

As this discussion suggests, the study concentrates on evaluating the effects of improved educational benefits on military recruiting and retention. Yet improved educational benefits could have other effects. The benefits could encourage more persons to attend school, which might contribute to social and economic welfare. They could also provide a substantial subsidy to institutions of higher learning, which face decreased federal funding and declining enrollments over the next decade. Evaluation of these effects, while potentially important, is not within the scope of this report.

RECENT RECRUITING HISTORY

The past several years have been marked by fluctuations both in recruiting requirements and in available supplies of better qualified recruits. With only a few exceptions, all four services have been able to meet their numerical goals for recruits. 1/ But they have not always been successful in meeting their goals for "high-quality" recruits--generally assumed to be those holding high school diplomas who score in the upper half on the entrance examination given to all new recruits. 2/ The Army--which has the most serious recruiting problems--suffered a decline in numbers of high-quality recruits for three consecutive years, 1977 through 1979. The combination of high demand and poor recruiting made 1980 one of the worst recruiting years in recent history. But increased pay and other factors turned quality recruiting around sharply and, when coupled with a low recruiting requirement, made 1981 one of the best years on record.

According to advocates of improved educational benefits, the loss of the Vietnam-era GI Bill, beginning in 1977 for new

1/ One exception was fiscal year 1979, when the Department of Defense fell 7 percent short of its recruit quotas (11 percent in the Army). See Congressional Budget Office, Costs of Manning the Active-Duty Military (May 1980), p. 3.

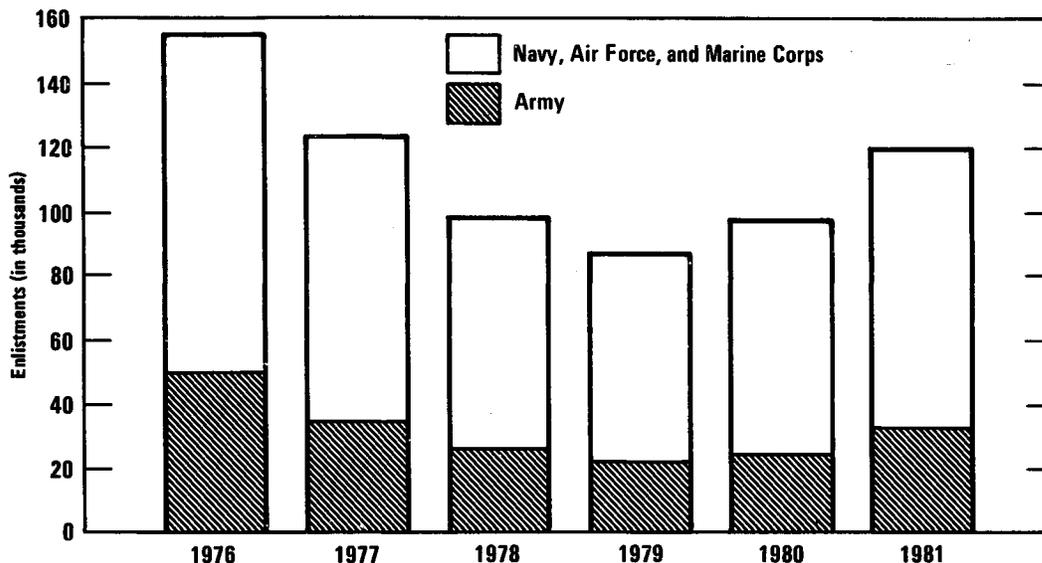
2/ The 1981 and 1982 defense authorization bills required that at least 65 percent of new male recruits have high school diplomas. Also, no more than 25 percent of each service's recruits can score in the lowest acceptable test category IV in fiscal year 1982. For fiscal year 1983 and beyond, this limit is cut to 20 percent.

recruits, caused the sharp drop in quality volunteers in the late 1970s. ^{3/} Indeed, recruiting data show a subsequent decline in educational levels and aptitude test scores for new enlisted volunteers. As depicted in the figure, the number of male recruits with both a high school diploma and above-average entrance test scores fell by over 40 percent between 1976 and 1979.

Other factors, however, may largely account for this decline, as well as for the recent recovery in high-quality recruiting. The policy decisions of the late 1970s to keep military pay raises below increases for comparable workers in the civilian sector,

Figure 1.

Enlistments of Male High School Graduates in Above-Average Test Categories (I-III A), Fiscal Years 1976-1981



SOURCE: U.S. Department of Defense. Excludes recruits with previous service.

