

MILITARY EDUCATIONAL BENEFITS AS A RECRUITING INCENTIVE

Statement of

Robert F. Hale and Daniel F. Huck
National Security and
International Affairs Division
Congressional Budget Office

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Mr. Chairman, we appreciate the opportunity to appear before this Subcommittee to update our testimony on military educational benefits. Since we last testified, CBO has received final data reflecting the **Army's** fiscal year 1981 recruiting successes, and the Congress has enacted a major military pay raise. We have also refined and extended our earlier estimates, especially those concerning the so-called "transferability" provision. Our major findings are:

- o If the favorable 1981 recruiting trends continue, and if end strengths remain constant, the **Army--which** has had the most serious recruiting **problems--should** meet its numerical goals for enlisted recruits and the quality goals mandated by the Congress in each of the next five **years**.
- o Additional recruiting incentives, such as improved educational **benefits**, would be needed by the Army only **after** 1982, and then mainly as a hedge against end strength increases or a reversal of favorable 1981 **trends**.
- o Improved educational benefits in H.R. 1400, if targeted mainly on the Army, could provide such a hedge, but at an eventual cost of as much as \$2.8 billion a year in **today's** dollars.
- o Concerns about the retention effects of educational benefits, which prompted inclusion of a transferability

provision in H.R. 1400, might more cheaply be met through increases in selective reenlistment bonuses.

Let me address each of these findings in more detail.

UPDATED ENLISTED RECRUITING FORECASTS

Results Favorable

Fiscal year 1981 was an excellent year for Army recruiting. The Army enlisted 48,000 high-quality male recruits (that is, those holding high school diplomas and scoring above the 70th percentile on the recruit entrance test). CBO's forecast prepared last spring anticipated only about 38,000 such recruits. The increase in high-quality recruits stems in part from military pay raises, although CBO's previous forecast allowed for increases in pay. The **Army's** recruiting success may also have resulted from intense management attention, particularly regarding the test scores of recruits. In late fiscal year 1980, the Department of Defense (DoD) announced errors in the norming of the recruit entrance test, which led the Army inadvertently to accept large numbers of low-scoring recruits. Fiscal year 1981 was the first full year that Army recruiters were aware of this problem, and they appear to have corrected it.

The other three services also enjoyed a good recruiting year in 1981, although their levels did not show the significant improvements that the Army achieved. Since the other services

should not face severe recruiting problems in the next few years, our testimony today will concentrate on Army recruiting.

If the 1981 trends continue, and if the Army enlisted end strength remains at the level of 674,000 currently planned for 1982, the Army should meet its numerical goals for enlisted recruits over each of the next five **years**. It should also meet the quality goals mandated by the Congress (see base case results in Table 1). 1/

These projections assume that pay raises in future years keep pace with those in the private sector, an important **assump-**tion that was not always realized in the 1970s. The projections also account for the expected decline in the youth population of enlistment age. And the projections reflect **CBO's** latest unemployment assumptions, which show overall unemployment at 7.3 percent in calendar year 1982, then dropping to 6.0 percent by calendar year 1986.

Added Recruiting Incentives Mainly a Hedge

The favorable recruiting results in 1981 suggest that any additional recruiting incentives, such as improved educational

1/ Current law requires that no more than 25 percent of all recruits without prior military service can score in test-score Category IV (10th to 29th percentiles) in 1982 and no more than 20 percent in 1983 and beyond. Also, the conference report on the fiscal year 1982 defense authorization bill requires that at least 65 percent of male, non-prior-service recruits be high school graduates, essentially a continuation of the minimum standard established for fiscal year 1981.

