



## CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

July 15, 1999

### **All-Volunteer Force Educational Assistance Programs Improvements Act of 1999**

*As ordered reported by the Senate Committee on Veterans' Affairs  
on June 23, 1999*

#### **SUMMARY**

The bill contains several provisions that would enhance educational benefits under the Montgomery GI Bill. The enhancements would include increased benefit levels and expanded eligibility and participation options. CBO estimates that enacting the bill would cost \$297 million in 2000 and about \$1.4 billion over the 2000-2004 period. In 2009, costs would total about \$353 million. 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 provisions of the bill that relate to the Montgomery GI Bill. In any case, the bill contains no intergovernmental or private-sector mandates.

#### **ESTIMATED COST TO THE FEDERAL GOVERNMENT**

The estimated budgetary impact of the bill is shown in the following table. The costs of this legislation fall within budget function 700 (veterans' affairs).

#### **BASIS OF ESTIMATE**

The bill contains seven provisions that would raise direct spending for veterans' readjustment benefits, specifically the Montgomery GI Bill (MGIB) and Survivors' and Dependents' Educational Assistance.

TABLE 1. BUDGETARY IMPACT OF THE ALL-VOLUNTEER FORCE EDUCATIONAL ASSISTANCE PROGRAMS IMPROVEMENTS ACT OF 1999, AS ORDERED REPORTED BY THE SENATE COMMITTEE ON VETERANS' AFFAIRS, (By fiscal year, in millions of dollars)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>DIRECT SPENDING</b>											
Spending Under Current Law for Veterans' Readjustment Benefits											
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											
Additional Contribution and Benefit											
Estimated Budget Authority	0	-23	12	51	71	107	111	118	129	140	153
Estimated Outlays	0	-23	12	51	71	107	111	118	129	140	153
Rates of Assistance											
Estimated Budget Authority	0	98	100	101	103	104	105	106	108	110	113
Estimated Outlays	0	98	100	101	103	104	105	106	108	110	113
MGIB Participation											
Estimated Budget Authority	0	67	78	91	65	73	78	75	71	67	66
Estimated Outlays	0	67	78	91	65	73	78	75	71	67	66
Survivors' and Dependents' Assistance											
Estimated Budget Authority	0	18	18	18	18	18	18	18	18	18	18
Estimated Outlays	0	18	18	18	18	18	18	18	18	18	18
Accelerated Payments											
Estimated Budget Authority	0	134	27	0	0	0	0	0	0	0	0
Estimated Outlays	0	134	27	0	0	0	0	0	0	0	0
MGIB Eligibility of Certain Officers											
Estimated Budget Authority	0	2	2	2	3	3	2	2	2	2	2
Estimated Outlays	0	2	2	2	3	3	2	2	2	2	2
Preparatory Courses											
Estimated Budget Authority	0	1	1	1	1	1	1	1	1	1	1
Estimated Outlays	0	1	1	1	1	1	1	1	1	1	1
Subtotal-Proposed Changes											
Estimated Budget Authority	0	297	239	264	261	305	316	320	329	339	353
Estimated Outlays	0	297	239	264	261	305	316	320	329	339	353
Total Spending Under the Bill for Veterans' Readjustment Benefits											
Estimated Budget Authority	1,340	1,610	1,571	1,604	1,616	1,657	1,673	1,686	1,711	1,744	1,784
Estimated Outlays	1,372	1,639	1,591	1,622	1,631	1,670	1,682	1,691	1,713	1,745	1,785

**Additional Contribution and Benefit.** Section 6 would offer personnel on active duty the opportunity to increase their MGIB benefits by making an additional, after-tax contribution. Under current law, members wishing to participate in MGIB contribute \$1,200 during their first year of service. Under section 6 members could contribute up to an additional \$600 at any time during their service on active duty. In return, they would receive an increment to their monthly benefit in an amount equal to one quarter of their contribution for every month of training. CBO assumes that 60 percent of MGIB participants would make an average contribution of \$500, which would result in an average additional benefit of \$125 a month for, on average, 20 months. Because contributions would precede the payment of benefits, this provision would decrease net expenditures the first year after it takes effect. Net costs would occur in the second year of the program, and CBO estimates that annual costs would rise to about \$153 million by 2009.