^{3/} The Vietnam-era GI Bill, enacted in 1966 and terminated for new entrants in 1977, provided one and one-half months' benefit for each month of active-duty service, with 45 months' benefit after 18 months of service. Eligible single veterans studying full-time now receive \$342 monthly.

and to reduce outlays (after adjustment for inflation) for recruiting and advertising, together with an upturn in the job market, all played an important role in depressing high-quality volunteer enlistments. 4/

About one-half of this enlistment decline had been restored by the close of fiscal year 1981. The recruiting upturn that began in 1980 can in part be attributed to an 11.7 percent military basic pay raise (substantial as compared to four previous years of below-comparability raises), increases in other pays and allowances, a rise in private-sector unemployment, more resources allocated to recruiting, and the expanded use of more generous educational benefits. Recruiting should be further stimulated by the 10.4 percent recruit basic pay raise for fiscal year 1982, as well as by the deepening economic recession. 5/

FUTURE RECRUITING PROSPECTS: A PROJECTION

CBO has prepared a baseline projection of recruiting performance for fiscal years 1983 through 1987 (see Table 1). The projection assumes that each service meets its numerical goals for recruits, as they have almost always done. The projection uses as a measure of recruit quality the percentage of male recruits without prior military service who hold high school diplomas. In 1982, the Congress required that the Army recruit at least 65 percent with high school degrees. This minimum may be extended to future years.

The baseline projection of recruiting performance in coming years compares favorably to recent experience and to experience in

4/ For a discussion of these issues, see Costs of Manning the Active-Duty Military, especially pp. 3-10. A recent econometric analysis of enlistment supply appears to support these as reasons for the decline. See also Larry Goldberg, "Summary of Navy Enlisted Supply Study," memorandum (CNA) 81-1158, Center for Naval Analyses (July 1981).

5/ First-quarter results for the Army seem to confirm this. High-quality male recruiting was up 23 percent in the first quarter of fiscal year 1982 over the same quarter in 1981. All services except the Navy, which had a lower recruiting objective, experienced an increase in high-quality male recruiting.

TABLE 1. CBO'S BASELINE PROJECTION OF NEW MALE RECRUITS HOLDING HIGH SCHOOL DIPLOMAS, 1983-1987 (By fiscal year, in percents)

	Draft-Era Actual 1966-1970	Actual			Estimated 1982 a/	Projection				
		1979	1980	1981		1983	1984	1985	1986	1987
Army	72	59	49	78	66 <u>b/</u>	72	68	70	69	68
Navy	78	73	74	74	72	72 <u>c/</u>	89	84	84	84
Marine Corps	61	71	76	78	76	84	85	88	87	87
Air Force	92	84	84	89	91	79 <u>c/</u>	96	93	92	88

NOTE: Projection assumes: 1981 high-quality supply level, adjusted only for changes in unemployment and population; Congressionally mandated test category IV constraints satisfied; constant (fiscal year 1983) enlisted end-strengths; no cap on career force growth; and annual comparability pay raises.

a/ Annualized rate based on results for the first quarter of 1982.

b/ The drop in the Army high school graduate percent when compared to 1981 results can be attributed to the self-imposed limits (more stringent than in current law) on test category IV high school graduates. When the Army enlisted 78 percent of its male recruits as high school graduates in 1981, its male and female test category IV proportion amounted to 31 percent. During the first quarter of fiscal year 1982, the category IV proportion dropped to about 18 percent.

c/ The larger enlisted strengths requested by the Administration in this fiscal year raise recruiting requirements and thus lower the percentages substantially below those in the remainder of the projection period.

the Vietnam-era draft period. However, it masks certain underlying trends that run counter to each other. On the one hand, a decline in the youth population and anticipated improvements in employment should make recruiting more difficult. But these are largely offset by increases in the number of career personnel, which reduce the need for recruits.

The projection rests upon a continuation of military personnel policies at the end of 1981 as well as assumptions about economic and demographic trends:

- o Enlisted strength levels for the end of fiscal year 1983 remain as proposed in the President's budget. As compared to 1981 actual enlisted strength levels, the Navy and Air Force show increases of about 38,000 and 24,000 respectively by the end of fiscal year 1983. 6/
- o The statute limiting the proportion in test category IV (the lowest acceptable test category) to no more than 20 percent of new recruits remains in effect. This constraint would affect primarily Army recruiting, since the other three services have traditionally enlisted proportions of such recruits at or below the 20 percent limit. 7/
- o Present rates of enlisted retention continue throughout the projection period. This results in a substantial increase in the proportion of career servicemembers and a corresponding reduction in recruiting requirements. In the Army, for example, the projection allows for a growth

6/ Note that about 12,000 of the Navy increase represents a transfer to reserve status. These individuals will, however, remain on active duty in support of the reserves.

7/ Even though 78 percent of the Army's male recruits in 1981 were high school graduates, the proportion of all new male and female recruits scoring in test category IV, the lowest acceptable, was 31 percent. During the first quarter of fiscal year 1982, Army test category IV content has dropped to about 18 percent. This was in part accomplished through a smaller intake of test category IV high school graduates, which reduced the male high school graduate content to 66 percent.

in the proportion of career servicemembers (that is, those with more than four years' service) from 42 to 52 percent by 1987. An even more striking increase occurs in the Marine Corps, where the proportion rises from 32 to 44 percent by 1987.

