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STATEMENT OF

DR. KENNETH J. COFFEY  
ASSOCIATE DIRECTOR (MILITARY PERSONNEL)  
FEDERAL PERSONNEL AND COMPENSATION DIVISION

BEFORE THE

COMMITTEE ON VETERANS' AFFAIRS  
UNITED STATES SENATE

ON

THE USE OF EDUCATIONAL ASSISTANCE  
PROGRAMS TO IMPROVE MILITARY RECRUITING AND RETENTION

Mr. Chairman and Members of the Committee.

We appreciate the opportunity to appear before you today to discuss the use of post-service educational assistance benefit programs as incentives to improve recruitment and retention.) In order to address this issue within the context of the tools needed by management to achieve their manpower goals, I will divide my remarks into two sections. First, after summarizing the manpower problems of the services, I will discuss our views concerning the most appropriate use of the full range and mix of monetary incentives to attract and keep the right number and quality of people needed to man the All-Volunteer Force (AVF). Second, within this context, I will discuss some of the pros and cons of specific features often included or omitted from educational assistance proposals and now these proposals,

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including the ones being considered by this committee, compare with the "ideal" incentives which would allow managers to reduce their manpower problems in the most cost-efficient and effective way possible.

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

What, then, are the manpower problems facing the services that could be addressed and corrected by new post-service educational benefits? Since the inception of the AVF, the Active Force has never been more than about 1.5 percent below their total funded authorized strength and only in fiscal year 1979 did the services fail to meet their quantitative recruiting goals. There have been serious manpower shortfalls in the reserves, but in the Active Force there has been no across-the-board problem recruiting or retaining the right aggregate number of people--a problem that might call for an across-the-board solution. Instead, we find that:

1. Recruiting a sufficient number of high-quality men to serve in the enlisted ranks and willing to serve in combat occupations or with the aptitude needed for certain highly technical jobs has been a serious problem, particularly for the Army. On the other hand, none of the services have had major problems recruiting a sufficient number of officers.

2. Retaining the right number and quality of people with the right mix of occupational skills and experience has also been a problem that varies from service-to-service, grade-to-grade, and occupation-to-occupation. The problem has generally been one of imbalance--both occupational imbalances and by experience level. The imbalance problem can be categorized as (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 very attractive to service members--combat occupations and boiler technicians for example--and (3) surpluses in some easy-to-fill jobs.

How severe any of these manpower problems are at any particular time is obviously influenced by many outside factors, such as an increase or decrease in the unemployment rate and the relative size of the enlistment age youth population--which is projected to decline by 15 percent between 1982 and 1987. I would like to emphasize that the manpower staffing problems are very dynamic and fluid. A problem today may not be a problem next month or next year. Both the supply of the right kind of people and the demand for them is constantly changing.

For example, the services, particularly the Army, faced an increasingly difficult recruiting problem in the years immediately following the termination of the Vietnam-era GI Bill in

December 1976. Despite the introduction of the less generous, contributory VEAP, a serious shortfall in the enlistment of high-quality, high school diploma graduate males occurred.

Factors, such as uncompetitive military pay rates-- including special and incentive pays--as compared to private sector pay, and the reasonably strong job market during that period, may largely account for this decline. Whatever the reasons, concerned officials, both within the Congress and among the services, began to raise questions about whether an expanded educational assistance program, i.e., something better than VEAP, would improve recruitment. As a result, experiments were conducted with more generous versions of VEAP, numerous versions of a GI Bill were introduced and debated at length in the 96th and 97th Congresses, and proposals have been introduced in this session.

For many reasons, including increases in basic pay and allowances, larger and more bonuses, more money spent on recruiting and advertising, the expanded use of more generous VEAP "kickers"--up to \$12,000--by the Army, and the depressed civilian economy with the accompanying high unemployment rates, there has been an abrupt reversal of recruiting trends since 1981. By the close of fiscal year 1981, about half of the enlistment decline had been restored, and, as you know, the

Department of Defense has reported fiscal year 1982 as an outstanding recruiting year for all services, even the Army, where high school diploma graduates accounted for 84 percent of their nonprior service male recruits. Data for the first quarter of fiscal year 1983 indicates that the previous year's success rate is continuing.

WHAT IS NEEDED TO ADDRESS THESE PROBLEMS?

Given the nature of the services' manpower problems, then, what might be the ideal ingredients for a management system to deal with the problems? What tools would a manager in any large organization need to overcome his manpower staffing problems in the most cost-effective and efficient manner possible?

Textbooks have been written on this topic, but it seems to us that there are basically five key ingredients.

