



**VALUATION OF THE  
EDUCATION BENEFITS FUND**

**SEPTEMBER 30, 2010**

*DoD Office of the Actuary*

*January 2012*

## ACTUARIAL CERTIFICATION

This September 30, 2010 report on the Education Benefits Fund (Fund) has been prepared in accordance with generally accepted actuarial principles and practices. In preparing the report, we have relied upon information maintained by the Department of Defense regarding plan provisions, assets, eligible members, and benefit usage. The purpose of this report is to document the actuarial status of the Fund and develop actuarial liability and funding amounts to support the Secretary of Defense and the DoD Board of Actuaries (Board) in meeting the requirements of Section 2006, Title 10, United States Code. Use of these results for other purposes may not be appropriate.

We have performed the valuation using methods and assumptions approved by the Board. In general, the decrement rates used in the valuation are based on actual experience of the Fund. The annual economic assumptions include an interest rate of 4.5%, an ultimate Consumer Price Index increase of 2.5%, and a National Center for Education Statistics' Index increase of 6.0%.

In our opinion, the actuarial assumptions are reasonable and the valuation results present a fair picture of the financial condition of the Fund. However, material limitations to available data are detailed in Section 3.



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# **EDUCATION BENEFITS FUND REPORT**

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## **SECTION 1 – INTRODUCTION**

The Fund was established on July 1, 1985 to pay education benefits to members of the armed forces. Benefits covered by the Fund have been expanded many times (see Appendix D) and the Fund can now pay for the following benefits:

- Title 38, Chapter 30/33 kicker and transferred kicker benefits<sup>1</sup>
- Title 10, Chapter 1606 basic and transferred basic benefits<sup>2</sup>
- Title 10, Chapter 1606 kicker and transferred kicker benefits<sup>2</sup>
- Title 10, Chapter 1607 basic and transferred basic benefits<sup>2</sup>
- Title 38, Chapter 30 basic benefits for Post-Vietnam Era and Involuntary Separates (Category III)
- Title 10, Chapter 31, Section 510 National Call to Service<sup>3</sup>
- Title 38, Chapter 30, Section 3020 transferability benefits<sup>3</sup>

The Board, whose members are appointed by the Secretary of Defense, approves methods and assumptions used in the Fund valuation, reports to the Secretary of Defense annually on the actuarial status of the Fund, and recommends changes needed to maintain the Fund on a sound actuarial basis.

### **How to Use this Report**

- An executive summary of the Fund can be found in Section 2.
- Annual amortization payments for each component can be found in Section 5.
- The per capita costs for newly eligible members can be found in Section 6.
- A projection of future years' benefit payments can be found in Appendix F.
- In various places in the report, numbers may not add exactly due to rounding.
- Supplementary explanation can be obtained by contacting the Office of the Actuary as detailed on page 2.

<sup>1</sup> Effective August 1, 2011, new legislation will require DoD to fund Chapter 33 kickers.

<sup>2</sup> Transferred benefits are not currently offered under Chapters 1606 and 1607.

<sup>3</sup> Due to the relatively small size of benefits for National Call to Service and Chapter 30, Section 3020 transferability, liability amounts for those programs have not been estimated.

## **SECTION 2 - EXECUTIVE SUMMARY**

	<b><u>Chapter 30/33</u></b>	<b><u>Chapter 1606</u></b>	<b><u>Chapter 1607</u></b>	<b><u>Other<sup>2</sup></u></b>	<b><u>Total</u></b>
<b><u>Sept. 30, 2010 Eligibles<sup>1</sup></u></b>	234,236	446,508	728,342	2,324	1,411,410
<b><u>Sept. 30, 2010 Fund Balance</u></b>					
Sept. 30, 2009 Fund Balance	\$728,991,666	\$831,218,229	\$499,987,850	\$3,519,225	\$2,063,716,971
FY10 Asset Transfers	\$ 0	\$(12,208,244)	\$12,208,244	\$ 0	\$ 0
FY10 Amortization Payments	71,055,782	13,129,556	0	3,392,315	87,577,653
FY10 Per Capita Contributions	133,449,711	230,292,669	48,729,128	0	412,471,508
FY10 Benefit Payments	(100,091,906)	(180,171,168)	(126,343,456)	(2,540,897)	(409,147,427)
<b><u>FY10 Interest</u></b>	<b><u>22,988,986</u></b>	<b><u>24,318,939</u></b>	<b><u>13,376,970</u></b>	<b><u>160,034</u></b>	<b><u>60,844,929</u></b>
FY10 Total Changes	127,402,573	75,361,753	(52,029,115)	1,011,452	151,746,663
Sept. 30, 2010 Fund Balance <sup>3</sup>	\$856,394,239	906,579,982	447,958,736	\$4,530,678	\$2,215,463,634
<b><u>September 30, 2010 Snapshot</u></b>					
Actuarial Liability (AL)	\$988,329,299	\$456,353,370	\$386,016,329	\$12,398,398	\$1,843,097,396
<b><u>Fund Balance<sup>3</sup></u></b>	<b><u>(856,394,239)</u></b>	<b><u>(906,579,982)</u></b>	<b><u>(447,958,736)</u></b>	<b><u>(4,530,678)</u></b>	<b><u>(2,215,463,634)</u></b>
Unfunded AL (Surplus)	\$131,935,060	\$(450,226,612)	\$(61,942,407)	\$7,867,720	\$(372,366,239)

The above summarizes FY 2010 Fund experience and actuarial valuation results as of September 30, 2010. The majority of liabilities detailed in this report stem from active duty kickers, reserve kickers, and reserve basic benefits.

The Post 9/11 Veterans Educational Assistance Improvements Act of 2010 was passed on January 4, 2011. This act allows National Guard members to use Title 32 service for Post 9/11 GI Bill benefits, places a \$17,500 cap on annual tuition and fees for non-public institutions, and creates a funding priority structure that makes the Post 9/11 GI bill paid after any federal, state, institutional, or employer-based aid.

These results depend on the underlying data and assumptions. We relied without audit on the data provided by the Defense Manpower Data Center (DMDC) and the Defense Finance and Accounting Service (DFAS). Current results may vary if data are inaccurate and future results will vary to the extent experience differs from assumptions.

<sup>1</sup> Members eligible for multiple programs are counted separately for each program.

<sup>2</sup> While the Fund Balances for National Call to Service and Chapter 30 transferability have been included in this column, liabilities for those programs have not been included. Due to the relatively small size of benefits for National Call to Service and Chapter 30 transferability, liability amounts for those programs have not been estimated. Liability amounts in this column represent only the Cat III liability. Fund balances and eligible counts for National Call to Service and Chapter 30 transferability are reflected in this column but are based on older data and may not be accurate.

<sup>3</sup> Officially, there is only one Fund. The DoD Office of the Actuary allocates the Fund into separate accounts for the various programs, using reported contributions and benefit payments by program and allocating reported interest earnings by program.

### **SECTION 3 - VALUATION DATA**

The valuation data are taken from files maintained by DMDC along with financial data from DFAS. Data on members of the Chapter 30 (active duty)/Chapter 33 (active duty and reserve), Chapter 1606 (reserve), and Chapter 1607 (reserve) programs are taken from DMDC, DFAS, Reserve Affairs, and Comptroller. An overview of the number of members in each program and their status can be found in Appendix B. Data on benefit payments and contributions are from DFAS. In the case of benefit payments, Department of Veteran Affairs (VA) makes payments to members and receives reimbursement from the Fund where appropriate; DFAS reflects information submitted to them by VA. In the case of Fund contributions, DFAS reports monies and associated information received from the components.

The Office of the Actuary has unresolved concerns with VA regarding the inability of VA to make education benefit data available to DoD. The missing data creates a large material limitation to valuation accuracy.

Benefit Valued	Benefit taken with:	Individual Data Available?	Experience Used Because Individual Data Unavailable
Chap 30 Kicker	Chap 30 Basic	Yes	
	Chap 33 Basic	No	Chap 30 Kicker taken with 30 Basic
Chap 1606 Basic	No Kicker	Yes	
	Chap 1606 Kicker	Yes	
	Chap 33 Kicker	No	Chap 1606 Basic taken with 1606 Kicker
Chap 1606 Kicker	Chap 1606 Basic	Yes	
	Chap 33 Basic	No	Chap 1606 Kicker taken with Chapter 1606 Basic
Chap 1607 Basic	No Kicker	No	Chap 1606 Basic
	Chap 1606 Kicker	No	Chap 1606 Basic
	Chap 33 Kicker	No	Chap 1606 Basic

The data given has been reviewed for reasonableness and consistency including a verification of eligible counts, modifications for codes that conflict with dates given, adjustments for unreasonable benefit amounts, and adjustments to months used to adjust for discrepancies between DMDC and DFAS total benefit usage. However, the data has not been audited by the DoD Office of the Actuary (OACT) and OACT is not responsible for the validity of the data. Responsibility for the validity of the member data lies with the components who report eligibility and demographic data to DMDC. Responsibility for financial data related to Fund transactions and benefit usage is shared between the components, VA and DFAS.