- o Recruiting policies affecting females and those with previous military service remain unchanged. More specifically, the number of female recruits remains unchanged and the proportion of recruits who have seen previous service also remains unchanged. Clearly, adjustments in these policies would affect requirements for new male recruits and alter the baseline projections in Table 1.
- o Comparability pay increases for military personnel are continued. In 1981 and 1982, the Congress provided substantial pay raises; should it fail to continue maintaining pay at competitive levels, both recruiting and retention would suffer.
- o CBO's assumptions underlying its economic projections for 1982-1987, together with census projections of a decline in the youth population, are realized. 8/

ALTERNATIVE PROJECTIONS WITH LESS FAVORABLE ASSUMPTIONS

Any projection of recruiting performance involves uncertainties. In the first place, economic factors that affect the supply of recruits (such as employment and wages) may change. Second, military personnel policies that affect the demand for recruits may also change. Table 2 provides alternative projections of Army recruiting performance based on less favorable assumptions than the baseline projection. The Army was chosen because its recruiting is most sensitive to the quality constraints imposed by the 1981 and 1982 defense authorization bills.

8/ CBO's latest baseline economic projection shows unemployment falling from 8.9 percent in calendar year 1982 to 6.7 percent by 1987. The youth population is anticipated to decline by 13 percent over the same period, although there are substantial differences in the percentage decline by various demographic groupings (see Table B-7 in Appendix B).

TABLE 2. ALTERNATIVE PROJECTIONS OF NEW MALE ARMY RECRUITS HOLDING HIGH SCHOOL DIPLOMAS, 1983-1987 (By fiscal year, in percents)

	1983	1984	1985	1986	1987	Average 1983-1987
Baseline (from Table 1)	72	68	70	69	68	70
Alternative I Unemployment drops to 5.6 percent instead of 6.7 percent by 1987	71	67	69	67	67	68
Alternative II High-quality recruit supply falls to 1980-1981 average	66	62	65	63	63	64
Alternative III Army limits career force growth to one- half the baseline projection	66	64	66	63	62	64
Alternative IV Army phases in a 100,000-strength increase by 1987	64	60	61	58	56	60

Lower Unemployment

High-quality recruit supply has been found sensitive to changing economic conditions. Thus, a more optimistic projection of the economy that lowers unemployment will lower the supply of high-quality recruits. Under CBO's baseline economic projection, unemployment falls to 6.7 percent by 1987. In its more optimistic economic scenario, however, CBO assumes unemployment will fall to 5.6 percent by 1987.

This lower rate of unemployment reduces the percentage of high school graduates among recruits by an average of two percentage points over the projection period (see Alternative I in Table 2). It should be noted that lower unemployment would also adversely affect reenlistment rates, thus raising recruiting requirements if strength levels are to be maintained. This should further reduce the high school percentages below those shown in Table 2, although to what degree cannot be estimated.

A Fall-off in High-Quality Recruit Supply

Alternative II shows how the baseline projection would be affected if Army high-quality recruit supply dropped back to the average level of 1980 and 1981, rather than the level achieved in 1981. ^{9/} Under this alternative, recruiting performance would be an average of six percentage points lower over the five-year projection period. This could cause the Army in several of the years beyond 1983 to breach the 65 percent minimum established in this year's defense authorization bill. Should this statutory minimum be continued in coming years, the Army would need additional incentives to increase recruit supply and/or take action to reduce the demand for male recruits without previous service.

A Limitation on Career Force Growth

The Army has indicated that it intends to limit first-term reenlistments, which will tend to drive up recruiting requirements beyond the baseline projection if total enlisted strengths remain unchanged. Such limits could be imposed to maintain the high quality of all reenlistees or for other reasons. Under the baseline projection, the career force increases from today's

^{9/} In computing this average, the 1980 recruit supply figures were adjusted for the effects of changes in unemployment and compensation during 1981. The marked improvement in high-quality Army recruiting that occurred in 1981 and appears to be continuing in 1982 cannot be fully explained by the traditional economic and policy variables used to estimate high-quality recruiting supply. For this reason its full continuation is subject to a greater degree of uncertainty. From this perspective, Alternative II represents a plausible scenario.

42 percent to 52 percent of the enlisted force by 1987. This alternative would halve that rate of growth by restricting the proportion of careerists to 47 percent of enlisted strength by fiscal year 1987. The effect of this action would be to raise recruiting requirements and thus to lower high school graduate percentages. As shown in Table 2, average recruiting performance over the projection period would be six percentage points lower should the Army adopt such a policy. As in Alternative II, the Army runs the risk of breaching the 65 percent male high school graduate minimum in some years beyond 1983. 10/ This problem could occur even earlier if, as the Army proposes, no growth in the career force is allowed in 1983. 11/

An Increase in Army Enlisted Strength

An increase in Army enlisted strength would raise recruiting requirements and result in performance below the baseline

10/ As noted earlier, continuation of present retention trends would result in a rapid growth of the career force in all the services. The Marine Corps in particular may be very reluctant to permit such continued growth, which would result in a weaker recruiting performance than that projected in Table 1. The Navy, on the other hand, may encourage further career force growth to match the anticipated expansion of the fleet under current proposed shipbuilding programs. Whether the Air Force will permit continued growth in its career force in the absence of any substantial change in missions remains unclear. In any event, this Army alternative projection underscores the substantial effect that career force management policies can have on recruiting requirements.