1. Managers should have adequate resources at their disposal to deal with the problem.
2. Managers should have the authority to apply the resources in a timely manner and an early warning system to know when problems are developing.
3. The problem-solving solutions should be flexible so that managers can make adjustments to them--add to, subtract from, or apply differently--as conditions change.

4. Managers should have the authority to apply resources to manpower problems in the most cost-effective manner; in other words, to target the money to the problem.
5. Managers should have adequate feedback and evaluation systems so that they can determine whether the solutions are working and when more or less resources are needed.

Obviously, this would be somewhat of an ideal environment in which all managers would no doubt like to function. We also recognize that it may not be totally achievable, either for business or Government. There are limits to available resources and constraints on management authority. Nevertheless, within the realm of judicious oversight and control by the Congress, we believe that the tools provided to Defense managers, be they basic military compensation, enlistment and reenlistment bonuses, flight pay, sea pay, educational assistance benefits, or any of the other 40-plus components of the military's monetary incentive system, should strive to include the management elements I have just described.

#### IS A GI BILL NEEDED TO ADDRESS AVF RECRUITING PROBLEMS?

From this vast assortment of options available to service manpower managers, can selection of an educational assistance benefit program be justified on grounds of cost efficiency and

effectiveness? A comparison of several key components of the proposed program with our "ideal" management system provides useful insights.

For example, under most educational assistance proposals, including S. 8 and the proposed VEAP enhancement (S. 667), Defense managers would not have the authority to apply or remove the incentive on a timely basis as the high-quality recruit problem increases or decreases, as it has over the past 6 years. Also, Defense managers generally would not have the authority to target the basic incentive to the specific problem area--a particular service or particular skills--thus reducing its costeffectiveness. Managers would not have the flexibility to adjust the basic incentive as conditions change, and problems in Defense's information feedback system would prevent managers from knowing just how well the incentive might be working. Further, while we note provisions in S. 8 for evaluating the need for an improved educational assistance program as a recruiting and retention incentive on a periodic basis, a GI Bill could soon become institutionalized and looked upon as a "right" rather than as an optional incentive. Further, because the "incentive" would be paid to many people who would not need it to join or stay in the service, much of the expenditure would be unnecessary. For example, if a GI Bill were to be enacted which was limited to high school diploma graduates, the supply

of such people could be expected to increase by 5 to 10 percent. In other words, to attract every 21st or possibly 22nd quality recruit, the incentive would be paid to 20 others who could be expected to enlist without it. As a consequence of this, the cost per additional quality enlistee would be very high.

Up to now, my remarks have focused primarily on some of the more general features often associated with educational assistance programs. S. 8 seeks to overcome some of the disadvantages I have mentioned insofar as using educational assistance as an effective management tool; however, it retains other disadvantages. I would like, for a moment, to address specifically some features of this bill.

In our view, one of the most important positive features of S. 8, which has not been part of most other GI Bill proposals, is the provision which requires the President, upon the recommendation of the Secretary of Defense, to activate the bill after taking into account (1) the projected cost of the improved benefit program, (2) the services recruitment and retention experience and projected experience, and (3) the cost of other alternatives for improving recruiting and retention. Thus, because of the services recent recruiting and retention successes, at least in the near term, even if S.8 were enacted, it is not likely that it would be activated. However, this

feature, as we read it, does not require a clear finding and determination that the improved educational benefit be used only if it is the most cost-effective alternative incentive for achieving the recruiting and retention goals. We believe the bill would be strengthened by such a requirement.

S. 8 also contains a provision for deactivating the program after taking into account the same conditions considered when the program was activated. Again, we see this as a very positive feature of this bill; however, as you know, programs of this nature are often difficult to stop once begun, regardless of whether they can continue to be justified on a cost-effectiveness basis.

The Basic Educational Assistance provision of S. 8 would pay a maximum of \$9,000 over a 36-month period to any "eligible veteran." This would include officers and lower quality enlisted members where, even during the worst recruiting years, there were very few recruiting shortfalls. The Supplemental Educational Assistance feature of S. 8 is also open to officers, whose retention beyond initial service commitments generally has not been a problem. The cost-effectiveness of these specific S. 8 provisions have not been fully analyzed. However, a Congressional Budget Office (CBO) study published last March did analyze the cost-effectiveness of options very similar to these

and found them to be considerably more expensive for each additional high-quality recruit gained than the VEAP as it is currently used by the services.