**SECTION 4 – ASSETS, UNFUNDED LIABILITIES, AND ANNUAL CHANGES**

Using the input data described in the previous section and Appendix B, OACT computed the actuarial liability for the Chapter 30/33 kicker benefit, the Chapter 1606 basic benefit, the Chapter 1606 kicker benefit, and the Chapter 1607 benefit. The total value of assets on the valuation date (September 30, 2010) was obtained from the Fund’s investment manager at DFAS. For official accounting, the assets and liabilities are pooled into one Fund. However, OACT tracks assets and liabilities separately by program and component and may transfer assets between programs (not components) with Board approval. The assets are given at book value, rather than at market value. The programs' unfunded liabilities or surpluses are as follows:

**Chapter 30/Chapter 33 Kicker Benefits as of September 30, 2010**

<b><u>Program</u></b>	<b><u>Actuarial Liability</u></b>	<b><u>Assets</u></b>	<b><u>Unfunded Liability or (Surplus)</u></b>
Army	\$683,169,004	\$(703,931,304)	\$(20,762,300)
Navy	182,962,736	(53,122,699)	129,840,037
Marine Corps	120,373,329	(99,410,008)	20,963,321
<u>Coast Guard</u>	<u>1,824,230</u>	<u>69,772</u>	<u>1,894,002</u>
Total	\$988,329,299	\$(856,394,239)	\$131,935,060

**Chapter 1606 Basic Benefits as of September 30, 2010**

<b><u>Program</u></b>	<b><u>Actuarial Liability</u></b>	<b><u>Assets</u></b>	<b><u>Unfunded Liability or (Surplus)</u></b>
Army National Guard	\$112,747,147	\$(287,257,570)	\$(174,510,422)
Army Reserve	50,476,377	(104,213,963)	(53,737,586)
Navy Reserve	9,272,810	(25,593,046)	(16,320,236)
Marine Corps Reserve	16,314,038	(50,441,687)	(34,127,649)
Air National Guard	35,912,447	(36,290,504)	(378,056)
Air Force Reserve	9,616,850	(14,709,019)	(5,092,169)
<u>Coast Guard Reserve</u>	<u>1,682,186</u>	<u>(1,904,951)</u>	<u>(222,766)</u>
Total	\$236,021,855	\$(520,410,739)	\$(284,388,884)

**SECTION 4 – ASSETS, UNFUNDED LIABILITIES, AND ANNUAL CHANGES (cont.)**

**Chapter 1606 Kicker Benefits as of September 30, 2010**

<b><u>Program</u></b>	<b><u>Actuarial Liability</u></b>	<b><u>Assets</u></b>	<b><u>Unfunded Liability or (Surplus)</u></b>
Army National Guard	\$121,859,929	\$(165,048,564)	\$(43,188,635)
Army Reserve	49,282,753	(169,348,200)	(120,065,447)
Navy Reserve	542,941	(511,650)	31,290
Marine Corps Reserve	982,691	(5,442,020)	(4,459,329)
Air National Guard	37,500,586	(34,177,181)	3,323,404
Air Force Reserve	10,162,616	(11,642,842)	(1,480,226)
<u>Coast Guard Reserve</u>	<u>0</u>	<u>1,215</u>	<u>1,215</u>
Total	\$220,331,515	\$(386,169,243)	\$(165,837,728)

**Chapter 1607 Basic Benefits as of September 30, 2010**

<b><u>Program</u></b>	<b><u>Actuarial Liability</u></b>	<b><u>Assets</u></b>	<b><u>Unfunded Liability or (Surplus)</u></b>
Army National Guard	\$241,652,336	\$(246,999,098)	\$(5,346,762)
Army Reserve	73,785,516	(69,664,343)	4,121,173
Navy Reserve	4,770,576	(28,261,195)	(23,490,619)
Marine Corps Reserve	13,670,784	(15,106,709)	(1,435,925)
Air National Guard	36,174,172	(44,215,489)	(8,041,317)
Air Force Reserve	14,949,577	(41,603,823)	(26,654,246)
<u>Coast Guard Reserve</u>	<u>1,013,368</u>	<u>(2,108,078)</u>	<u>(1,094,710)</u>
Total	386,016,329	(447,958,736)	(61,942,407)

In addition to the above 25 items, there are 15 items not reflected in this report (some of which are zero), one for each active duty component for Category III, National Call to Service, and Chapter 30 Section 3020 transferred benefits paid from the Fund. However, OACT tracks the assets and liabilities by each of the 40 lines. This Fund allocation is dependent on the accuracy of the reported Fund transactions; errors and missing information directly impact the accuracy of the allocation.



**SECTION 4 – ASSETS, UNFUNDED LIABILITIES, AND ANNUAL CHANGES (cont.)**

On the following three pages, (gain)/loss is presented as a (gain)/loss on the unfunded liability. The total (gain)/loss is the sum of the liability (gain)/loss and the asset (gain)/loss. Within the asset (gain)/loss, contribution experience reflects the extent to which actual contributions for new entrants differ from what was projected in the last valuation, based on information provided to OACT.

<b><u>Chapter 30/33 Annual Changes</u></b>	<b><u>Actuarial Liability</u></b>	<b><u>% of Projected Actuarial Liability</u></b>
Projected September 30, 2010 Assets	872,870,005	
<u>Projected September 30, 2010 Liability</u>	<u>1,091,074,283</u>	
Projected September 30, 2010 Unfunded Liability	218,204,277	
Actual September 30, 2010 Assets	856,394,239	
<u>Actual September 30, 2010 Liability</u>	<u>988,329,298</u>	
Actual September 30, 2010 Unfunded Liability	131,935,059	
September 30, 2010 (Gain)/Loss	(86,269,218)	-7.9%
<u>(Gain)/Loss Due to Liability</u>		
Withdrawal Experience & Census Changes	9,883,257	0.9%
Interest Rate Assumption Change	-	0.0%
Usage Rate and Other Assumption Changes	(99,930,722)	-9.2%
<u>2010 Population Changes</u>	<u>(12,697,519)</u>	<u>-1.2%</u>
Total Liability (Gain)/Loss	(102,744,984)	-9.4%
<u>(Gain)/Loss Due to Assets</u>		
Benefit Usage Experience	2,928,276	0.3%
Contribution Experience	(681,124)	-0.1%
<u>Interest Experience<sup>1</sup></u>	<u>14,228,615</u>	<u>1.6%</u>
Total Assets (Gain)/Loss	16,475,766	1.5%

The development above reflects the changes in actuarial liability from the last valuation (projected) to the latest valuation (actual) for Chapter 30/33. Rates are reviewed each year to reflect the most recent experience. In FY 2010, benefit usage of active duty kickers used with a Chapter 33 basic benefit was not available. In addition, specific adjustments were made to usage assumptions for certain components based on average historical deviations of projected vs. actual benefit payments.

<sup>1</sup> The percentage change for Interest Experience is expressed as a percent of Projected September 30, 2010 Assets.

**SECTION 4 – ASSETS, UNFUNDED LIABILITIES, AND ANNUAL CHANGES (cont.)**

<b><u>Chapter 1606 Annual Changes</u></b>	<b><u>Actuarial Liability</u></b>	<b><u>% of Projected Actuarial Liability</u></b>
Projected September 30, 2010 Assets	\$938,975,946	
<u>Projected September 30, 2010 Liability</u>	<u>\$471,930,513</u>	
Projected September 30, 2010 Unfunded Liability	(\$467,045,433)	
Actual September 30, 2010 Assets	\$906,579,982	
<u>Actual September 30, 2010 Liability</u>	<u>\$456,353,370</u>	
Actual September 30, 2010 Unfunded Liability	(\$450,226,612)	
September 30, 2010 (Gain)/Loss	\$16,818,821	3.6%
<u>(Gain)/Loss Due to Liability</u>		
Withdrawal Experience & Census Changes	\$9,358,936	2.0%
Interest Rate Assumption Change	\$0	0.0%
Usage Rate and Other Assumption Changes	\$545,263	0.1%
<u>2010 Population Changes</u>	<u>(\$25,481,342)</u>	<u>-5.4%</u>
Total Liability (Gain)/Loss	(\$15,577,143)	-3.3%
<u>(Gain)/Loss Due to Assets</u>		
Benefit Usage Experience	\$14,828,318	3.1%
Contribution Experience	\$2,551,165	0.5%
<u>Interest Experience<sup>1</sup></u>	<u>\$15,016,481</u>	<u>1.6%</u>
Total Assets (Gain)/Loss	\$32,395,964	6.9%

The development above reflects the changes in actuarial liability from the last valuation to the latest valuation for Chapter 1606. Rates are updated each year to reflect the most recent experience.

The organizations responsible for administering transferability under Chapter 1606 have communicated to the Office of the Actuary that transferability is not currently offered through Chapter 1606.

<sup>1</sup> The percentage change for Interest Experience is expressed as a percent of Projected September 30, 2010 Assets.

**SECTION 4 – ASSETS, UNFUNDED LIABILITIES, AND ANNUAL CHANGES (cont.)**

<b><u>Chapter 1607 Annual Changes</u></b>	<b><u>Actuarial Liability</u></b>	<b><u>% of Projected Actuarial Liability</u></b>
Projected September 30, 2010 Assets	\$449,063,845	
<u>Projected September 30, 2010 Liability</u>	<u>\$324,569,574</u>	
Projected September 30, 2010 Unfunded Liability	(\$124,494,271)	
Actual September 30, 2010 Assets	\$447,958,735	
<u>Actual September 30, 2010 Liability</u>	<u>\$386,016,329</u>	
Actual September 30, 2010 Unfunded Liability	(\$61,942,406)	
September 30, 2010 (Gain)/Loss	\$62,551,865	19.3%
<u>(Gain)/Loss Due to Liability</u>		
Withdrawal Experience & Census Changes	(\$348,680)	-0.1%
Interest Rate Assumption Change	\$0	0.0%
Usage Rate and Other Assumption Changes	\$59,136,748	18.2%
<u>2010 Population Changes</u>	<u>\$2,658,688</u>	<u>0.8%</u>
Total Liability (Gain)/Loss	\$61,446,756	18.9%
<u>(Gain)/Loss Due to Assets</u>		
Benefit Usage Experience	\$1,733,799	0.5%
Contribution Experience	(\$8,895,205)	-2.7%
<u>Interest Experience<sup>1</sup></u>	<u>\$8,266,516</u>	<u>1.8%</u>
Total Assets (Gain)/Loss	\$1,105,110	0.3%

The development above reflects the changes in actuarial liability from the last valuation to the latest valuation for Chapter 1607. Rates are updated each year to reflect the most recent experience.