TABLE 1. ARMY ENLISTED RECRUITING FORECASTS (Percent of male, non-prior-service recruits holding high school diplomas, by fiscal year)

	1982	1983	1984	1985	1986	1987
Base Case <u>a/</u>	77	67	70	70	69	70
Base Case but Less Favorable Recruiting Trends <u>b/</u>	73	61	63	63	62	63
Base Case but Varying End Strengths <u>c/</u>	77	73	71	65	64	62
Base Case but Varying End Strengths and Limits on Careerists <u>d/</u>	72	68	66	60	58	57
Base Case but Using Administration Unemployment Assumptions <u>e/</u>	77	67	69	69	68	69

a/ Assumes that fiscal year 1982 end strengths continue through 1987; that Category IV recruits comprise no more than 25 percent of recruits in 1982, and no more than 20 percent thereafter; and that military pay raises keep pace with private sector wage growth.

b/ Same assumptions as in a/. These lower **figures** account for uncertainty about the future course of recruiter effectiveness and **productivity**.

c/ Same assumptions as in a/, except end strengths dip below the 1982 level in 1983 and 1984, return to that level in 1985, and exceed it thereafter.

d/ Same as in c/, but assumes the Army limits its career **force** to about 323,000 in 1987 (46 percent of enlisted end **strength**), in contrast to about 353,000 careerists under the base case.

e/ The **Administration's** mid-session review of the 1982 budget shows unemployment declining from 7.3 percent in calendar year 1982 to 5.5 percent in 1986. Other assumptions as in a/.

benefits, would be needed by the Army only **after 1982**, and then mainly as a hedge against unexpected developments that might worsen **recruiting**.

If, for example, the intense management effort that accompanied the 1981 success is relaxed, recruiting could suffer in future years. We cannot forecast with confidence what part, if any, of the 1981 recruiting improvements will not continue. But, if only one-half of the recruiting improvement not explained by pay raises and unemployment continues in the years after 1982 and all other assumptions of the base case remain the same, the percentage of recruits holding high school diplomas could fall below the 65 percent target in 1983 and beyond (see Table 1).

Increases in the Army's enlisted end strength could also produce less favorable trends. The current Army plan calls for decreases in enlisted end strength through 1984, followed by sharp increases in 1985 through 1987. Such a pattern would improve the recruiting outlook for 1983 and 1984, but could prevent the Army from meeting the 65 percent target for high school graduates in 1985 and beyond (see Table 1).

The favorable base-case results also assume continued improvements in career retention, and hence less demand for recruits. A limit on increases in numbers of careerists, prompted by demands for more young soldiers in combat skills, could worsen recruiting problems significantly (see Table 1). Recruiting could

also suffer if the unemployment rate declines as sharply as the Administration predicts (see Table 1). The base-case forecasts also make assumptions about recruiting policies for females and those with prior military service. Changes in recruiting objectives for these categories could alter CBO's results, although probably less dramatically than factors such as end strength increases.

H.R. 1400 AS A POSSIBLE RECRUITING HEDGE

Recruiting Effects

Improved military educational benefits could provide a hedge against the risk of future recruiting problems. For example, H.R. 1400--the bill now before this Subcommittee--would provide a \$300 monthly benefit for up to 36 months to those who complete at least two years of active-duty military service. Those who complete six or more years would be eligible for a substantially higher benefit. H.R. 1400 also contains a transferability provision, which allows qualified military personnel to "transfer" their benefits to their spouse or children.

If H.R. 1400 were extended only to Army recruits, CBO forecasts an increase of as much as 15 percent in the number of high-quality recruits. Actual increases might well be lower, since the 15 percent estimate assumes that benefits are fully indexed to inflation, that the effects of benefits are not reduced

through competition with non-military educational **benefits**, and that potential recruits expect to use all of their **entitlements**. **Nonetheless**, an increase of even 5 to 10 percent in the number of high-quality recruits should give the Army a good chance of meeting its recruiting goals through the mid-1980s, even if its 1981 recruiting success falls off or end strengths increase.

