CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

July 30, 1999

# H.R. 1182
## Servicemembers Educational Opportunity Act of 1999

*As introduced on March 18, 1999*

## SUMMARY

H.R. 1182 would enhance benefits under the Montgomery GI Bill (MGIB) for veterans and servicemembers who serve on active duty for at least four years after September 30, 1999. It would also repeal the requirement that a participant contribute $1,200. Most of the costs during the first five years would stem from forgone contributions because the increase in benefit payments would not become significant until 2004. CBO estimates that implementing the bill would cost about $1.3 billion over the 2000-2004 period and that annual costs would reach $3.3 billion in 2009 and level off thereafter (except for cost-of-living-allowances). Because the bill would affect direct spending, pay-as-you-go procedures would apply.

Section 4 of the Unfunded Mandates Reform Act excludes from application of that act any legislative proposals that are necessary for national security. That exclusion might apply to H.R.1182. In any case, the bill contains no intergovernmental or private-sector mandates.

## ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R.1182 is shown in the following table. The costs of this legislation fall within budget functions 700 (veterans' affairs) and 500 (education, training, employment, and social services).

TABLE 1. BUDGETARY IMPACT OF H.R. 1182 AS INTRODUCED
(By fiscal year, in millions of dollars)

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **VETERANS' READJUSTMENT BENEFITS** | | | | | | | | | | | |
| Spending Under Current Law | | | | | | | | | | | |
| Estimated Budget Authority | 1,340 | 1,313 | 1,332 | 1,340 | 1,355 | 1,352 | 1,357 | 1,366 | 1,382 | 1,405 | 1,431 |
| Estimated Outlays | 1,372 | 1,342 | 1,352 | 1,358 | 1,370 | 1,365 | 1,366 | 1,371 | 1,384 | 1,406 | 1,432 |
| Proposed Changes | | | | | | | | | | | |
| Enhanced Benefit Payment | | | | | | | | | | | |
| Estimated Budget Authority | 0 | a | 6 | 22 | 47 | 242 | 731 | 1,377 | 1,974 | 2,597 | 3,141 |
| Estimated Outlays | 0 | a | 6 | 22 | 47 | 242 | 731 | 1,377 | 1,974 | 2,597 | 3,141 |
| Member Contributions | | | | | | | | | | | |
| Estimated Budget Authority | 0 | 197 | 195 | 195 | 195 | 195 | 195 | 195 | 195 | 195 | 195 |
| Estimated Outlays | 0 | 197 | 195 | 195 | 195 | 195 | 195 | 195 | 195 | 195 | 195 |
| Subtotal-Proposed Changes | | | | | | | | | | | |
| Estimated Budget Authority | 0 | 197 | 201 | 217 | 242 | 437 | 926 | 1,572 | 2,169 | 2,792 | 3,336 |
| Estimated Outlays | 0 | 197 | 201 | 217 | 242 | 437 | 926 | 1,572 | 2,169 | 2,792 | 3,336 |
| Total Spending Under H.R.1182 | | | | | | | | | | | |
| Estimated Budget Authority | 1,340 | 1,510 | 1,533 | 1,557 | 1,597 | 1,789 | 2,283 | 2,938 | 3,551 | 4,197 | 4,767 |
| Estimated Outlays | 1,372 | 1,539 | 1,553 | 1,575 | 1,612 | 1,802 | 2,292 | 2,943 | 3,553 | 4,198 | 4,768 |
| **STUDENT LOANS** | | | | | | | | | | | |
| Spending Under Current Law | | | | | | | | | | | |
| Estimated Budget Authority | 3,654 | 4,597 | 5,027 | 4,279 | 5,255 | 5,000 | 5,209 | 5,333 | 5,557 | 5,849 | 6,055 |
| Estimated Outlays | 3,771 | 4,075 | 4,467 | 3,744 | 4,898 | 4,708 | 4,764 | 4,874 | 5,075 | 5,353 | 5,539 |
| Proposed Changes | | | | | | | | | | | |
| Estimated Budget Authority | 0 | a | a | a | a | a | -3 | -5 | -5 | -5 | -5 |
| Estimated Outlays | 0 | a | a | a | a | a | -3 | -5 | -5 | -5 | -5 |
| Spending Under H.R. 1182 | | | | | | | | | | | |
| Estimated Budget Authority | 3,654 | 4,597 | 5,027 | 4,279 | 5,255 | 5,000 | 5,206 | 5,328 | 5,552 | 5,844 | 6,050 |
| Estimated Outlays | 3,771 | 4,075 | 4,467 | 3,744 | 4,898 | 4,708 | 4,761 | 4,869 | 5,070 | 5,348 | 5,534 |
| **TOTAL PROPOSED CHANGES** | | | | | | | | | | | |
| Estimated Budget Authority | 0 | 197 | 201 | 217 | 242 | 437 | 923 | 1,567 | 2,164 | 2,787 | 3,331 |
| Estimated Outlays | 0 | 197 | 201 | 217 | 242 | 437 | 923 | 1,567 | 2,164 | 2,787 | 3,331 |