The organizations responsible for administering transferability under Chapter 1607 have communicated to the Office of the Actuary that transferability is not currently offered through that chapter. Recent increases in usage rates are the largest driver of the loss due to “Usage Rate and Other Assumption Changes.”

<sup>1</sup> The percentage change for Interest Experience is expressed as a percent of Projected September 30, 2010 Assets.

## **SECTION 5 - AMORTIZATION PAYMENTS**

When a program is projected to have an unfunded liability, an amortization payment is scheduled to be paid into the Fund. This payment is the first year's payment of a 5 year amortization schedule at the valuation interest rate. The amortization schedule is reset each year, i.e. the schedule is given a "fresh start" every year. For budgetary reasons, annual amortization payments are determined two years in advance and therefore do not reflect all information available as of the date the amortization payments are made.

The amortization payments for FY 2012 (determined in the September 30, 2009 valuation) and FY 2013 (determined in the September 30, 2010 valuation) are shown in the following tables. The amortization payments for the Chapter 1606 basic program and the Chapter 1606 kicker program are calculated together as a single Chapter 1606 amortization payment.

Note that the payment for Category III is determined differently. The payment for October 1, 2011 for Involuntary Separatees and Voluntary Separation Incentive/Special Separation Bonus recipients (i.e., Category III) was determined by estimating FY 2011 benefits and by bringing forward any surplus or liability from October 1, 2010. Both items were adjusted by interest and then added together to determine the October 1, 2011 payment.

### **Chapter 30/33 Annual Amortization Amounts**

	<b><u>Fiscal Year</u></b> <b><u>Due Date</u></b>	<b><u>2012</u></b> <b><u>10/1/2011</u></b>	<b><u>2013</u></b> <b><u>10/1/2012</u></b>
Army		\$11,991,283	\$0
Navy		19,636,270	22,820,651
Marine Corps		4,909,015	3,229,537
Coast Guard		137,196	401,620

### **Chapter 1606 Annual Amortization Amounts**

	<b><u>Fiscal Year</u></b> <b><u>Due Date</u></b>	<b><u>2012</u></b> <b><u>10/1/2011</u></b>	<b><u>2013</u></b> <b><u>10/1/2012</u></b>
Army National Guard		\$0	\$0
Army Reserve		0	0
Navy Reserve		0	0
Marine Corps Reserve		0	0
Air National Guard		0	700,313
Air Force Reserve		0	0
Coast Guard Reserve		0	0

**SECTION 5 - AMORTIZATION PAYMENTS (cont.)**

**Chapter 1607 Basic Benefits Annual Amortization Amounts**

	<b><u>Fiscal Year</u></b> <b><u>Due Date</u></b>	<b><u>2012</u></b> <b><u>10/1/2011</u></b>	<b><u>2013</u></b> <b><u>10/1/2012</u></b>
Army National Guard		\$0	\$0
Army Reserve		0	0
Navy Reserve		0	0
Marine Corps Reserve		0	0
Air National Guard		0	1,075,109
Air Force Reserve		0	0
Coast Guard Reserve		0	0

**Category III Basic Annual Amortization Amounts<sup>1</sup>**

	<b><u>Fiscal Year</u></b> <b><u>Due Date</u></b>	<b><u>2012</u></b> <b><u>10/1/2011</u></b>	<b><u>2013</u></b> <b><u>10/1/2012</u></b>
Army		\$696,870	Set next year
Navy		936,984	Set next year
Marine Corps		87,881	Set next year
Air Force		339,882	Set next year
Coast Guard		838	Set next year

<sup>1</sup> Payments for Category III are not pre-funded, but are calculated based on actual benefit payments during the previous year.

## **SECTION 6 - PER CAPITA COSTS**

The per capita costs for the Chapter 30/33, Chapter 1606, and Chapter 1607 programs are given below. A separate per capita cost is set for each component, program, and benefit amount. Per capita costs are usually determined once per year, but may be calculated more often if there are extenuating circumstances, such as major legislative changes. The per capita costs below have corresponding normal costs that are shown in Appendix C. Note that there are not any per capita costs for Category III because the cost for that benefit is determined in aggregate after benefits are paid.

When a program is expected to have a surplus, a portion of the surplus is used to decrease the per capita cost. This portion is the first year's payment of a 10 year amortization schedule at the valuation interest rate. The amortization schedule is reset each year, i.e. the schedule is given a "fresh start" every year. For FY 2013, the Chapter 30/33 kicker amortization offset was capped at 50% of the projected normal costs, thus the per capita costs will be at least 50% of the normal cost. For budgetary reasons, expected surpluses (and unfunded liabilities) are determined two years in advance and therefore do not reflect all data available as of the date the per capita costs are paid.

### **Chapter 30/33 Kicker Benefit Per Capita Costs During FY 2012**

	<u>Army</u> <u>2 Year</u>	<u>Army</u> <u>3 Year</u>	<u>Army</u> <u>4 Year</u>	<u>Army</u> <u>5 Year</u>	<u>Army</u> <u>6 Year</u>	<u>Navy</u> <u>4 Year</u>	<u>M.C.</u> <u>4 Year</u>	<u>M.C.</u> <u>5 Year</u>	<u>M.C.</u> <u>6 Year</u>	<u>C.G. 4</u> <u>Year</u>
\$150	\$2,298	\$1,995	\$1,797	\$1,556	\$1,463	\$1,772	\$2,144	\$1,712	\$1,741	1,618
\$250	3,857	3,344	3,013	2,608	2,450	2,971	3,598	2,874	2,921	2,716
\$350	5,437	4,708	4,242	3,670	3,447	4,183	5,069	4,051	4,117	3,829
\$450	7,035	6,085	5,484	4,742	4,451	5,408	6,558	5,244	5,326	4,957
\$550	8,649	7,476	6,739	5,823	5,464	6,644	8,063	6,450	6,549	6,098
\$650	10,280	8,878	8,005	6,914	6,485	7,893	9,583	7,671	7,786	7,253
\$750	11,925	10,292	9,283	8,013	7,513	9,152	11,119	8,904	9,035	8,241
\$850	13,584	11,718	10,571	9,121	8,548	10,421	12,668	10,151	10,296	9,602
\$950	15,256	13,154	11,870	10,237	9,589	11,701	14,231	11,410	11,569	10,795

### **Chapter 30/33 Kicker Benefit Per Capita Costs During FY 2013**

	<u>Army</u> <u>2 Year</u>	<u>Army</u> <u>3 Year</u>	<u>Army</u> <u>4 Year</u>	<u>Army</u> <u>5 Year</u>	<u>Army</u> <u>6 Year</u>	<u>Navy</u> <u>4 Year</u>	<u>M.C.</u> <u>4 Year</u>	<u>M.C.</u> <u>5 Year</u>	<u>M.C.</u> <u>6 Year</u>	<u>C.G. 4</u> <u>Year</u>
\$150	\$1,039	\$854	\$766	\$663	\$623	\$2,067	\$2,079	\$1,657	\$1,686	\$1,659
\$250	1,742	1,434	1,286	1,112	1,045	3,465	3,491	2,783	2,831	2,786
\$350	2,453	2,021	1,813	1,567	1,472	4,878	4,923	3,926	3,992	3,929
\$450	3,171	2,615	2,346	2,027	1,903	6,306	6,373	5,084	5,168	5,088
\$550	3,896	3,216	2,886	2,492	2,339	7,747	7,841	6,257	6,360	6,262
\$650	4,628	3,823	3,432	2,962	2,779	9,202	9,326	7,446	7,565	7,451
\$750	5,365	4,437	3,983	3,436	3,222	10,670	10,827	8,648	8,784	8,654
\$850	6,108	5,056	4,541	3,915	3,669	12,150	12,343	9,864	10,015	9,870
\$950	6,856	5,681	5,103	4,398	4,120	13,641	13,874	11,092	11,260	11,100

**SECTION 6 - PER CAPITA COSTS (cont.)**

**Chapter 1606 Basic Benefit Per Capita Costs During FY 2012**

	<u>Army</u> <u>Guard</u>	<u>Army</u> <u>Reserve</u>	<u>Navy</u> <u>Reserve</u>	<u>Marine</u> <u>Reserve</u>	<u>Air</u> <u>Guard</u>	<u>Air</u> <u>Reserve</u>	<u>Coast</u> <u>Guard</u>
Basic	\$716	\$445	\$316	\$920	\$3,454	\$1,681	\$2,103
\$100 Kicker	1,423	964	731	998	1,850	1,410	1,177
\$200 Kicker	3,334	1,820	1,849	2,181	3,070	2,418	2,370
\$350 Kicker	4,799	3,027	4,230	4,167	5,232	4,029	4,011

