



May 8, 2008

Honorable Judd Gregg
Ranking Member
Committee on the Budget
United States Senate
Washington, DC 20510

Dear Senator:

On May 5, 2008, you requested that CBO provide information about the cost of S. 22, the Post 9/11 Veterans Educational Assistance Act of 2008, including its impact on the retention of military personnel. CBO has reviewed several versions of S. 22, most recently a modified version of that bill provided to CBO by Senator Webb's office on April 23, 2008. We have completed a preliminary estimate of the mandatory and discretionary costs of that modified language.

Preliminary Estimate of Costs for S. 22

The modified version of S. 22 would increase the amount of the education benefits available to veterans and to active-duty and reserve servicemembers; expand the number of individuals eligible to receive such benefits; increase the period of time during which such benefits could be used; and allow the benefits to be used to cover an expanded array of education-related expenses. CBO estimates that enacting those provisions would increase direct spending for veterans' and reservists' education benefits by \$51.8 billion over the 2008-2018 period (see attached table).

S. 22 (as modified) also would increase spending subject to appropriation in several ways. CBO estimates that implementing the proposal would:

- Increase costs to the Department of Veterans Affairs for personnel and information technology,

Honorable Judd Gregg

Page 2

- Decrease costs to the Department of Defense (DoD) to maintain current levels of enlistment,
- Increase DoD's cost to maintain current levels of retention, and
- Decrease DoD's contributions to fund education benefits for reservists.

In total, CBO estimates that the bill would increase discretionary spending by \$145 million over the 2009-2013 period, assuming appropriation of the estimated amounts.

Impact of S. 22 on Recruitment and Retention

You requested specific information regarding our estimate of the impact of S. 22 (as modified) on the retention of personnel by the Armed Forces. CBO expects that both enlistment and retention would be affected by the proposed improvement in education benefits. The net impact on DoD's discretionary costs for those purposes would be an increase of \$1.1 billion over the 2009-2013 period. That net change reflects the expected cost of increased bonus payments for reenlistment (\$6.7 billion), less the estimated savings for enlistment bonuses and other recruiting costs (\$5.6 billion). (The net discretionary costs described above include this \$1.1 billion, as well as offsetting savings to DoD from other aspects of the legislation.)

To maintain current levels of enlistment and retention, DoD incurs costs for advertising, recruiters, enlistment bonuses, and retention bonuses. An enhanced package of education benefits would make military service more attractive, and increasing those benefits would allow the services to reduce other enlistment incentives while still enlisting the same number of recruits. However, because the higher educational benefits would reduce the costs of attending college after military service, enacting S. 22 (as modified) also would increase the number of servicemembers who would separate from military service to take advantage of those benefits. Additional reenlistment incentives would then be required to keep the number of reenlistments, and the experience profile of the military force, constant.

Educational benefits have been shown to raise the number of military recruits. Based on an analysis of the existing literature, CBO estimates that a 10 percent increase in educational benefits would result in an increase of about 1 percent in high-quality recruits. On that basis, CBO calculates that raising the educational benefits as proposed in S. 22 would result in a 16 percent increase in recruits. To maintain the same force levels and thus the same number of recruits, enlistment bonuses and other recruiting costs could be reduced.

The marginal cost of enlistment bonuses and the other expenditures necessary to attract an additional enlistment is about \$35,000. CBO estimates that reduced spending for those purposes would result in a savings of almost \$5.6 billion over the 2009-2013 period.

Literature on the effects of educational benefits on retention suggest that every \$10,000 increase in educational benefits yields a reduction in retention of slightly more than 1 percentage point. CBO estimates that S. 22 (as modified) would more than double the present value of educational benefits for servicemembers at the first reenlistment point—from about \$40,000 to over \$90,000—implying a 16 percent decline in the reenlistment rate, from about 42 percent to about 36 percent. CBO assumes that to maintain the same force size, the services would offer selective reenlistment bonuses (SRBs). An \$8,000 bonus to personnel at the first reenlistment point is estimated to increase reenlistments by about 2 percentage points. Thus, CBO estimates that SRBs of about \$25,000 for each first-term servicemember who reenlists would offset the expected effects on retention of increased educational benefits, resulting in a cost of \$6.7 billion over the 2009-2013 period for additional reenlistment bonuses.

You also asked about the impact on retention of S. 2938, the Enhancement of Recruitment, Retention, and Readjustment Through Education Act of 2008. CBO has not yet completed its estimate of the impact of that legislation on costs or retention rates.

Honorable Judd Gregg
Page 4

If you have further questions, the CBO staff contacts are Camille Woodland, who can be reached at 226-2840, and Heidi Golding, who can be reached at 226-2900.

Sincerely,


for Peter R. Orszag
Director

Attachment

cc: Honorable Kent Conrad
Chairman

Honorable Jim Webb

Honorable Daniel K. Akaka
Chairman
Committee on Veterans' Affairs

Honorable Richard Burr
Ranking Member

PRELIMINARY ESTIMATE FOR S. 22: POST-9/11 VETERANS EDUCATIONAL ASSISTANCE ACT OF 2007
(ASSUMING ENACTMENT JUNE 1, 2008)

	By Fiscal Year, in Millions of Dollars												2008-	2008-
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2013	2018	
CHANGES IN DIRECT SPENDING														
Estimated Budget Authority	40	680	3,650	4,460	5,130	5,510	5,810	6,160	6,510	6,830	7,060	19,470	51,840	
Estimated Outlays	40	680	3,650	4,460	5,130	5,510	5,810	6,160	6,510	6,830	7,060	19,470	51,840	
CHANGES IN DISCRETIONARY SPENDING														
Estimated Authorization Level	0	50	50	10	10	20	30	30	40	50	60	140	350	
Estimated Outlays	0	40	50	10	10	20	30	30	40	50	60	130	340	

Source: Congressional Budget Office.