These results would apply if eligibility were restricted to Army **recruits**. If, however, benefits were extended across the board to all the services (as H.R. 1400 would **do**), Army recruiting might actually suffer. Last year the Congress authorized a test of various educational **benefits**. Preliminary results of the test show that, when a uniform benefit was offered to all the services, the **Army's** acquisition of high-quality recruits fell by about 7 percent below the base-case level, while Navy and Air Force recruiting increased over the base case by about 8 percent and 5 **percent**, respectively. The base case assumed continuation of today's educational benefits, which offer more to Army recruits. It may be that the other services appear relatively more attractive when a common benefit is offered.

The test results, of course, should be interpreted with care. Nonetheless, the dramatic results of the **test--a** poor showing by the service most in need of recruiting **help--do** suggest that the Congress avoid across-the-board benefits and target any added military educational benefits heavily toward those occupations

that are most difficult to fill, most of which are in the Army. Such a targeted approach would enhance the chances of improving recruiting where that help is needed most.

Costs

Because at least two years of active-duty service would be required to earn benefits under H.R. 1400, the cost of the bill would be minimal in the first few years. CBO estimates, however, that, when costs approach their peak in the mid-1990s, annual spending would range between \$650 million and \$2.8 billion in constant fiscal year 1982 dollars. The range depends mostly on whether the benefits are indexed to inflation. H.R. 1400 does not provide for indexing, but the Congress has traditionally increased veterans' benefits as the cost of living has risen.

CBO estimates that benefits **paid** directly to veterans would account for about 60 percent of total program costs. The transferability provision would account for another 25 percent, and the provision permitting in-service use of benefits by career personnel would absorb the remaining 15 **percent**.

These cost estimates are lower than those CBO submitted to the House Veterans' Affairs Committee last May. The difference results primarily from a lower estimate of the cost of the transferability provision, which we will discuss further in a **moment**.

Educational benefits may not be the cheapest way to improve enlisted recruiting. CBO estimates that a substantially expanded

enlistment bonus program could yield a 15 percent increase in high-quality recruits in each of the ~~services--the~~ same as H.R. 1400 could ~~produce--and~~ would cost \$700 million annually in constant 1982 dollars. This is one-third the cost of benefits paid directly to veterans under H.R. 1400. Enlistment bonuses are less costly because the benefits are "up front" rather than deferred, and young persons have a strong preference for money now rather than later. Moreover, enlistment bonuses could be targeted only on high-quality recruits (that is, high school graduates in the upper test-score **categories**), whereas educational **benefits** would be available to all those who complete high school.

An additional \$700 million in enlistment bonuses would represent a six-fold increase in spending on such bonuses. Such a large program may have important **disadvantages**. For example, the bonus is usually paid upon the completion of basic training and thus may be difficult to recover from those who leave before completing their first enlistment term. Moreover, some have expressed concern that substantial cash bonuses could be used unwisely by 18-year-old recruits. Nonetheless, the cost figures do suggest that bonuses would be a less expensive way of meeting recruiting goals than educational benefits.

TRANSFERABILITY

This Subcommittee and the Congress have shown strong interest in a transferability provision, which would permit military

personnel to transfer their educational benefits to their spouse or **dependents**. While educational **benefits** may be an incentive to join the military, they are also an inducement to leave in order to attend school and make full use of the benefits. **Trans-**ferability is one way to offset this incentive and so avoid harming career retention, which has been a major concern of the Congress in recent years.

Retention Effects

CBO's forecasts show that, even in the absence of any further special pay increases, career retention should improve substantially. For example, the number of **careerists** in the Navy, which has had the most severe retention problems, should increase by 15 percent between 1981 and 1986. (Careerists are defined here as those military personnel with more than four years of active-duty service.) This improvement in overall numbers of careerists does not rule out some shortages in highly technical occupations, but these problems should be quite limited.

