	887	927	1,108	1,435	1,940	2,270	2,633
Changes in receipts	0	-10	-44	-67	-86	-103	-113	-120	-127	-134	-141

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

Section 4 of the Unfunded Mandates Reform Act excludes from the application of that act any legislative provisions that are necessary for the national security. That exclusion might apply to the provisions of this bill. In any case, the bill contains no intergovernmental or private-sector mandates.

PREVIOUS CBO ESTIMATE

On September 28, 1998, CBO prepared a cost estimate for a proposal to repeal the Military Retirement Reform Act of 1986 (REDUX). This estimate relies on many of the same actuarial assumptions, models, and estimates from the Office of the Actuary at DoD that

CBO used in the earlier estimate. However, this estimate also reflects the provisions of S.4 that would offer certain members an option to stay under the REDUX system and that would raise the pay base applicable to computing the costs of military retirement.

ESTIMATE PREPARED BY:

Federal Cost:

The estimates for defense programs were prepared by Jeannette Deshong (military and civilian personnel) and Dawn Sauter (military retirement and veterans' benefits). Valerie Baxter prepared the estimates for food stamps.

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