a. Less than $500,000.

**Enhanced Benefits Under MGIB.** Under current law, participants in MGIB who serve at least three years on active duty are entitled to receive $528 a month if they are full-time students. That stipend is available for a total of 36 months. For part-time students, the monthly benefit is reduced proportionately but can be spread over a larger number of months up to the equivalent of 36 months of full-time training. Similarly, individuals who serve two years on active duty are entitled to a monthly stipend of $429 for 36 months. In all cases, the benefits increase by an annual cost-of-living allowance (COLA) and expire 10 years after the end of military service.

Section 2 of H.R. 1182 would enhance the benefit in two ways for individuals who serve on active duty for at least four years after September 30, 1999. First, the bill would raise the monthly stipend to $600. Second, an additional payment would cover 90 percent of the cost of tuition and fees at any approved educational institution plus an amount to defray the cost of books and supplies. CBO estimates that the cost in 1999 dollars of tuition, fees, and books would average about $23,500 over 36 months of full-time training. As in current law, the stipend would be indexed to the consumer price index, and eligibility for educational benefits would expire 10 years after discharge from active duty.

CBO estimates that the cost of these enhanced benefits would be about $317 million over the first five years, $10.1 billion over the first 10 years, and about $3.1 billion annually thereafter (plus COLAs after 2009). Annual costs would be lower during the first few years because the first cohort of beneficiaries would not qualify for the extra benefits until 2004. Only individuals who are discharged early for medical causes, hardship, or the convenience of the government would be eligible for limited benefits before the four-year period ends.

*Estimated Participation.* Based on data from the Department of Defense (DoD) and the Department of Veterans Affairs (VA), CBO estimates that about 366,000 persons would be receiving benefits each year by 2009. Most of those participants would draw benefits after leaving service under normal circumstances (other beneficiaries are discussed below). Based on data from DoD on the typical size of entering cohorts, attrition rates, and types of separation, CBO estimates that about 236,000 individuals will leave active duty each year. About 140,000 of those individuals would meet the bill's criterion for length of service, and an additional 11,700 would qualify for partial benefits.

CBO used information from VA on participation rates to estimate the number of people leaving service who would use the benefit each year. However, because the bill would sharply increase the value of the benefits, CBO assumed that participation would increase by 25 percent. Of the 366,000 individuals who would receive benefits in 2009 under the bill, about 321,000 would be veterans who met the most common criteria for benefits.

The remaining 45,000 beneficiaries would be traceable to two other categories of individuals. First, CBO estimates that about 19,000 persons on active duty would take advantage of the benefit for tuition, fees, and books to take courses during their off-duty hours. CBO assumes that such individuals would remain a constant proportion of all participants, currently about 6 percent.