11/ In DoD's annual report to the Congress, the Army proposes no growth in its career force in 1983. According to CBO's estimate, this Army policy would result in 16,800 fewer career servicemembers than in CBO's baseline projection and thus drive up its recruiting requirement by 18,700 (to include losses during training). As a result, the male high school graduate ratio in fiscal year 1983 would drop from 72 (baseline projection) to 64 percent. Apparently this policy stems from the Army's desire to refuse reenlistment to those less qualified recruits who entered during the poor recruiting years of 1979 and 1980. The Army has provided no indication that it intends to continue such a policy beyond 1983.

projection. Alternative IV illustrates what would happen to recruiting performance should the Congress authorize an increase of 100,000 Army enlisted personnel by 1987, with the increase phased in at 20,000 annually beginning in fiscal year 1983. Such an increase might be called for if, for example, the Congress wished to add to the number of Army divisions or to add support forces to aid in Rapid Deployment Force missions. While no such increase has been requested for the next few years, it would have important recruiting effects. ^{12/} This approximate 15 percent increase in enlisted strength would drive up recruiting requirements and result in a ten-percentage-point drop below the baseline projection. Moreover, the high school graduate percentage of new male recruits, averaging 60 percent over the five-year projection period, would be well below the 65 percent minimum established in the 1982 defense authorization bill.

Higher Quality Requirements

While achievement of the baseline projection for the Army would represent an improvement in recruiting performance over recent experience, it would still leave the Army behind the other services. The Army percentages of high school graduates would continue to lag behind those of the other services by 15 percentage points or more. In addition, some argue that present-day weapons technology and complex battlefield tactics, coupled with the high cost of training, may demand a better educated recruit. ^{13/} In apparent recognition of this, the Army has set fiscal year 1982 and 1983 objectives of 85 percent as the proportion of male recruits with high school diplomas. ^{14/} Such a sharp increase

^{12/} The Army has proposed to increase its enlisted strength by about 30,000 by fiscal year 1987. The increase would not begin until fiscal year 1985, however, postponing any recruiting or retention difficulties such growth might entail.

^{13/} For some insight into the relationship between recruit test categories and performance in combat arms skills, see David J. Armor, Mental Ability and Army Job Performance (The Rand Corporation, 1981).

^{14/} As noted in Table 1 the percentage in 1981 was 78. During the first quarter of this fiscal year it was 66. The Army objectives are stated in The Army Budget, Fiscal Year 1983, Comptroller of the Army (February 1982), p. 22.

would be difficult to achieve and might be difficult to justify, given that the Army has operated for years with lower percentages.

ADDED RECRUITING INCENTIVES AS A HEDGE

The baseline recruiting projections compare favorably with recent volunteer and earlier draft-era performance. The baseline projection also suggests that the Army, which generally has the most serious recruiting problems, has a reasonable chance of achieving its numerical recruiting requirements while simultaneously meeting or exceeding the quality standards mandated by the Congress. Indeed, added incentives may be needed primarily as a hedge against recruiting difficulties arising from policies and events of the kind described in the alternative projections, such as increases in end strengths or a decision to limit the size of the Army career force. The remaining chapters in this study discuss the costs and effects of providing such a hedge through educational benefit programs.

CHAPTER II. ISSUES SURROUNDING THE CURRENT POST-SERVICE MILITARY
EDUCATIONAL BENEFIT PROGRAM

At the urging of the Administration, the Congress terminated the Vietnam-era GI Bill for new recruits on December 31, 1976, and replaced it with the Veterans' Educational Assistance Program (VEAP), a less generous contributory plan. The Vietnam-era GI Bill and its two predecessors--the World War II and Korean GI Bills--were instituted primarily to assist veterans in the readjustment process to civilian status and to restore lost opportunities for those whose educational plans had been interrupted by military service. These needs largely ended with the elimination of the peacetime draft and the enactment of substantial recruit pay increases. Accordingly, the Congress passed the less expensive VEAP, which was intended primarily to improve recruiting.

As implemented in 1977, VEAP encountered significant criticism. This prompted the Congress and the Administration to make improvements in VEAP during 1980 and 1981, and also led to a number of legislative proposals for a substitute program (discussed in the next chapter). This chapter examines the criticisms of VEAP as originally implemented and summarizes the actions taken to strengthen the program.

PROBLEMS WITH VEAP AS ORIGINALLY IMPLEMENTED IN 1977

In 1977, an eligible servicemember (that is, anyone without prior service who entered active duty after 1976) could participate in VEAP by contributing between \$50 and \$75 monthly through a payroll deduction plan, up to a maximum of \$2,700. The servicemember's contribution was placed in a non-interest-bearing education account. The Veterans Administration was to match each \$1 deposited with \$2 when and if the participant elected to attend a VA-approved school. ^{1/} Thus a participant could accumulate an

^{1/} In January 1982, financial responsibility for VEAP shifted from the VA to the DoD. Originally the DoD financed only the supplemental ("kicker") benefits added to certain servicemembers' accounts. Now the DoD must finance both the two-for-one

educational fund of \$8,100--\$2,700 from personal savings and \$5,400 in government matching funds.