Nonetheless, the Congress may want to be sure that these improvements in retention are not jeopardized by the introduction of a new educational benefits program. Would H.R. 1400 harm retention, and could transferability remedy any such harm? The answer varies with the **person's** years of service. 2/

2/ The results presented below depend on H.R. 1400's specific provisions. To transfer a benefit under H.R. 1400, the

After four years of military service, when most personnel face their first **reenlistment decision**, H.R. 1400 offers only a modest incentive to leave. Without transferability, the amount of this incentive to leave is equivalent to a "negative bonus" of about \$1,200. Transferability would reduce this negative bonus to \$200. The amount of the incentive to leave is small at the fourth year largely because educational benefits would double, from \$300 to \$600 a month, for **those** who reenlist and complete more than six years of service.

After eight or twelve years of service, when active-duty personnel often face subsequent reenlistment decisions, the benefits in H.R. 1400 would produce a stronger incentive to leave. Without transferability, the incentive would be equivalent to a negative bonus of about \$4,200 at the eighth year and \$3,500 at the twelfth year. Transferability would offset about two-thirds of this negative bonus at the eighth year and offset it completely at the twelfth year.

Costs

The advantages of transferability would come at some cost. CBO estimates **that**, if benefits under H.R. 1400 were fully

service member must have completed at least ten years of active-duty service and remain on active duty, or be retired, while his spouse or dependent uses the benefits. Benefits transferred by retirees must be used within ten years of the date of retirement.

indexed, the **cost** of the transferability provision would eventually reach about \$750 million a year in **today's** dollars. This is substantially lower than the \$1.25 billion cost estimate we submitted to the **Veterans'** Affairs Committee several months ago.

Our revised estimate is lower because it reflects a substantially smaller population of eligible users. When utilization levels out in the late **1990s**, we estimate that about 1.0 million active-duty and retired military personnel would be eligible to transfer benefits to about 1.3 million spouses and college-age children. (These figures reflect expected improvements in retention over the next few years.) But only about 10 percent of the 1.3 million eligible recipients would actually use their benefits each year. The percentage is low because college-age children, who are likely to attend school, make up only about one-third of the 1.3 million potential users. The remaining **two-thirds** would be spouses over age 26, and Census data show that only 3 to 5 percent of married females in this age group attend college. When attendance rates for spouses are adjusted upward to reflect the availability of educational benefits, their projected attendance rate still remains relatively low.

Even with this reduced estimate of the cost of transferability, selective reenlistment bonuses may still be a cheaper way to offset the incentive to leave. Offering reenlistment bonuses at the fourth, eighth, and twelfth years of service, in amounts

equal to the value of transferability at these points, should offset much of the incentive to leave. The bonuses would add about \$500 million a year to costs, compared to the \$750 million annual cost of H.R. 1400's transferability provision. Costs could be reduced still further if these bonuses were limited to occupations with retention problems. As we noted earlier, only a limited number of occupations are suffering such problems.

We have tried to present our findings on the costs and effects of transferability as simply as possible. **But** I should note that they are based on many highly uncertain factors that are extremely difficult to quantify, including a preference for educational benefits now rather than later, the chances of remaining in the military long enough to transfer benefits, and the likelihood of having a spouse **and/or** children who plan to attend school. Thus, our results, which are **preliminary**, should be viewed only as rough guides to the costs and effects of educational benefits and transferability.

SUMMARY

Mr. Chairman, CBO's revised recruiting forecast has changed the urgency associated with providing improved educational **benefits**. It now appears that the Army will need added recruiting incentives only beyond fiscal year 1982, and then mainly as a hedge against increases in end strengths or a reversal of favorable 1981 trends. Moreover, the recent test results raise the

risk that providing equal benefits to all the services could actually reduce recruiting in the Army below levels that would be achieved with **today's** benefits.

The results suggest that, if the Congress chooses to enact an improved educational benefits program, the improvements should be targeted heavily on categories of recruits that are difficult to attract, most of which would be in the Army. The Congress might also want to keep any initial package of benefits modest, so as to hold down costs, while leaving open the possibility of increasing benefits should recruiting problems in the years after 1982 warrant greater **incentives**.