Second, the bill would provide an increase in benefits for certain disabled veterans who receive training and rehabilitation under chapter 31 of title 38. Because those individuals have the option of receiving benefits under either the MGIB or chapter 31, the bill would encourage many of them to opt for the higher allowances and assistance under the enhanced MGIB. Under current law, benefits under chapter 31 are often more generous than under MGIB, but MGIB benefits under H.R. 1182 would exceed current chapter 31 benefits for approximately 85 percent of those disabled veterans. Since many of these trainees left active duty with less than four years of service, however, their eligibility under this bill is limited to one month of benefits for each month of active duty served. The rehabilitation program has a long eligibility period. Based on information from DoD and VA, CBO estimates that the full effect of this bill would not be felt in this program until 2014, when approximately 70 percent of disabled trainees would choose to be paid the higher MGIB payments. In 2009, CBO estimates that 26,000 disabled veterans would opt to be paid the greater amount. CBO does not expect that the overall participation rate of disabled veterans in the MGIB and chapter 31 programs would change.

*Estimated Average Benefits.* CBO estimates that the average annual benefit under the bill (in fiscal year 2000 dollars) would be about $10,200 for veterans and $1,500 for servicemembers. CBO used data from VA to estimate the proportions of individuals attending graduate, undergraduate, and various nondegree programs on a full-time and part-time basis. The estimate also employs data from the National Center for Education Statistics on tuition costs for private, public, and proprietary schools and on the distribution of veterans among students at such schools.

CBO estimates that 29 percent of veterans receiving educational benefits under the bill would attend a private institution for an undergraduate degree. That proportion is about double the figure under current law because the bill would reduce the cost differential between private and public institutions by about 90 percent for eligible veterans. CBO estimates that average tuition benefits would be $4,800 in 2000 for veterans receiving benefits under the bill. The cost of books is estimated to be $600 annually for a full-time student, based on the amount that universities use to determine a student's financial need. Adjusting for part-time students, the average payment for books under the bill is estimated to be about $550 in 2000 dollars. The average stipend, also adjusted for part-time study, would be an estimated $4,800. Thus, the total benefit for training under the bill would average about $10,200, compared to about $3,300 under current law for MGIB beneficiaries and $8,000 for current beneficiaries under chapter 31. Servicemembers would not receive a stipend and, on average, take a much lighter class load. Their average benefit would be $1,500 compared to about $800 under current law.

*Impact on Costs of Student Loans***.** Section 2(a) would reduce or eliminate the eligibility for federally-subsidized student loans for veterans receiving the new enhanced educational benefits. This bill would require the new benefits for tuition and books to be considered as untaxed income in determining financial need for a subsidized student loan. CBO estimates that, by 2009, eligibility for a subsidized student loan would be reduced or eliminated for an estimated 25,000 borrowers. As a result, the volume of subsidized student loans would decrease by approximately $35 million.

The costs of student loan programs are assessed under the requirements of credit reform. As such, the budget records all the costs and collections associated with a new loan on a present-value basis in the year the loan is obligated. The subsidy savings associated with the reductions in loan volume are estimated to be negligible in 2004 because of the bill's eligibility requirements, but by 2006 savings would average about $5 million a year.

It is also likely that fewer veterans would seek student loans after receiving higher MGIB benefits. CBO does not have enough information about the number of veterans receiving student loans to estimate the magnitude of this response—but any resulting reduction in the costs of student loans would be much smaller than the added costs for MGIB benefits.

**Termination of Member Contributions.** Under current law, MGIB participants must pay a $1,200 fee during their first year of service. Section 3 would repeal that payment. Based on current rates of participation, CBO estimates that this provision would result in forgone receipts of about $195 million a year.

## PAY-AS-YOU-GO CONSIDERATIONS

Section 252 of the Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays 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 | 197 | 201 | 217 | 242 | 437 | 923 | 1,567 | 2,164 | 2,787 | 3,331 |
| Changes in receipts | Not applicable | | | | | | | | | | |

## INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

Section 4 of the Unfunded Mandates Reform Act excludes from application of that act any legislative proposals that are necessary for national security. That exclusion might apply to H.R. 1182. In any case, the bill contains no intergovernmental or private-sector mandates.

## ESTIMATE PREPARED BY:

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## ESTIMATE APPROVED BY:

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