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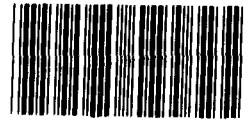
STATEMENT OF

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BEFORE THE

COMMITTEE ON VETERANS' AFFAIRS
UNITED STATES SENATE

ON



123487

THE USE OF A PEACETIME GI BILL
AS A RECRUITING AND RETENTION INCENTIVE

Mr. Chairman and Members of the Committee:

We appreciate the opportunity to appear before you again today to discuss whether a peacetime GI Bill can overcome future recruitment and retention problems in the most cost-effective manner. Specifically, you asked for our general assessment of two bills pending before this committee: [S. 1747,] a proposal to essentially put in place now a new peacetime educational assistance program which would automatically become effective on October 1, 1987, but also could be implemented earlier if the President determined that certain conditions had been met and reported those conditions to the specified committees, and S. 1873, a bill which would require the President to report on or before July 1, 1987, on the need for a peacetime GI Bill to assist in recruiting and retention.

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**THE PROBLEMS--ATTRACTING HIGH-QUALITY
RECRUITS AND KEEPING SKILLED CAREERISTS**

What future recruiting and retention problems are the services likely to face that could be addressed and corrected efficiently by a new peacetime GI Bill?

As we discussed with you in March of last year:

1. The recruiting problem has not been and is not likely to be an across-the-board problem, but instead it is likely to continue to be one of attracting a sufficient number of high-quality men to serve in combat occupations or with the aptitude needed for certain highly technical jobs, particularly in the Army.
2. Likewise, retention has not been an across-the-board problem. Instead, it has been and is likely to be one of keeping the right number and quality of people with the right mix of occupational skills and experience--a problem which has varied from service-to-service, grade-to-grade, and occupation-to-occupation. Generally, the problems are (1) shortages in technical skill areas where there is a heavy demand in the civilian economy, (2) shortages in occupational areas which are not especially marketable but which are not attractive to service members--combat occupations and boiler technicians, for example--and (3) surpluses in some easy-to-fill jobs, the sum of which results in an inefficient manpower mix.

In the future, the severity of these problems will be influenced by many factors, such as an increase or decrease in the unemployment rate, the relative size of the enlistment age youth population--which is projected to decline by about 17 percent by the early 1990s--and changes in the needs of the services for high-quality personnel. However, in the future as in the past, the specific manpower staffing problems will be very dynamic and fluid. A problem today may not be a problem next year. A solution thought to be reasonable today may not be reasonable in the future.

IS S. 1747 NEEDED TO ADDRESS FUTURE
RECRUITING AND RETENTION PROBLEMS?

With the ever-changing manpower supply and environment, the question is whether a generally inflexible incentive device, such as a GI Bill, would address future recruiting and retention problems in a cost-effective and efficient manner.

As we discussed with you in March of last year, a cost-effective recruiting or retention incentive should give Defense managers authority to apply or remove the incentive on a timely basis as the high-quality recruit problem increases or decreases. Defense managers should have the authority to target the incentive to the specific problem area--for example, to a particular service or an occupational skill level within a service. And, Defense managers should be able to readily adjust the incentive to meet changing conditions.

Upon examination, we find that while S. 1747 offers more managerial flexibility than some other GI Bill proposals, it is still relatively inflexible. For example, while S. 1747 precludes those without a high school diploma or equivalent certificate from receiving basic educational benefits of up to \$10,800, it would allow no flexibility in providing this basic benefit to others who serve a minimum of 3 years.

On the plus side, however, S. 1747 would offer some managerial flexibility in the areas of supplemental educational benefits--up to an additional \$10,800 for 3 more years of service--and an additional "recruitment and retention" benefit of up to \$10,800. Further, and in contrast to most other GI Bill proposals, S. 1747 would allow Defense managers to decide whether to use these supplemental and additional recruiting and retention benefits options and, to some extent, decide on the amounts of additional benefits that would be paid. Nonetheless, these provisions would still offer less flexibility than the current selective bonus programs which can vary the amounts of added benefits between occupational groups, skill levels or services, and adjust them periodically.

Aside from questions about managerial flexibility and critical skill targeting, would the proposed basic educational assistance program be cost-effective?