The matching funds can only be withdrawn when a participant is attending school, and in equal monthly installments. A servicemember who has contributed \$75 monthly for 36 months (the \$2,700 maximum) will be able as a veteran to withdraw 36 equal installments of \$225 (the maximum \$8,100 fund) for full-time school attendance. 2/ Should the veteran elect not to train, or train only part-time, or attend school for fewer months than covered by contributions, the balance contributed by the participant (but not the government's share) will be refunded.

The available evidence suggests that most VEAP participants who enrolled between 1977 and 1979 adopted a contribution schedule much lower than the \$75 maximum, and most suspended their contributions before reaching \$2,700. Although the program has yet to mature fully, records at the end of fiscal year 1981 showed that participants (both former and those currently active) have averaged \$1,000 in total contributions.

Criticisms of VEAP As Originally Implemented in 1977

Disappointment in VEAP's effectiveness generally centers on three aspects of the program's performance:

- o An enrollment rate lower than anticipated, with participation unevenly distributed among various groups.
- o A rate of disenrollment considerably higher than expected, especially among married servicemembers.
- o Less effectiveness than anticipated in the recruitment of better-qualified youth.

matching as well as the supplemental benefit for any eligible training servicemember or veteran. The VA, however, retains administrative responsibility for the program.

2/ In contrast, the Vietnam-era GI Bill now pays a without-dependent monthly rate during full-time school attendance of \$342. Moreover, the disparity in benefit amounts becomes even sharper when comparing only what VA (now DoD) contributes under basic VEAP--a maximum of \$200 monthly.

Lower Participation. From the inception of the program in 1977 through the close of fiscal year 1981, about 385,000 servicemembers, or approximately 25 percent of the eligible enlisted population, contributed to VEAP. 3/ The Air Force had the lowest rate of participation at just over 9 percent; for the other three services, participation ranged between 25 and 30 percent. 4/ After adjusting these participation rates for later disenrollments and for contribution patterns that yield considerably less than maximum benefits, the annual percentage of eligible veterans who benefit will be very small. Historically, about two-thirds of eligible veterans have used some of their Vietnam-era GI Bill benefits. Should present trends continue, no more than 15 percent of VEAP-eligible recruits will ever be in a position to attend school as veterans using VEAP benefits. 5/

Higher Disenrollments. Disenrollment refunds as a percentage of total participants has grown sharply. At the end of fiscal year 1979, the disenrollment refund rate amounted to 15 percent of total participants (that is, all current and former contributors). By the close of fiscal year 1981, about one-third of VEAP contributors had disenrolled and received a refund of their contributions.

A survey of about 15,000 enlisted VEAP participants on active duty during the spring of 1980 revealed distinct demographic differences between those who were still active contributors (about two-thirds of the sample) and those who had suspended contributions and/or requested a refund. 6/ In comparison to the

3/ Data provided by the Veterans Administration.

4/ For additional details on the characteristics of VEAP participants see: Office of the Assistant Secretary of Defense (Manpower, Reserve Affairs, and Logistics), Fourth Annual Report to the Congress on the Post-Vietnam Era Veterans' Educational Assistance Program (October 1981).

5/ Although about 100,000 original VEAP contributors had separated from active duty between the inception of the program and the end of fiscal year 1981, only about 8,300 were using VEAP benefits during fiscal year 1981.

6/ It should be noted, however, that a number of those servicemembers who either temporarily suspended their contributions or received a refund later reestablished active

active contributors, this latter group of inactive and former participants were disproportionately members of racial/ethnic minority groups, were of lower aptitude and less educated, and more commonly had spouses and dependents. Married contributors, for instance, were found to suspend their contributions and/or obtain a refund at a rate two and one-half times greater than their nonmarried counterparts. Financial hardship was most often cited as the reason for discontinuing participation in the program; other factors were uncertain educational goals, desire for a military career, and a poorly informed initial decision to participate. ^{7/} Undoubtedly, the turnover in the program reflects a process of self-selection in which those with the highest likelihood of later attending school (the better educated, those with higher aptitude, the single, the younger veterans) will show the highest initial participation and the longest persistence.

Disappointing Recruiting Results. A DoD-sponsored evaluation of VEAP field tests found at most only a modest improvement in the supply of high-quality recruits. A Rand Corporation evaluation of various recruiting options available in 1979 indicated that when supplemental payments ("kickers") between \$2,000 and \$4,000 were added to the basic VEAP, high-quality Army male enlistments (that is, high school graduates in above-average test categories) increased by about 7 percent. ^{8/} One

participation. For an analysis of VEAP disenrollment see: Mark J. Eitelberg and John A. Richards, Survey of Participants and Inactive/Former Participants in the Post-Vietnam Era Veterans' Educational Assistance Program: Results and Conclusions, HumRRO Final Report 80-11 (September 1980).

^{7/} An earlier GAO field study of VEAP first identified these as reasons for both low participation and high disenrollment. See Comptroller General of the United States, Improvements Needed in Implementation of the Veterans' Educational Assistance Program (November 1978).