In contrast to most previous GI Bill proposals, S. 8 also contains a provision for careerists to retain their educational assistance rights until they are discharged, thus countering pressures to leave the service in order to "use or lose" their rights. The Supplemental Educational Assistance features of S. 8 also would encourage first-termers to extend or to reenlist in order to gain the additional benefits. This would be a desired phenomenon in most cases, but may not be the most cost-effective method of gaining such additional service

Other positive features of S. 8 which have generally not been found in other GI Bill proposals are that:

--The educational benefits provided by S. 8 would be paid for by the Department of Defense rather than by the Veterans Administration. This should encourage Defense managers to consider the cost of educational assistance along with that of other available incentive options and through this tradeoff analysis process help the services choose the most cost-effective incentive. An additional feature not in S. 8 which would further encourage Defense managers to make realistic tradeoff analyses would be to

adopt an accrual accounting approach so that future liabilities would be more clearly reflected in the current budget. This could greatly improve the management of an educational assistance program and would be consistent with the Administration proposals to use accrual accounting methods in other areas.

←S. 8 would encourage longer initial enlistments and remove incentives to leave the service in order to use the benefits, first by allowing the use of the basic educational assistance benefit while remaining on active duty and second by encouraging high-quality youth to remain on active duty for 6 years or more to gain the benefits of the supplemental assistance.

IS THE PROPOSED ENHANCEMENT OF VEAP JUSTIFIED?

Consideration by this Committee of S. 667--a bill which would require the Government to contribute \$3 rather than \$2 to the basic VEAP for each \$1 contributed by the service member--also should be guided by an evaluation of its impact on the recruiting marketplace, its need, and whether alternative programs, including the proposed GI Bill, would meet the manpower demands of the services in a more efficient and cost-effective manner. .

Concerning the need for a VEAP enhancement, all the services have reported that the basic VEAP program has had only

minimal effect on recruiting. This is consistent with the findings of the March 1982 CBO study which reported the basic VEAP (without kickers) offers very little recruiting improvement. In contrast, however, the Army has reported great satisfaction with Ultra-VEAP, a program which allows up to \$12,000 in bonuses to be added to the \$5,400 contributed by the Government under the basic VEAP program. Of the four services, only the Army uses the Ultra-VEAP authority.

Because of the requirement for a service members' contributions under VEAP and the negative impact of this on participation rates, the overall cost of VEAP--even with the proposed enhancement--would likely be less than the cost of proposed GI Bills. Despite such lower cost, however, the question that needs to be addressed concerns the need for the VEAP program. As recent history shows, only the Army of the four services has had major problems in attracting high-quality recruits, and they have been able to counter these with the use of Ultra-VEAP and other incentives. Accordingly, we see little need at this time to enhance the basic VEAP benefit. If, however, the committee elects to approve S. 667, we urge your consideration of obtaining a corollary reduction in the amounts of Ultra-VEAP bonus monies available for payment to individual recruits by the Army.

Although beyond the scope of the S. 667 proposal, it is obvious to observers, including GAO, that the basic VEAP program is only of marginal usefulness to the services and that if the Army were able to provide educational assistance support on a selective basis in amounts equal to those currently authorized in basic VEAP and Ultra-VEAP supplement, payments of basic VEAP to other personnel could be eliminated. The committee may wish to consider such actions as part of their overall deliberations on this issue.

#### SUMMARY

Mr. Chairman, my remarks today extended somewhat beyond the narrow focus of one specific recruiting and retention incentive, namely educational assistance. But, what I have tried to do is present a framework for assessing the relative worth of any particular incentive in terms of whether the incentive has the key ingredients needed to be useful as a management tool. I can assure this committee that we are not biased for or against any particular incentive. Rather, our primary concern is that whatever incentive is adopted, that it be the most cost-effective incentive possible for doing the job. Again, we think that for an incentive to be most useful managers should have (1) adequate resources, (2) authority to apply the resources in a timely manner, (3) authority to make adjustments, (4) authority

to target the resources to the problem areas and to stop feeding resources once the problem is resolved, and (5) good feedback to know if the incentive is working.

Some of the incentives, such as the bonus programs, contain most of these key ingredients, while others, such as most GI Bill proposals, including that before you today, have fewer. We firmly support the concept that, if additional money is the only answer, it should be focused on solving specific problems. We generally do not support across-the-board solutions such as the proposal to enhance VEAP contributions--unless the problem is truly a universal one. Also, we believe that before applying any solution to a particular problem, tradeoff analyses should be performed to identify the specific type and structure of incentive that will effectively solve the problem at the least cost. This approach in our opinion should be applied regardless of which compensation element is under consideration; be it increases in basic pay and allowances, enlistment and reenlistment bonuses, sea pay, flight pay, or educational assistance benefits.

Mr. Chairman, this concludes my formal statement. My colleagues and I would be happy to respond to any questions you may have.