The evidence indicates that, dollar-for-dollar, the money spent for educational benefits, such as those proposed in S. 1747, would not be as efficiently spent as would a cash

incentive directed to critical shortage areas. Estimates made by the Congressional Budget Office (CBO), the Center for Naval Analysis, and others for similar GI Bill proposals indicate that it would cost some four to five times more to attract each additional high quality recruit with an educational benefit than with other more targeted incentives. For example, an analysis of a proposal similar to this one indicated that it would cost about \$200,000 to attract each additional high quality recruit using educational benefits, whereas using selective enlistment bonuses would cost about \$35,000 per additional high quality recruit.

This higher cost per additional high-quality recruit comes about for two reasons. First, because of its relative inflexibility as compared to bonuses, the educational assistance recruitment incentive would be paid to many people who would not need it to join the service. If, for instance, the basic educational benefit increased the supply of high quality recruits by 5 percent, for every additional high quality recruit, the benefits would have to be paid to 20 others who would have enlisted without it. While a bonus would be paid to some who would join the service without it, the extent of such payments would be considerably less because of the ability service managers have to target bonuses to hard-to-fill occupations. Second, most people have a preference for money now over a promise of money in the future. One would not expect, for example, that a potential recruit would find as attractive a

promise of future educational benefit payments as he would cash-in-hand now.

Most educational benefit programs have also been challenged because their "leave to use" requirement would negatively impact on retention of career personnel. To counter this "leave to use" problem, S. 1747 contains a provision for personnel to use their educational assistance benefits while still in the service and for up to 10 years after their discharge from active duty. Also, the supplemental assistance feature, if the services decide to use it, would encourage first-termers to extend or reenlist for an additional 3 years to gain the additional educational benefits. This extended service would be desirable in most cases, but \$10,800 in additional educational benefits may not be the most cost-effective way of achieving such additional service as compared to the use of selective bonuses.

Also to counter pressure to leave, S. 1747 proposes a new "Career Members' Contributory Educational Assistance Program," which provides up to \$18,000--\$6,000 contributed by the member and \$12,000 by the service--to help retain highly qualified people. This program would be quite similar to the current basic Veterans' Educational Assistance Program (VEAP), except for a 10 years-of-service enrollment restriction and a provision allowing transfer of benefits to a member's spouse or child. Studies by both the Department of Defense (DOD) and CBO strongly suggest that the basic VEAP alone, without the so-called "kickers" which add up to \$8,000 for 2-year enlistments and

\$12,000 for 3 or 4 year enlistments in certain critical shortage occupations in the Army, has had little effect on high-quality recruiting or retention. More importantly, however, the services' reenlistment statistics show that retention problems usually occur prior to the 10th year of service, generally at the first or second reenlistment point.

Also, although benefits which would be earned under this proposed provision would be transferable to the person's spouse or child, the proposal as written would seem to preclude most spouses from using it because of the prohibition against payment of any transferred benefits to persons age 29 or older and the necessity for the service person to have served more than 10 years before benefits would be available.

OTHER CONCERNS WITH S. 1747

S. 1747 also contains other provisions which we believe merit discussion. The first of these is section 4 which contains a provision to allow any eligible member, enlisted or officer, 2 years off with basic pay--but without housing and food allowances--to attend school. Encouraging individuals to further their education, and making provision for them to do so by using their earned educational benefits while still in the Armed Forces, is a laudable goal; however, cost and manpower implications of this provision raise several concerns.

--The provision as written places no limitation on the number or percentage of military members who may be on educational leave of absence at any one time. If, for

example, the number of career people on educational leave was as large as 2 percent, as many as 20,000 soldiers, sailors, and airmen would not be available for duty; a fact which could adversely impact on readiness or prompt service requests for end-strength increases.

--The educational leave provision could be quite lucrative for some individual members and costly to the government, but the return on this investment in terms of added service time or increased productivity could be minimal. For example, an E-6 with 13 years of service--an individual at the peak of productivity--could be granted 2 years of educational leave to pursue a course of study unrelated to his military job. Under current pay rates, the member would receive about \$29,000 in basic pay--in addition to up to \$30,000 in educational benefits. However, retaining people with 10 or more years of service has not been a serious problem, and it is very unlikely that obtaining a commitment for added service by granting leave to people in this category would be worth the price.