**Rates of Assistance.** Section 4 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 4, the cost-of-living allowance scheduled for 2000 would not occur. CBO estimates that this section would increase direct spending by \$98 million in 2000 and by increasing amounts in subsequent years, based on current rates of participation in this program.

**MGIB Participation.** Section 8 would allow individuals on active duty to begin participating in the MGIB program at any time during their service. Currently, a member must make the decision to participate upon joining the military and contribute \$1,200 during the first year of service. This proposal would allow members to make that decision later in their service, but would require a contribution of \$1,500 for those who choose that option. The contribution would be either a lump-sum payment, or a monthly payment of \$100 with any residual being paid at separation.

Currently, more than 50 percent of those who contribute never use MGIB benefits. CBO expects that many of these individuals would take advantage of an opportunity to postpone the decision to invest in MGIB. After a six-year phase-in period, CBO expects that 50 percent of those who would have contributed under current law would contribute \$1,200 during the first year. Of the remaining 50 percent, half would choose to contribute \$1,500 later in their enlistment, and half would not contribute at all. The net cost of the provision would stem from forgone contributions. CBO estimates that the average annual cost of section 8 would be approximately \$70 million. The annual cost would be higher in the first few years, however, because of the postponed contributions.

**Survivors' and Dependents' Assistance.** Section 5 would increase educational assistance to survivors and dependents by an average of 13.4 percent. Based on current rates of participation in this program, CBO estimates that this provision would increase direct spending by \$18 million a year over the next 10 years.

**Accelerated Payments.** Section 9 would permit veterans to receive a lump-sum payment for benefits they would receive monthly over a term of their training—for example, a semester in college or, for other forms of training, the period of a course's instruction. CBO estimates that this provision would increase direct spending by \$134 million in 2000 and by \$27 million in 2001. Increased costs would occur initially as payments from one fiscal year are made instead in the preceding year. There would be no net effect in each subsequent year because 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 60 percent would make that election in 2001 and later years. The estimate is based on current rates of participation in this program.

**MGIB Eligibility of Certain Officers.** Section 7 would extend MGIB eligibility to those veterans who lost it because they ended their initial enlistment to attend an officer training school. To maintain eligibility under this provision, the member would have to either complete the resulting obligated period of duty as an officer or serve the remaining time on the initial enlistment. Based on information from the Department of Defense, CBO expects the number of potential MGIB participants to increase by 300 annually. In addition, about 950 current veterans would gain MGIB eligibility under this section. CBO estimates this provision would cost \$2 million to \$3 million a year over the 2000-2009 period.

**Preparatory Courses.** Section 3 would extend MGIB benefits to cover preparatory courses for college or graduate school entrance exams. Veterans who would otherwise consume their entire entitlement would forgo a payment at the end of their training if they use the benefit under this section, but for all other veterans, section 3 would add to spending. CBO estimates that this provision would increase direct spending by about \$1 million a year. The estimate assumes that about 2,000 participants would receive an average benefit of about \$400 for these courses.

## **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	297	239	264	261	305	316	320	329	339	353
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 provisions of the bill that relate to the Montgomery GI Bill. In any case, the bill contains no intergovernmental or private-sector mandates.

## **PREVIOUS CBO ESTIMATE**

On February 12, 1999, CBO prepared a cost estimate for S. 4, the Soldiers', Sailors', Airmen's, and Marines' Bill of Rights Act of 1999, as reported by the Senate Committee on Armed Services. On March 17, 1999, CBO prepared a cost estimate for S. 4, as passed by the Senate.

Section 3 of this bill would have the same effect as section 305 of S.4 as passed by the Senate. Sections 4 and 9 of this bill would have the same effects as sections 301 and 303, respectively, in the reported version of S.4. The CBO cost estimates for the corresponding provisions are identical.

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