**Chapter 1606 Basic Benefit Per Capita Costs During FY 2013**

	<u>Army</u> <u>Guard</u>	<u>Army</u> <u>Reserve</u>	<u>Navy</u> <u>Reserve</u>	<u>Marine</u> <u>Reserve</u>	<u>Air</u> <u>Guard</u>	<u>Air</u> <u>Reserve</u>	<u>Coast</u> <u>Guard</u>
Basic	\$1,107	\$538	\$319	\$836	\$3,996	\$1,660	\$2,152
\$100 Kicker	1,585	945	721	1,039	1,952	1,440	1,170
\$200 Kicker	3,391	1,778	1,920	2,393	3,346	2,515	2,438
\$350 Kicker	5,280	3,286	4,491	4,242	5,318	3,891	3,944

**Chapter 1607 Basic Benefit Per Capita Costs During FY 2012**

	<u>Army</u> <u>Guard</u>	<u>Army</u> <u>Reserve</u>	<u>Navy</u> <u>Reserve</u>	<u>Marine</u> <u>Reserve</u>	<u>Air</u> <u>Guard</u>	<u>Air</u> <u>Reserve</u>	<u>Coast</u> <u>Guard</u>
40% of MGIB-AD	\$948	\$541	\$0	\$490	\$710	\$188	\$0
60% of MGIB-AD	1,458	846	0	721	1,050	278	0
80% of MGIB-AD	1,829	1,024	0	944	1,306	329	0

**Chapter 1607 Basic Benefit Per Capita Costs During FY 2013**

	<u>Army</u> <u>Guard</u>	<u>Army</u> <u>Reserve</u>	<u>Navy</u> <u>Reserve</u>	<u>Marine</u> <u>Reserve</u>	<u>Air</u> <u>Guard</u>	<u>Air</u> <u>Reserve</u>	<u>Coast</u> <u>Guard</u>
40% of MGIB-AD	\$1,170	\$607	\$0	\$482	\$994	\$395	\$204
60% of MGIB-AD	1,735	880	0	699	1,397	563	317
80% of MGIB-AD	2,184	1,080	0	912	1,704	660	326

## **SECTION 7 - EDUCATION BENEFITS FUND TRANSACTION PROCESS**

The description of deficit, debt, and funding impact contained in this section are applicable under the current practices of the federal government regarding budget accounting and tax policy. These practices do not provide for increases in taxes to pre-fund the education benefits programs but do result in increases in the national debt.

A trust fund was created inside the Unified Budget of the federal government for the monies of the education benefits programs. This fund has three sources of income: (1) monthly per capita payments made by DoD<sup>1</sup>, (2) annual amortization payments made by DoD, and (3) interest earnings on investments in government securities made by Treasury and the payment of the par values of these securities at maturity. All three of these items are intragovernmental transfers consisting of debits from one government account and credits to another.

The fund has two types of payouts, payments for members' and dependents' benefits and purchases of U.S. Treasury securities. The purchase of a Treasury security is also an intragovernmental transfer, while a payment for a member's or dependent's benefit is not.

Figure 1 on the following page depicts this process. The only transactions in a particular year that directly affect the deficit of the Unified Budget are those that pass in or out of the government, such as tax collections and payments for members' or dependents' benefits. The intragovernmental transfers are debits and credits within the federal budget, with no direct effect on the deficit. The following examples illustrate the process:

- If DoD debits \$170 million in per capita payments and the Fund credits the \$170 million, the net direct federal budget deficit effect is zero.
- If the fund purchases \$70 million in securities (debit) and the Treasury sells \$70 million in securities (credit), the net direct federal budget deficit effect is zero.
- If the Treasury pays \$70 million interest (debit) and the fund earns \$70 million interest (credit), the net direct federal budget deficit effect is zero.
- Disregarding all other government programs, if the government collects \$150 million in tax revenues (credit) and pays \$170 million for members' and dependents' benefits (debit), the net direct federal budget deficit effect is \$20 million.

<sup>1</sup> References to "DoD" in this section also include Coast Guard.



**SECTION 7 - EDUCATION BENEFITS FUND TRANSACTION PROCESS**  
**(cont.)**

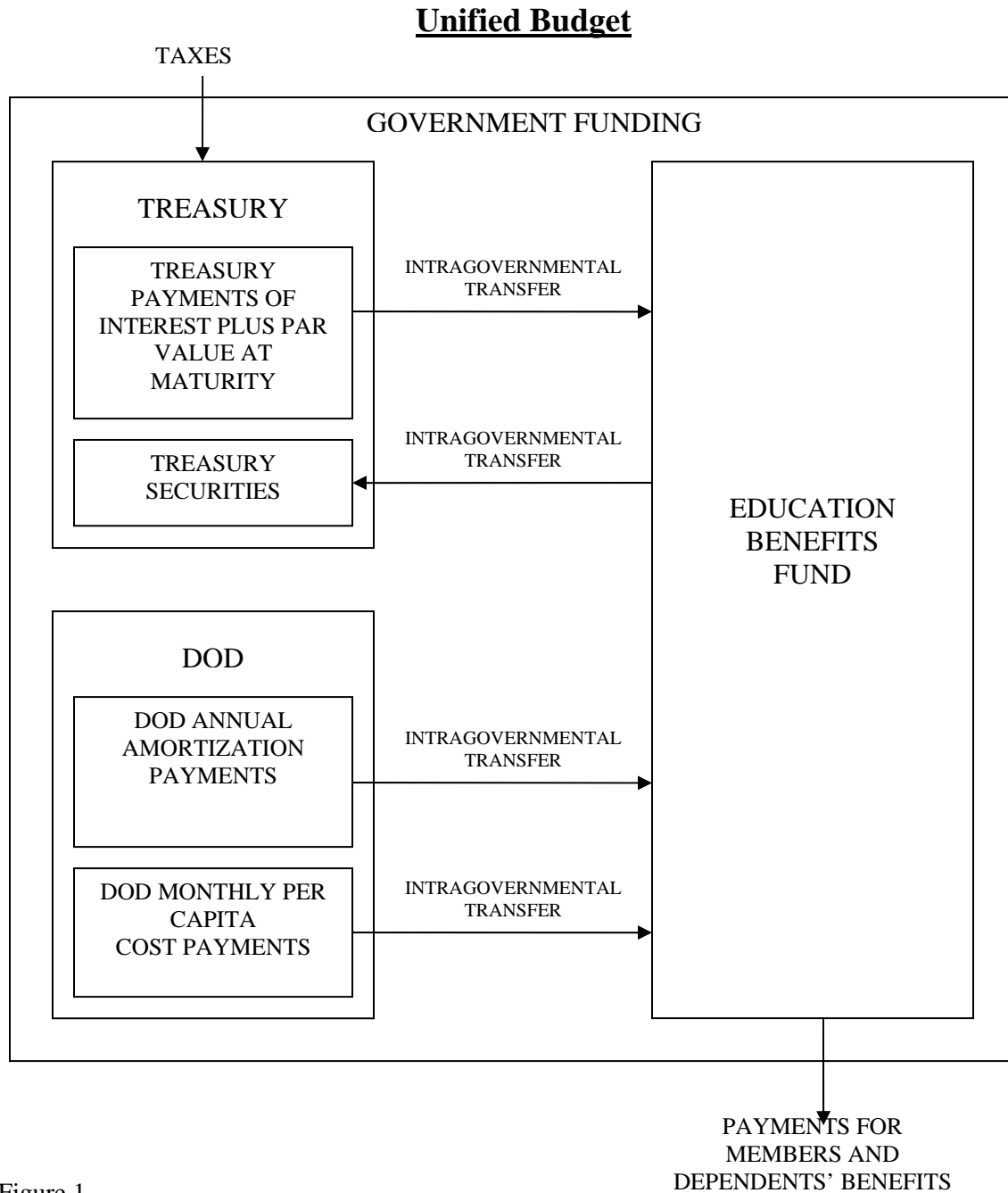


Figure 1

All of the intra-governmental transfers inside Figure 1 will generate both a credit and an associated equal debit within the Unified Budget. Consequently, under current federal budget accounting practices, contributions to the Fund beyond what are required to pay benefits to members and dependents that year have no impact on the total federal deficit. Just as with the pay-as-you-go method, the only transactions that directly affect the deficit in the education benefits accounting process are payments for benefits.

## **SECTION 7 - EDUCATION BENEFITS FUND TRANSACTION PROCESS** **(cont.)**

On the other hand, the purchase of securities by the Fund does increase the national debt, specifically the portion of the debt held by the government. The portion held by the public will not change. However, the total debt will increase and this might require an increase in the statutory borrowing authority.

Suppose that the amount needed to pay for members' and dependents' benefits was \$400 million and the Fund had grown to \$2 billion. The following transactions would take place:

- Fund cashes in \$400 million in securities (credit).
- Treasury pays \$400 million to the Fund (debit).
- Net federal surplus zero.

Since no budget surplus can be derived from using fund money, the government still has a need for \$400 million to pay for benefits—the same need it would have under the pay-as-you-go system. Accordingly, the fund cannot transfer liabilities from one tax year to another.

However, funding does have an effect on the DoD budget. With the per capita cost payments in the DoD budget, policymakers now automatically consider the impact on future benefit costs when they make manpower decisions related to offering education benefits, and this could have an impact on future federal budgets. For example, if a decision were made today to double the number of active duty members given kicker benefits under a 6-year contract, the DoD budget would automatically have an immediate increase in obligations. Under the pay-as-you-go method, the expenses would not necessarily be considered to the same extent in the initial decision since they would not show up for several years.

The fact that costs are fully recognized in advance probably provides greater benefit security over the long term. Also, when there is a fund, the system is not as dependent on obtaining the necessary appropriation from Congress each year in order to pay benefits for that year. This can provide additional benefit security in the short run.