--While the provision requiring 2 years of service for every year at school could influence the retention of those in the early years of their careers--for example, those with less than 10 years of service--it would preclude use by about-to-retire personnel--a viable transition program used elsewhere.

Another concern has to do with the implementation procedures proposed in S. 1747. In contrast to other proposals, which required the President to recommend that they become effective only after weighing other alternatives, S. 1747 would become effective automatically on October 1, 1987, without a prior determination that educational benefits are needed to improve recruiting or retention or that such benefits are the most cost-effective means of meeting service manpower needs. Such a provision would strengthen S. 1747.

A third concern has to do with whether a GI Bill should be funded on a pay-as-you-go or accrual basis. As currently proposed in S. 1747, the full cost of educational benefits would not appear in any budgets until personnel began to receive their benefits. Under such a pay-as-you-go concept, it would be at least 3 years after the actual obligations were incurred that costs would become visible in the budget. Consequently, the temptation would exist to disregard the cost implications of approving GI Bill provisions or policy changes. In contrast, funding on an accrual basis would explicitly recognize in current budgets the liability being incurred for future expenditures. The problem of not recognizing the future military retirement costs of today's manpower decisions was recently corrected with the enactment in September of the fiscal year 1984 DOD Authorization Act. Under this act, beginning in fiscal year 1985, a retirement trust fund will be established, and payments will be made to the fund as benefits are earned. A

similar accrual accounting requirement in S. 1747 or any other GI Bill authorization would improve the financial management of such programs by assuring that the future cost consequences of today's decisions are recognized in current budgets. Such a provision would also encourage Defense managers to make more accurate tradeoff analyses and determinations of cost-effectiveness.

Our last concern has to do with periodic reporting requirements. As with most GI Bill proposals, S. 1747 contains a requirement for the Secretary of Defense to periodically report on the continuing need for educational benefits as a recruiting and retention incentive and whether the amounts paid are still appropriate. However, in contrast to other proposals which require an annual assessment of alternative recruitment and retention incentives taking into account recruiting and retention performance by each branch of service, by occupational specialty, and by qualification category, S. 1747 would simply require information on the overall continued need for educational benefits to maintain adequate levels of well-qualified personnel. A more explicit statement of reporting criteria would strengthen the oversight of any future GI Bill.

On the positive side, as compared with some other proposals, since the primary purpose of a peacetime GI Bill is to recruit and retain people, S. 1747 rightfully would require that the cost be contained in the Defense budget. This would encourage Defense managers to make tradeoffs between educational

assistance and other available incentive options and help them to choose the incentive which would be most cost-effective.

OBSERVATIONS ON S. 1873

The second proposed bill being considered today--S. 1873--is far less complex than the proposals in S. 1747. Its primary advantage over S. 1747 is that it would require the Defense Department to make an evaluation of the most cost-effective structure for an educational assistance program and whether other incentives would be more cost-effective in manning the modern military. It would also allow adequate time for Defense to thoroughly examine the alternatives, although the evaluation would be strengthened by expanding the scope of the years studied and requiring and allowing sufficient time for an independent assessment of the Defense evaluation before final congressional action. The only real disadvantage of S. 1873--as we see it--is that it would not require Defense to make a continuing reassessment of the decision.

SUMMARY

In summary, Mr. Chairman, I would like to repeat a response to a question you posed when we appeared before you last March. At that time you asked whether GAO would advocate abandonment of educational assistance programs as recruitment and retention tools for the Armed Forces.

As I stated then, we have no particular bias for or against a GI Bill or any other recruitment and retention incentive device. Instead, it is our view that, whatever incentive or mix

of incentives are used, the specific manpower problems and needs must first be identified, the solution to the problem should be applied only to the problem and not to areas where problems do not exist, and finally, the incentive selected should be the most cost-effective and efficient one available. In this context, we are concerned that a GI Bill, such as S. 1747, which contains basic benefits for nearly every service member, does not address specifically identified manpower problems and does not allow for the flexibility needed to man the Armed Forces in a cost-effective manner.

In contrast, we believe that S. 1873, slightly modified, could provide a vehicle for assuring that the Armed Forces in the late 1980s and beyond authorize only those appropriate and cost-effective programs which are needed to sustain desired force quality, skills, and manning levels.

Mr. Chairman, this concludes my formal statement. We would be happy to respond to any questions you may have.

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