^{8/} See Gus E. Haggstrom, and others, The Multiple Option Recruiting Experiment (The Rand Corporation, August 1980), p. 30. Although no specific estimate of basic VEAP's recruiting effect is available from the test, CBO's discounted valuation analysis described in Chapter IV strongly suggests that basic VEAP without kickers has little effect on high-quality recruiting.

reason for this modest recruiting effect may be that the program requires an "up-front" contribution that substantially diminishes its value to a young person, even if it eventually provides some benefits.

CHANGES IN THE VEAP DESIGN AND ITS IMPLEMENTATION IN 1979 AND 1980

In response to these concerns, the Congress and DoD took steps to improve the program. In 1979 the dollar value of VEAP was increased through targeted supplemental payments, and the contribution schedule was made more flexible by broadening the dollar range of monthly allotments and permitting lump-sum contributions.

Use of Supplemental or "Kicker" Payments

The Army (and to a much lesser extent, the Navy) added supplemental contributions or "kickers" to the VEAP for various enlistment option programs. ^{9/} These initially ranged from \$2,000 to \$4,000, depending on the length of the enlistment term. Only high school graduates scoring at or above the 50th percentile on DoD's standardized entrance test, and enlisting for certain critical occupational specialties, were eligible for kickers. ^{10/} In 1980, the Army adopted the kicker approach nationwide with less restrictive options, but still required a high school diploma and above-average test scores.

In fiscal year 1981, the Army continued the use of kickers in conjunction with a more elaborate test of educational benefits mandated by the Defense Authorization Bill. A much-enhanced kicker (called "Ultra-VEAP") introduced in one of the three test areas, provided a maximum \$12,000 supplemental payment for enlistment in selected occupations. An eligible recruit could accumulate a \$20,100 education fund by contributing \$2,700. A DoD-sponsored evaluation estimated that enlistment of high-quality

^{9/} The 1977 VEAP legislation authorized use of kicker payments, but DoD did not begin using the device until 1979.

^{10/} See footnote 7 for a discussion of the effect kickers in the range of \$2,000 to \$4,000 may have had on Army high-quality recruiting.

Army recruits increased by 10 percent (compared to a control group getting \$2,000 to \$6,000 in kickers). 11/

In fiscal year 1982, the Army began offering Ultra-VEAP on a nationwide basis to high-quality recruits enlisting in one of 72 occupations which cover about three-quarters of the total recruiting requirement. It appears that in 1982 the other three services will rely exclusively on basic VEAP without kickers as their educational benefit.

Statutory Changes in the VEAP Contribution Schedule

In fiscal year 1981, the Congress authorized two changes in the contribution schedule for VEAP participants. The range of monthly contributions was broadened to \$25-\$100, and lump-sum contributions were permitted. 12/ The total contribution, however, remained unchanged at \$2,700, as did the basic two-for-one matching plan. The changes were intended in part as a response to criticisms that the contribution imposed a financial hardship on recruits, thus limiting their participation in the program.

STRENGTHS AND WEAKNESSES OF THE CURRENT VEAP

VEAP has been strengthened considerably since it was first introduced. Greater flexibility in the contribution schedule

11/ For a discussion of the Rand results, see statement of Neil M. Singer before the Subcommittee on Military Personnel and Compensation, Committee on Armed Services, House of Representatives, 97:1, November 17, 1981. CBO's own estimate of Ultra-VEAP's high-quality recruiting effect, described in Chapter IV of this report, amounts to between 2 and 6 percent.

12/ The 1980 amendment (Public Law 96-466), which permitted lump-sum contributions up to the maximum of \$2,700, could serve to postpone participation by those intending to use the benefits until they were at the point of active-duty separation. This added flexibility could thus lead to underestimates of the true participation rates.

should broaden participation and possibly enhance its recruiting appeal. The continued use of substantial kickers, which now more than triple the amount contributed by the government compared to the basic (without kicker) VEAP, should significantly increase high-quality recruiting. Moreover, targeting these kicker benefits on selected occupations tends to make this program a less costly recruiting incentive than some proposed noncontributory plans which would provide benefits under less restrictive enlistment criteria.

Yet there is still reason to be critical of VEAP. There is no evidence that the high dropout rate among contributors has abated. Moreover, only the Army offers the more generous VEAP with kickers, leaving the other three services with a basic VEAP that probably does little if anything to improve quality recruiting. This strategy should, however, provide the Army a competitive edge in meeting its relatively more difficult recruiting challenge, particularly in the light of concern that a uniform benefit available to all services could actually hurt Army recruiting. ^{13/} Finally, the current VEAP program must live with the disappointment engendered by its original version. For these and other reasons, there have been numerous proposals to replace VEAP with a new educational benefit program.

^{13/} This finding, based upon a Rand Corporation evaluation of the 1981 DoD educational benefits test, was presented in Congressional testimony by a former DoD official. See statement of Neil M. Singer.