## **APPENDIX A – DESCRIPTION OF BENEFITS**

The descriptions in this appendix are intended as an overview. For a more comprehensive description of all provisions covering every situation and circumstance, consult other sources.

### **Chapter 30 Kicker Eligibility**

A member can not receive a Chapter 30 kicker benefit without being eligible to receive the Chapter 30 or the Chapter 33 basic benefit. Eligibility for the basic benefit requires an honorable discharge, a high school diploma or GED, and meeting the requirements of one of the four main categories. Categories I, II, and IV are described here and Category III is described in its own section.

Category I includes those who entered active duty for the first time after June 30, 1985, and had military pay reduced by \$100 a month for the first 12 months. The member must have a) continuously served for 3 years, b) served for 2 years if he first enlisted for 2 years, or c) served for 2 years if he entered the selected reserve within a year of leaving active duty and served 4 years in the selected reserve.

Category II includes those who entered active duty before January 1, 1977, served at least 1 day between October 19, 1984 and June 30, 1985, and stayed on active duty through June 30, 1988 (or stayed on active duty through June 30, 1987, if they entered the selected reserve within 1 year of leaving active duty and served 4 years). The member must have had entitlement left from the Vietnam-Era GI Bill on December 31, 1989.

Category IV includes those who were on active duty on October 9, 1996 had money remaining in a Veteran's Educational Assistance Program (VEAP) account on that date, and elected Montgomery GI-Bill (MGIB) by October 9, 1997. Another way to be included in Category IV would have been to enter full-time National Guard duty under Title 32, USC between July 1, 1985 and November 28, 1989 and have elected MGIB during the period October 9, 1996 through July 8, 1997. Under either way, the member would have had to have military pay reduced by \$100 a month for 12 months or have made a \$1,200 lump-sum contribution.

### **Chapter 30 Kicker Benefit Amount**

The Secretary of Defense may increase the basic benefit up to an additional \$950 per month. Kicker amounts do not receive cost-of-living increases.

### **Chapter 30 Kicker Restrictions**

Generally, members are eligible to use the benefit up to 10 years after the date of their last discharge. However, if the member's eligibility is based on two years of active duty and four years in the Selected Reserve, the 10 years begins on the date of release from active duty, or the date of completion of the four-year Selected Reserve obligation, whichever is later.

## **APPENDIX A – DESCRIPTION OF BENEFITS**

### **Chapter 33 Kicker Eligibility**

A member can not receive a Chapter 33 kicker benefit without being eligible to receive the Chapter 33 basic benefit. Veterans who have served at least 90 days of active duty service after September 10, 2001 and received an honorable discharge will qualify for the Chapter 33 basic benefit. To qualify for the full benefit a veteran must have served at least 3 years of active duty after September 10, 2001. The Post-9/11 GI Bill allows officers who graduated from service academies or who received ROTC scholarships to qualify. Time spent satisfying ROTC or Service Academy active duty obligation does not count toward the active duty service necessary to qualify for the benefits.

For veterans with active duty service after September 10, 2001 the following chart applies:

<b><u>Member Serves</u></b>	<b><u>Percentage of Maximum Benefit Payable</u></b>
At least 36 months	100%
At least 30 continuous days and service-connected disability discharge	100%
At least 30 months, but less than 36 months	90%
At least 24 months, but less than 30 months	80%
At least 18 months, but less than 24 months	70%
At least 12 months, but less than 18 months	60%
At least 6 months, but less than 12 months	50%
At least 90 days, but less than 6 months	40%

### **Chapter 33 Kicker Benefit Amount**

The Secretary of Defense may increase the basic benefit up to an additional \$950 per month. Kicker amounts do not receive cost-of-living increases. Kicker benefits are between \$150 and \$950 in \$100 increments.

### **Chapter 33 Kicker Transferred Benefits**

Members, who upon completing 6 years of active service, agree to serve an additional 4 years may transfer any unused benefits to their spouse and/or children. A spouse may use the benefit immediately and their eligibility expires the same time as the member's does. A child may use the benefit after the additional four years are served and may use the benefit up to 26 years of age.

### **Chapter 33 Kicker Restrictions**

The period of eligibility for the Post-9/11 GI Bill ends 15 years from the date of the last discharge or release from active duty.

## **APPENDIX A – DESCRIPTION OF BENEFITS (cont.)**

### **Chapter 1606 Basic and Kicker Eligibility**

Eligible members must have had a six-year obligation to serve in the Selected Reserve signed after June 30, 1985. Officers must have agreed to serve 6 years in addition to their original obligation. For some types of training, it is necessary to have a six-year commitment that begins after September 30, 1990. Members must have completed their initial active duty for training (IADT). Members must meet the requirement to receive a high school diploma or equivalency certificate before completing IADT. Lastly, members must remain in good standing while serving in the Selected Reserve.

At the discretion of the Secretary concerned, a member may receive a Chapter 1606 kicker benefit if that member's occupation has been designated as a critical occupational specialty.

### **Chapter 1606 Basic and Kicker Benefit Amount**

The full time institutional training rate is \$337 per month for fiscal year 2011. This rate became effective October 1, 2010. Fractional amounts may apply for less than full-time education.

The basic benefit may be increased by a kicker benefit of as much as \$350 per month for recruits in critical skills or critical specialties.

Consumer Price Index (CPI) increases are given to the basic benefit, but not to the kicker benefit.

### **Chapter 1606 Basic and Kicker Restrictions**

The maximum number of months of educational assistance that may be provided to any member under this chapter is 36.

The entitlement time period for a member of the Selected Reserve expires at the date the member is separated from the Selected Reserve. Separation does not terminate the benefit for persons involuntarily separated from October 1, 1991 to September 30, 2001, or from October 1, 2007 to September 30, 2014, or for persons separated for disability not the result of willful misconduct. The time period does not run if the member is prevented from pursuing a program of education because of a mental or physical disability incurred in or aggravated by service in the Selected Reserve.

## **APPENDIX A – DESCRIPTION OF BENEFITS (cont.)**

### **Chapter 1607 Eligibility**

A member of the Ready Reserve is entitled to educational assistance under this chapter if the member served on active duty in support of a contingency operation for 90 consecutive days or more; in the case of a member of the Army National Guard of the United States or Air National Guard of the United States, if the member performed full-time National Guard duty under section 502(f) of title 32 or title 10 for 90 consecutive days or more when authorized by the President or Secretary of Defense for the purpose of responding to a national emergency declared by the President and supported by Federal funds so long as such service is after September 11, 2001. Members who become disabled before serving 90 consecutive days are entitled to educational assistance under this chapter at the benefit rate of 40% as described below.

### **Chapter 1607 Benefit Amount**

Each member is eligible for a portion of the Montgomery GI Bill Active Duty (MGIB-AD) 3-year benefit rate. The following rates become effective October 1, 2010:

- Members who serve 90 days to less than 1 year receive:  
40% of the MGIB-AD 3-year rate or \$570.40 per month
- Members who serve 1 year but less than 2 years receive:  
60% of the MGIB-AD 3-year rate or \$855.60 per month
- Members who serve 2 or more continuous years (or 3 years cumulative) receive:  
80% of the MGIB-AD 3-year rate or \$1,140.80 per month

Because of the linkage to the MGIB-AD rates, annual increases for Chapter 1607 are determined by the National Center for Education Statistics' index reflecting the average cost of undergraduate tuition.

### **Chapter 1607 Restrictions**

The maximum number of months of educational assistance that may be provided to any member under this chapter is 36. For a member of the Selected Reserve who has completed a service obligation, the period of eligibility ends 10 years from the date of the last discharge or release from the Selected Reserve. For members separated while serving in the Individual Ready Reserve or members who have not completed a service obligation, eligibility ends upon separation from either the Individual Ready Reserve or Selected Reserve, as applicable.

## **APPENDIX A – DESCRIPTION OF BENEFITS (cont.)**

### **Category III Eligibility**

To qualify under Category III, a member must not be eligible under Category I or Category II<sup>1</sup>, must have been on active duty on September 30, 1990, elected MGIB before being separated, and before separation must have had military pay reduced by \$1200. In addition, the member must have an involuntary separation after February 2, 1991, or have been voluntarily separated under either VSI or SSB.

### **Category III Benefit Amounts**

The full-time institutional training rate is \$1,426 per month for fiscal year 2011. This rate became effective October 1, 2010. Fractional amounts may apply for less than full-time education.

Annual increases for Category III are determined by the National Center for Education Statistics' index reflecting the average cost of undergraduate tuition.

### **Category III Restrictions**

Generally, members are eligible to use the benefit up to 10 years after the date of their last discharge. However, if the member's eligibility is based on 2 years of active duty and 4 years in the Selected Reserve, the 10 years begins on the date of release from active duty, or the date of completion of the four-year Selected Reserve obligation, whichever is later.

<sup>1</sup> Note that only a portion of Category III benefits are paid by the Fund.

## **APPENDIX A – DESCRIPTION OF BENEFITS (cont.)**

### **Restrictions for all EBF Benefits**

Members entitled to educational assistance under a program established by the MGIB who are also eligible for assistance under another educational assistance program may not receive assistance under both programs simultaneously; they must choose one or the other.

No member may receive basic benefits from any one program for more than 36 months or its equivalent in part-time educational assistance. Excluding transferred benefits, a member may only receive a total of 48 months of benefits from all benefit programs combined.