CHAPTER III. PROPOSALS FOR A NEW PROGRAM: ISSUES AND OPTIONS TO CONSIDER

Concern over the quality of new recruits and dissatisfaction with the Veterans' Educational Assistance Program as originally conceived have produced a number of proposals for a new, more generous program. This chapter summarizes the main policy and design issues raised by these proposals and sets out four options as a framework within which to evaluate them.

MAIN FEATURES OF PROPOSED LEGISLATION

During the 96th Congress, 38 bills were introduced to modify or replace the current military and veteran educational assistance benefits. Half of them proposed improvements in the Vietnam-era GI Bill, a program available to most veterans and to a sizable share of active-duty personnel. ^{1/} Another quarter of the bills would have amended the current VEAP legislation or strengthened other educational benefits available to military personnel, such as in-service tuition assistance. The remaining bills would have replaced VEAP with an entirely new post-service educational benefits package.

The legislative momentum developed during the 96th Congress has continued into the 97th Congress. During the first session, six bills were introduced in the Senate and seven in the House (two of which are identical to the Senate bills) to provide for a new military educational benefits program. (Appendix A contains a synopsis of these bills.) Most of the bills are similar in form to the proposals introduced in the 96th Congress. The House

^{1/} As of January 1982, active-duty personnel with six or more years' service remain eligible to use Vietnam-era GI Bill benefits. This amounts to about 64 percent of the active force or 1.3 million servicemembers. Under current law, eligibility to use these earned benefits expires for all veterans and servicemembers on December 31, 1989. A number of bills have been introduced to eliminate or modify this termination date.

Committees on Veterans' Affairs and Armed Services have held extensive hearings on the subject of military educational benefits. The House Committee on Veterans' Affairs has reported out an amended version of a bill introduced by Chairman G.V. Montgomery (H.R. 1400), which is currently being considered by the House Committee on Armed Services. The Senate has yet to take formal action on any of its bills.

All 13 bills introduced to date in the 97th Congress call for a return to a noncontributory educational assistance program for active-duty personnel, in contrast to VEAP. Most of the bills would tie the size of benefits to length of service, including both active and reserve duty. Maximum basic benefits (excluding supplemental payments) would range from about \$10,000 to \$20,000. ^{2/} Some of the bills offer a tuition reimbursement plan plus a monthly stipend (an approach used under the World War II-era GI Bill).

A number of the bills propose supplemental benefits for service in selected skills considered critical by the Department of Defense. Eight of the thirteen bills would permit benefits to be transferred to a spouse and/or dependents after a specified period of active-duty service. In addition, two other bills--S. 25 (sponsored by Senator Armstrong) and S. 742 (sponsored by Senator Cohen)--include a contributory benefit plan for dependents of career-committed military personnel. Only one of the bills (H.R. 2399) indexes the future benefit amount to inflation.

PURPOSES OF PROPOSED LEGISLATION

Proponents of new educational benefits offer a wide variety of reasons for their support. Some feel that the Vietnam-era GI Bill should not have been terminated, and see enactment of

^{2/} By comparison, the Vietnam-era GI Bill now pays a maximum 45 months stipend with total benefits ranging from \$15,390 for a single veteran to \$20,880 for veterans with two dependents and \$29 monthly for each additional dependent. (On average, veterans training under the GI Bill have one dependent, and thus can receive a maximum of \$18,315 in benefits.) Under VEAP, the DoD pays a maximum \$5,400 unless the veteran is eligible for a supplemental kicker payment, which now amounts to as much as \$12,000 for qualified Army recruits.

of a new, noncontributory program as an important step toward restoring a traditional right to military personnel. 3/

Other supporters point to the need to induce more high-quality youths (particularly those with college aspirations) to enlist in the military. They cite evidence that those with above-average mental abilities and high school diplomas find educational benefits an appealing enlistment incentive. 4/ (CBO's estimates of the effects of educational benefits on recruiting and retention are presented in Chapter IV.) In an attempt to ensure that their proposals do not provide an incentive to leave military service once the benefits have been earned, proponents have recommended various offsetting provisions. These include cash-conversion privileges and the right to transfer the entitlement to a spouse and/or dependents in exchange for additional military service.

3/ Based on its historical availability and use, the GI Bill can be viewed as an important traditional military (and veteran) benefit. All honorably discharged veterans who entered active duty between 1944 and 1976 have been eligible for GI Bill benefits. About three million peacetime post-Korean veterans (those separated between 1955 and 1964) did not, however, receive such eligibility until enactment of the Vietnam-era GI Bill in 1966. Between 1944 and 1980, over 17 million veterans used GI Bill benefits costing the federal government over \$50 billion. Office of the Comptroller, Reports and Statistics Branch, Veterans Administration, Historical Data on the Usage of Educational Benefits, 1944-1980 (May 1981).

4/ A 1979 DoD survey revealed that more than half the high school graduate recruits in the sample stated that they intended to continue their education at some point. Moreover, a majority of the high school graduate recruits cited "money for a college education" as a reason for enlisting. Source: Defense Manpower Data Center tabulation of the 1979 AFEES Survey (Form 3). Another National Longitudinal Survey of youth in 1979 found that active-duty male servicemembers aged 18 to 21 had substantially higher postsecondary educational aspirations than their full-time civilian employed counterparts. Source: Tabulations of the 1979 National Longitudinal Survey of Youth Labor Market Experiences, sponsored by the Departments of Labor and Defense.

Others point out that parents exert a significant influence over their children's career choices. These parents may view military service as a more attractive alternative for their children if it includes a generous educational benefits package. Parents (and perhaps the majority of the voting-age public) may prefer that their sons and daughters receive educational benefits as an enlistment incentive rather than cash bonuses of equivalent monetary value.

Some proponents note the numerous federal student aid programs that do not require military service, arguing that comparable educational benefits should be made available to military personnel. (Issues related to this are discussed in Appendix B.) Finally, a few may see a new military educational benefits program as a means of subsidizing postsecondary institutions that have come under financial pressure because of a declining college-age youth population and reduced federal aid to students. 5/

PROGRAM DESIGN CONSIDERATIONS

The discussion so far has posed a number of program design considerations. For example, should the program be contributory? The fact that VEAP is a contributory program has been cited by some as a reason for its low participation rate. On the other hand, the requirement that military personnel must make an explicit choice to participate will hold down the program's cost and may improve its effectiveness by ensuring that those who value it most highly receive the benefit.

Should the program have a tuition reimbursement feature? Those who favor this approach point out that the majority of

5/ A statistical study of the factors affecting college attendance by adults (those 25 years or older) found the Vietnam-era GI Bill responsible for much of the growth in adult enrollments between 1955 and 1970. Vietnam-era veterans were three times as likely to attend college as their male nonveteran counterparts. Source: John Bishop and Jane Van Dyk, "Can Adults Be Hooked on College? Some Determinants of Adult College Attendance," Journal of Higher Education, vol. 48, no. 1 (January/February 1977). One-third of males attending college are over 25 (although two-thirds of these attend part-time). The median training age for veterans is about 29 years.

veterans receiving their education under the Vietnam-era GI Bill can afford to attend only low-cost public institutions, so that a tuition reimbursement plan would increase access to higher-cost (private) schools. 6/

What, if any, standards of eligibility should be imposed on participants? Some argue that to reduce costs, eligibility should be limited to enlisted personnel and benefits restricted to those serving in shortage skills and/or to high-quality recruits.

Should the military program be linked to other forms of student aid? For example, forgiveness of student loans in exchange for a commitment to a specified period of military service has already been authorized as part of a pilot program. Some have suggested that a veterans' preference be granted in federal domestic student aid programs.

How large should benefits be? Some would tie them to the cost of a college education. Others contend they should be sized so as to assist the services in meeting their recruiting goals, but designed to minimize the adverse effects on retention. Still others argue that benefits should be no larger than those now received by Vietnam-era veterans under the GI Bill.

How much flexibility should be permitted in using the benefits? In 1981, a pilot program was tested offering a cash-conversion privilege for reenlistment together with transferability of benefits to a spouse and/or dependents. Other proposals would permit benefit payments to be withdrawn on an accelerated schedule.

Finally, what agency should have funding responsibility for the program? This question is of particular concern to Executive Branch agencies and Congressional committees with jurisdiction over military and veterans' benefits. A program intended as a recruiting incentive would more logically fall within the Defense Department's jurisdiction, while one intended as a veterans' post-service readjustment benefit might more appropriately be the

6/ This issue has been the subject of much past debate in the Congress. For analysis of the costs and effects of such a provision, see Congressional Budget Office, Veterans' Educational Benefits: Issues Concerning the GI Bill (October 1978), Chapter III.

responsibility of the VA. The Department of Education might also play a role, given the extensive loan and grant programs in its jurisdiction and the elaborate administrative framework already in place to monitor these programs.

ILLUSTRATIVE EDUCATIONAL BENEFIT OPTIONS

The four options described here and evaluated in the next chapter illustrate in a systematic way the potential effects on recruiting, retention, and costs of variations in the design of an educational benefit plan. The four options make the benefit plan progressively more generous by adding to the current VEAP program features contained in the legislative proposals discussed in this chapter. Table 3 provides details of each option.

Option I. Continue the Current Policy of Basic VEAP for All Services With Supplemental Kicker Payments for Qualified Army Recruits

This option would continue VEAP in its present form. The basic contributory VEAP would remain available to all services and the Army would continue to offer a \$12,000 kicker for enlistment into selected skills high school graduates in above-average test categories. This option responds to those who believe actions taken over the past three years to strengthen VEAP have improved its effectiveness as a recruiting incentive.

Option II Return to a Noncontributory Basic Benefit With Supplemental Payments for Qualified High School Graduates

Elimination of the servicemember's contribution requirement would represent the only difference in design between this program and the first option. Establishing a noncontributory benefit would respond to the criticism that the contributory requirement is inequitable because it discourages participation by those least able financially, especially married servicemembers. Under this option, DoD would provide benefits of \$225 for each month of service up to a maximum of 36 months. Also, this option assumes that only the Army offers a supplemental monthly payment equivalent to the \$12,000 kicker for high-quality recruits available under Option I.