## APPENDIX B – POPULATION DATA

### Chapter 30 and 33 “Kicker” Eligibles

	<u>Sept. 30, 2009</u>	<u>Sept. 30, 2010</u>
<b><u>On Active Duty</u></b>		
Army 2-year	1,315	1,079
Army 3-year	18,168	23,033
Army 4-year	29,724	32,132
Army 5-year	7,128	7,250
Army 6-year	4,361	5,086
Navy 2-year	11	6
Navy 3-year	414	388
Navy 4-year	20,393	19,469
Marine Corps 4-year	8,080	7,404
Marine Corps 5-year	5,168	4,899
Marine Corps 6-year	57	60
<u>Coast Guard 4-year</u>	<u>135</u>	<u>277</u>
Total	94,954	101,083
 <b><u>Not On Active Duty, Who Have Not Used the Benefit</u></b>		
Army 2-year	2,207	2,452
Army 3-year	6,227	6,864
Army 4-year	15,125	17,453
Army 5-year	1,068	1,717
Army 6-year	782	1,104
Navy 2-year	19	40
Navy 3-year	341	378
Navy 4-year	16,325	20,591
Marine Corps 4-year	3,298	3,902
Marine Corps 5-year	1,235	1,574
Marine Corps 6-year	0	9
<u>Coast Guard 4-year</u>	<u>29</u>	<u>72</u>
Total	46,656	56,156
 <b><u>Not On Active Duty, Who Have Used the Benefit</u></b>		
Army 2-year	5,009	5,101
Army 3-year	8,951	9,090
Army 4-year	23,841	24,619
Army 5-year	350	377
Army 6-year	254	273
Navy 2-year	7	6
Navy 3-year	509	490
Navy 4-year	27,795	28,311
Marine Corps 4-year	6,522	6,784
Marine Corps 5-year	1,793	1,900
Marine Corps 5-year	0	0
<u>Coast Guard 4-year</u>	<u>36</u>	<u>46</u>
Total	75,067	76,997
 <b>Total Eligible</b>	 <b>216,677</b>	 <b>234,236</b>

## **APPENDIX B – POPULATION DATA (cont.)**

### **Chapter 1606 Eligibles**

	<b><u>Sept. 30, 2009</u></b>	<b><u>Sept. 30, 2010</u></b>
<b><u>Eligible for Basic Benefit (Excludes 1607 Eligibles)</u></b>		
Army National Guard	82,040	90,904
Army Reserve	47,293	39,964
Navy Reserve	13,668	14,182
Marine Corps Reserve	9,917	12,456
Air National Guard	24,728	24,078
Air Force Reserve	11,100	11,242
<u>Coast Guard Reserve</u>	<u>1,452</u>	<u>1,172</u>
Total	190,198	193,998
<b><u>Eligible for Kicker - \$100 per month</u></b>		
Army National Guard	2,344	2,218
Army Reserve	21,166	18,711
Navy Reserve	0	0
Marine Corps Reserve	0	0
Air National Guard	0	0
Air Force Reserve	0	0
<u>Coast Guard Reserve</u>	<u>0</u>	<u>0</u>
Total	23,510	20,929
<b><u>Eligible for Kicker - \$200 per month</u></b>		
Army National Guard	70,831	78,029
Army Reserve	7,615	7,555
Navy Reserve	682	704
Marine Corps Reserve	0	0
Air National Guard	0	0
Air Force Reserve	0	0
<u>Coast Guard Reserve</u>	<u>0</u>	<u>0</u>
Total	79,128	86,288
<b><u>Eligible for Kicker - \$350 per month</u></b>		
Army National Guard	16,682	20,657
Army Reserve	24,190	29,782
Navy Reserve	0	0
Marine Corps Reserve	808	715
Air National Guard	30,446	33,442
Air Force Reserve	10,389	11,248
<u>Coast Guard Reserve</u>	<u>0</u>	<u>0</u>
Total	82,515	95,844

## **APPENDIX B – POPULATION DATA (cont.)**

### **Chapter 1607 Eligibles**

	<b><u>Sept. 30, 2009</u></b>	<b><u>Sept. 30, 2010</u></b>
<b><u>Eligible for 40% of MGIB</u></b>		
Army National Guard	84,968	83,705
Army Reserve	52,985	51,977
Navy Reserve	27,694	29,462
Marine Corps Reserve	36,491	33,867
Air National Guard	42,284	45,655
Air Force Reserve	28,723	31,711
<u>Coast Guard Reserve</u>	<u>4,517</u>	<u>4,736</u>
Total	277,662	281,113
<b><u>Eligible for 60% of MGIB</u></b>		
Army National Guard	183,641	208,815
Army Reserve	96,609	106,681
Navy Reserve	10,672	11,979
Marine Corps Reserve	12,688	16,750
Air National Guard	14,367	15,148
Air Force Reserve	11,110	11,181
<u>Coast Guard Reserve</u>	<u>1,279</u>	<u>1,321</u>
Total	330,366	371,875
<b><u>Eligible for 80% of MGIB</u></b>		
Army National Guard	28,170	25,491
Army Reserve	25,178	28,835
Navy Reserve	2,052	2,566
Marine Corps Reserve	4,002	4,579
Air National Guard	5,237	7,334
Air Force Reserve	4,455	5,145
<u>Coast Guard Reserve</u>	<u>1,345</u>	<u>1,404</u>
Total	70,439	75,354

**APPENDIX B – POPULATION DATA (cont.)**

**Category III Eligibles<sup>1</sup>**

**Number of Persons at Fiscal Year End**

	<b>Involuntary</b>		<b>VSI/SSB</b>		<b>Total</b>	
	<b><u>2009</u></b>	<b><u>2010</u></b>	<b><u>2009</u></b>	<b><u>2010</u></b>	<b><u>2009</u></b>	<b><u>2010</u></b>
<b><u>Enrolled but No Benefit Use</u></b>						
Army	26	14	3	2	29	16
Navy	333	312	27	27	360	340
Marine Corps	8	6	1	1	9	7
Air Force	7	0	7	0	14	0
<u>Coast Guard</u>	<u>1</u>	<u>4</u>	<u>0</u>	<u>2</u>	<u>1</u>	<u>6</u>
Total	375	336	38	33	413	369
<b><u>Enrolled and Has Used the Benefit</u></b>						
Army	37	15	3	2	40	17
Navy	442	425	287	358	729	783
Marine Corps	18	12	3	3	21	15
Air Force	10	0	14	0	24	0
<u>Coast Guard</u>	<u>2</u>	<u>8</u>	<u>0</u>	<u>8</u>	<u>2</u>	<u>17</u>
Total	509	460	307	372	816	832
<b><u>Total</u></b>						
Army	63	29	6	4	69	34
Navy	775	737	314	386	1,089	1,123
Marine Corps	26	18	4	4	30	22
Air Force	17	0	21	0	38	0
<u>Coast Guard</u>	<u>3</u>	<u>13</u>	<u>0</u>	<u>11</u>	<u>3</u>	<u>23</u>
Total	884	796	345	405	1,229	1,202

<sup>1</sup> This includes only those involuntary and voluntary separatees whose basic benefit is paid from the Department of Defense Education Benefits Fund. This includes separatees who entered the service after December 31, 1976 and before July 1, 1985.

## APPENDIX C – ASSUMPTIONS AND METHODS

### Post-9/11 GI Bill

Higher benefit amounts and the ability to transfer benefits to dependents have influenced usage levels and other behaviors, such as decisions about how long to stay in the service. As actual usage levels are becoming known, our assumptions have changed significantly, and may continue to change going forward.

We have assumed that transferability will be implemented for Chapter 33 kicker benefits. Members elect transferability at the 6 year-of-service point, and can transfer any amount of unused benefits up to the full 36-month entitlement. Members must serve 4 additional years with some exceptions for those nearing retirement. The addition of transferability benefits is assumed to increase costs by:

Chapter 30/33 Kicker Normal Cost:	4.6%
Chapter 30/33 Kicker Actuarial Liability:	9.3%

Slight modifications have been made to the Chapter 1607 reduction factors, which were originally created to adjust for new participation in Chapter 33. The following reductions have been applied to Chapter 1607 normal cost and actuarial liabilities:

	<u>2009</u>	<u>2010</u>
Army National Guard	40%	40%
Army Reserve	62%	63%
Navy Reserve	63%	64%
Marine Corps Reserve	74%	78%
Air National Guard	57%	55%
Air Force Reserve	56%	56%
Coast Guard Reserve	76%	72%

## **APPENDIX C – ASSUMPTIONS AND METHODS (cont.)**

### **Actuarial Assumptions**

Actual experience of the system will not coincide exactly with assumed experience, regardless of the choice of the assumptions, the skill of the actuary, and the precision of the many calculations made. Each valuation provides a complete recalculation of assumed future experience and takes into account all past differences between assumed and actual experience. The result is a series of adjustments to the computed expense. The assumptions are modified annually to reflect experience trends and future expectations.

### **Economic Assumptions**

The Board of Actuaries, independently of DoD, approves the methods and assumptions used to determine the costs of these programs. In July 2011, the DoD Board of Actuaries adopted the following economic assumptions for use in the valuation as of September 30, 2010.

### **Inflation**

Annual inflation for the Chapter 1606 basic benefit is calculated, per Section 16131 (b) (2) of Title 10, USC, as the percentage increase, rounded to the nearest dollar, in the rates equal to the percentage by which the CPI (all items, United States city average) for the 12-month period ending on the June 30 preceding the beginning of the fiscal year for which the increase is made, exceed such CPI for the preceding 12-month period. The ultimate rate of inflation (CPI) is assumed to be 2.5% per year and the select rates are given in the table below. These rates are projected using Blue Chip financial forecasts. Note that the only benefit covered by the EBF that is directly adjusted by this CPI index is the Chapter 1606 basic benefit.

	<u>2009</u>	<u>2010</u>
FY 2011 to FY 2012	1.6%	2.4%
FY 2012 to FY 2013	1.9%	4.0%
FY 2013 to FY 2014	2.2%	2.3%
FY 2014 to FY 2015	2.3%	2.5%
FY 2015 to FY 2016	2.4%	2.5%
FY 2016 to FY 2017	2.4%	2.6%
FY 2017 to FY 2018	2.4%	2.5%
FY 2018 to FY 2019	2.4%	2.5%

Annual inflation for Chapter 30 and Chapter 1607 is based on the National Center for Education Statistics' average cost of undergraduate tuition. The rate of inflation for these chapters is assumed to be 6.0% per year.

## **APPENDIX C – ASSUMPTIONS AND METHODS (cont.)**

### **Interest Rate**

The interest rate assumption was set by the Board to be 4.5% annually.

### **Methodology**

All benefits are pre-funded except for Category III benefits. For all pre-funded benefits, monthly contributions known as per capita costs go into the Fund. For all pre-funded benefits with a projected deficit, a portion of the unfunded liability is scheduled to be paid on the first day of the projected fiscal year. The annual amortization payment and the monthly per capita costs are collectively referred to in this report as contributions to the Fund.

Per capita costs are the amounts needed to pay the benefits of persons entering the various programs. Per capita costs reflect the time value of money, the fact that not everyone uses the entire benefit for which they could become eligible, differences between services and components and differences between programs. Per capita costs are reduced when a service or component has a projected surplus. In such cases, the per capita cost represents the normal cost reduced for surplus.

Calculating the actuarial liability is similar to calculating the per capita costs. For both calculations, we find the expected value of the benefits for those participants eligible to receive benefits in the future adjusted for the time value of money. However, the per capita cost and the actuarial liability calculations are different in terms of the population involved and the time at which benefits are valued. The per capita cost calculation uses a hypothetical new-entrant group, whereas the liability calculation uses the actual census population as of the valuation date.

### **Normal Cost Calculation**

In addition to the approach outlined in the “Methodology” section above, the normal cost can be derived by multiplying the “Average Benefit Amount” times the “Percent of Benefit Used” times the “Discount Factor” times 36 months. “Average Benefit Amount” is the dollar amount for benefits that are not indexed; for benefits that are indexed, it reflects the effect of future projected increases to the benefit. “Percent of Benefit Used” reflects what portion (of a hypothetical new entrant group) is projected to become eligible for and use the benefit, and how much of the potential 36-month total entitlement is projected to be used during the eligibility period. “Discount Factor” reflects the reduction in the normal cost due to discounting for interest and changes in timing due to other assumptions. For example, a discount factor of 0.800 indicates the normal cost is 20% less than it otherwise would be if calculated with a zero interest rate. Programs for which data is available depend on rates determined by actual experience in the most recent 10-year period with adjustments when results are based on too few cases to be credible as well as adjustments for future expectations. Usage is adjusted if it is expected to deviate from historical averages since different conditions may be forecast than existed during the time period the historical rates were taken. The normal costs can be found on the pages immediately following.

**APPENDIX C – ASSUMPTIONS AND METHODS (cont.)**

**Chapter 33 Usage Assumptions FY 2013**

	<u>Average Benefit Amount</u>	<u>Percent of Benefit Used</u>	<u>Discount Factor</u>	<u>Normal Cost</u>
<b><u>Chapter 33 Kicker</u></b>				
Army 2 Year	\$150	51.0%	75.5%	\$2,078
Army 2 Year	\$250	51.2%	75.6%	\$3,484
Army 2 Year	\$350	51.4%	75.7%	\$4,906
Army 2 Year	\$450	51.7%	75.8%	\$6,343
Army 2 Year	\$550	51.9%	75.9%	\$7,793
Army 2 Year	\$650	52.1%	76.0%	\$9,256
Army 2 Year	\$750	52.3%	76.0%	\$10,731
Army 2 Year	\$850	52.4%	76.1%	\$12,217
Army 2 Year	\$950	52.6%	76.2%	\$13,713
<b><u>Chapter 33 Kicker</u></b>				
Army 3 Year	\$150	46.0%	68.7%	\$1,709
Army 3 Year	\$250	46.3%	68.8%	\$2,868
Army 3 Year	\$350	46.5%	69.0%	\$4,042
Army 3 Year	\$450	46.7%	69.1%	\$5,230
Army 3 Year	\$550	47.0%	69.2%	\$6,432
Army 3 Year	\$650	47.2%	69.3%	\$7,647
Army 3 Year	\$750	47.4%	69.4%	\$8,874
Army 3 Year	\$850	47.6%	69.5%	\$10,113
Army 3 Year	\$950	47.7%	69.6%	\$11,362
<b><u>Chapter 33 Kicker</u></b>				
Army 4 Year	\$150	43.7%	65.0%	\$1,532
Army 4 Year	\$250	43.9%	65.1%	\$2,572
Army 4 Year	\$350	44.1%	65.2%	\$3,626
Army 4 Year	\$450	44.4%	65.3%	\$4,693
Army 4 Year	\$550	44.6%	65.4%	\$5,772
Army 4 Year	\$650	44.8%	65.5%	\$6,864
Army 4 Year	\$750	45.0%	65.6%	\$7,967
Army 4 Year	\$850	45.2%	65.7%	\$9,082
Army 4 Year	\$950	45.4%	65.8%	\$10,207



## APPENDIX C – ASSUMPTIONS AND METHODS (cont.)

### Chapter 33 Usage Assumptions FY 2013 (cont.)

	<u>Average</u> <u>Benefit Amount</u>	<u>Percent of</u> <u>Benefit Used</u>	<u>Discount</u> <u>Factor</u>	<u>Normal</u> <u>Cost</u>
<b><u>Chapter 33 Kicker</u></b>				
Army 5 Year	\$150	38.7%	63.5%	\$1,326
Army 5 Year	\$250	38.9%	63.6%	\$2,225
Army 5 Year	\$350	39.1%	63.7%	\$3,135
Army 5 Year	\$450	39.3%	63.8%	\$4,055
Army 5 Year	\$550	39.4%	63.8%	\$4,985
Army 5 Year	\$650	39.6%	63.9%	\$5,924
Army 5 Year	\$750	39.8%	64.0%	\$6,873
Army 5 Year	\$850	39.9%	64.1%	\$7,830
Army 5 Year	\$950	40.1%	64.1%	\$8,796
<b><u>Chapter 33 Kicker</u></b>				
Army 6 Year	\$150	37.2%	62.2%	\$1,247
Army 6 Year	\$250	37.3%	62.2%	\$2,091
Army 6 Year	\$350	37.5%	62.3%	\$2,945
Army 6 Year	\$450	37.7%	62.4%	\$3,807
Army 6 Year	\$550	37.8%	62.4%	\$4,678
Army 6 Year	\$650	38.0%	62.5%	\$5,558
Army 6 Year	\$750	38.2%	62.6%	\$6,445
Army 6 Year	\$850	38.3%	62.6%	\$7,339
Army 6 Year	\$950	38.4%	62.7%	\$8,241
<b><u>Chapter 33 Kicker</u></b>				
Navy 4 Year	\$150	57.3%	66.8%	\$2,067
Navy 4 Year	\$250	57.5%	66.9%	\$3,465
Navy 4 Year	\$350	57.7%	67.0%	\$4,878
Navy 4 Year	\$450	58.0%	67.2%	\$6,306
Navy 4 Year	\$550	58.2%	67.3%	\$7,747
Navy 4 Year	\$650	58.4%	67.4%	\$9,202
Navy 4 Year	\$750	58.6%	67.5%	\$10,670
Navy 4 Year	\$850	58.7%	67.6%	\$12,150
Navy 4 Year	\$950	58.9%	67.7%	\$13,641
<b><u>Chapter 33 Kicker</u></b>				
Marines Corp 4 Year	\$150	55.2%	69.8%	\$2,079
Marines Corp 4 Year	\$250	55.5%	69.9%	\$3,491
Marines Corp 4 Year	\$350	55.9%	70.0%	\$4,923
Marines Corp 4 Year	\$450	56.2%	70.0%	\$6,373
Marines Corp 4 Year	\$550	56.5%	70.1%	\$7,841
Marines Corp 4 Year	\$650	56.8%	70.2%	\$9,326
Marines Corp 4 Year	\$750	57.0%	70.3%	\$10,827
Marines Corp 4 Year	\$850	57.3%	70.4%	\$12,343
Marines Corp 4 Year	\$950	57.6%	70.5%	\$13,874

## APPENDIX C – ASSUMPTIONS AND METHODS (cont.)

### Chapter 33 Usage Assumptions FY 2013 (cont.)

	<u>Average</u> <u>Benefit Amount</u>	<u>Percent of</u> <u>Benefit Used</u>	<u>Discount</u> <u>Factor</u>	<u>Normal</u> <u>Cost</u>
<b><u>Chapter 33 Kicker</u></b>				
Marines Corps 5 Year	\$150	47.5%	64.7%	\$1,657
Marines Corps 5 Year	\$250	47.8%	64.8%	\$2,783
Marines Corps 5 Year	\$350	48.1%	64.8%	\$3,926
Marines Corps 5 Year	\$450	48.3%	64.9%	\$5,084
Marines Corps 5 Year	\$550	48.6%	65.0%	\$6,257
Marines Corps 5 Year	\$650	48.9%	65.1%	\$7,446
Marines Corps 5 Year	\$750	49.2%	65.1%	\$8,648
Marines Corps 5 Year	\$850	49.4%	65.2%	\$9,864
Marines Corps 5 Year	\$950	49.7%	65.3%	\$11,092
<b><u>Chapter 33 Kicker</u></b>				
Marines Corps 6 Year	\$150	48.8%	63.9%	\$1,686
Marines Corps 6 Year	\$250	49.1%	64.0%	\$2,831
Marines Corps 6 Year	\$350	49.4%	64.1%	\$3,992
Marines Corps 6 Year	\$450	49.7%	64.2%	\$5,168
Marines Corps 6 Year	\$550	50.0%	64.2%	\$6,360
Marines Corps 6 Year	\$650	50.3%	64.3%	\$7,565
Marines Corps 6 Year	\$750	50.5%	64.4%	\$8,784
Marines Corps 6 Year	\$850	50.8%	64.4%	\$10,015
Marines Corps 6 Year	\$950	51.0%	64.5%	\$11,260
<b><u>Chapter 33 Kicker</u></b>				
Coast Guard 4 Year	\$150	54.0%	56.9%	\$1,659
Coast Guard 4 Year	\$250	54.2%	57.1%	\$2,786
Coast Guard 4 Year	\$350	54.5%	57.2%	\$3,929
Coast Guard 4 Year	\$450	54.8%	57.4%	\$5,088
Coast Guard 4 Year	\$550	55.0%	57.5%	\$6,262
Coast Guard 4 Year	\$650	55.2%	57.6%	\$7,451
Coast Guard 4 Year	\$750	55.5%	57.8%	\$8,654
Coast Guard 4 Year	\$850	55.7%	57.9%	\$9,870
Coast Guard 4 Year	\$950	55.9%	58.1%	\$11,100

**APPENDIX C – ASSUMPTIONS AND METHODS (cont.)**

**Chapter 1606 Usage Assumptions FY 2013**

	<b><u>Average Benefit Amount</u></b>	<b><u>Percent of Benefit Used</u></b>	<b><u>Discount Factor</u></b>	<b><u>Normal Cost</u></b>
<b><u>Chapter 1606 Basic</u></b>				
Army National Guard	\$377	14.2%	91.5%	\$1,768
Army Reserve	\$376	12.5%	91.7%	\$1,549
Navy Reserve	\$383	5.5%	89.0%	\$675
Marine Corps Reserve	\$376	13.5%	91.8%	\$1,683
Air National Guard	\$378	32.2%	91.1%	\$3,996
Air Force Reserve	\$378	15.4%	90.9%	\$1,906
Coast Guard Reserve	\$385	17.6%	88.2%	\$2,156
<b><u>Chapter 1606 Kicker - \$100</u></b>				
Army National Guard	\$100	46.8%	94.1%	\$1,585
Army Reserve	\$100	28.4%	92.3%	\$945
Navy Reserve	\$100	22.1%	90.5%	\$721
Marine Corps Reserve	\$100	30.7%	93.9%	\$1,039
Air National Guard	\$100	59.8%	90.7%	\$1,952
Air Force Reserve	\$100	44.1%	90.7%	\$1,440
Coast Guard Reserve	\$100	35.3%	92.2%	\$1,170
<b><u>Chapter 1606 Kicker - \$200</u></b>				
Army National Guard	\$200	50.8%	92.8%	\$3,391
Army Reserve	\$200	26.7%	92.4%	\$1,778
Navy Reserve	\$200	29.1%	91.8%	\$1,920
Marine Corps Reserve	\$200	35.3%	94.2%	\$2,393
Air National Guard	\$200	50.7%	91.6%	\$3,346
Air Force Reserve	\$200	37.8%	92.5%	\$2,515
Coast Guard Reserve	\$200	36.4%	92.9%	\$2,438
<b><u>Chapter 1606 Kicker - \$350</u></b>				
Army National Guard	\$350	45.4%	92.2%	\$5,280
Army Reserve	\$350	28.3%	92.1%	\$3,286
Navy Reserve	\$350	38.6%	92.4%	\$4,491
Marine Corps Reserve	\$350	36.5%	92.2%	\$4,242
Air National Guard	\$350	46.2%	91.4%	\$5,318
Air Force Reserve	\$350	33.8%	91.3%	\$3,891
Coast Guard Reserve	\$350	34.3%	91.3%	\$3,944

## APPENDIX C – ASSUMPTIONS AND METHODS (cont.)

### Chapter 1607 Usage Assumptions FY 2013

	<u>Average</u> <u>Benefit Amount</u>	<u>Percent of</u> <u>Benefit Used</u>	<u>Discount</u> <u>Factor</u>	<u>Normal</u> <u>Cost</u>
<b><u>Chapter 1607 40% of MGIB-AD</u></b>				
Army National Guard	\$840	4.8%	80.9%	\$1,170
Army Reserve	\$827	2.5%	81.9%	\$607
Navy Reserve	\$812	1.1%	83.1%	\$260
Marine Corps Reserve	\$821	2.1%	82.4%	\$500
Air National Guard	\$847	4.1%	80.4%	\$994
Air Force Reserve	\$817	2.7%	82.8%	\$653
Coast Guard Reserve	\$891	1.4%	77.3%	\$358
<b><u>Chapter 1607 60% of MGIB-AD</u></b>				
Army National Guard	\$1,273	4.7%	80.3%	\$1,735
Army Reserve	\$1,263	2.4%	80.9%	\$880
Navy Reserve	\$1,242	1.0%	81.9%	\$373
Marine Corps Reserve	\$1,253	2.0%	81.4%	\$726
Air National Guard	\$1,313	3.8%	78.5%	\$1,397
Air Force Reserve	\$1,250	2.5%	81.6%	\$931
Coast Guard Reserve	\$1,333	1.5%	77.5%	\$556
<b><u>Chapter 1607 80% of MGIB-AD</u></b>				
Army National Guard	\$1,736	4.4%	79.0%	\$2,184
Army Reserve	\$1,737	2.2%	79.0%	\$1,080
Navy Reserve	\$1,705	0.9%	80.1%	\$440
Marine Corps Reserve	\$1,689	1.9%	80.7%	\$947
Air National Guard	\$1,825	3.4%	76.0%	\$1,704
Air Force Reserve	\$1,735	2.2%	79.1%	\$1,093
Coast Guard Reserve	\$1,921	1.1%	73.1%	\$572

## **APPENDIX D: FUND HISTORY<sup>1</sup>**

(Dollar Amounts in Millions)

### **Chapter 30 & 33 Kicker Benefit Contributions**

<b><u>FY</u></b>	<b><u>Army</u></b>	<b><u>Navy</u></b>	<b><u>Marine Corps</u></b>	<b><u>Coast Guard</u></b>	<b><u>Total</u></b>
2001	\$93.4	\$38.1	\$20.4	\$0.0	\$151.9
2002	\$75.7	\$30.3	\$15.1	\$0.0	\$121.1
2003	\$36.2	\$10.6	\$9.0	\$0.3	\$56.1
2004	\$11.1	\$5.7	\$8.1	\$0.0	\$24.9
2005	\$46.4	\$6.8	\$6.4	\$0.0	\$59.6
2006	\$35.0	\$2.1	\$8.6	\$0.0	\$45.8
2007	\$44.0	\$7.3	\$18.4	\$0.0	\$69.7
2008	\$80.7	\$12.4	\$10.5	\$0.0	\$103.6
2009	\$86.5	\$10.9	\$10.8	\$0.0	\$108.1
2010	\$171.8	\$28.2	\$4.6	\$0.0	\$204.5

### **Chapter 30 & 33 Kicker Benefit Interest**

<b><u>FY</u></b>	<b><u>Army</u></b>	<b><u>Navy</u></b>	<b><u>Marine Corps</u></b>	<b><u>Coast Guard</u></b>	<b><u>Total</u></b>
2001	\$21.2	\$9.3	\$3.9	\$0.0	\$34.4
2002	\$20.8	\$9.1	\$4.2	\$0.0	\$34.1
2003	\$18.9	\$8.1	\$4.1	\$0.0	\$31.1
2004	\$14.6	\$5.9	\$3.4	\$0.0	\$23.9
2005	\$14.3	\$5.3	\$3.4	\$0.0	\$23.1
2006	\$19.0	\$5.9	\$4.5	\$0.0	\$29.4
2007	\$19.9	\$5.0	\$4.9	\$0.0	\$29.8
2008	\$23.7	\$4.6	\$5.6	\$0.0	\$33.9
2009	\$7.5	\$1.0	\$1.6	\$0.0	\$10.1
2010	\$18.1	\$1.9	\$2.9	\$0.0	\$23.0

### **Chapter 30 & 33 Kicker Benefit Payments**

<b><u>FY</u></b>	<b><u>Army</u></b>	<b><u>Navy</u></b>	<b><u>Marine Corps</u></b>	<b><u>Coast Guard</u></b>	<b><u>Total</u></b>
2001	\$49.7	\$16.7	\$3.4	\$0.0	\$69.8
2002	\$47.9	\$20.3	\$4.8	\$0.0	\$73.1
2003	\$47.6	\$25.2	\$6.8	\$0.0	\$79.6
2004	\$48.7	\$29.1	\$8.3	\$0.0	\$86.1
2005	\$51.0	\$32.4	\$9.7	\$0.1	\$93.2
2006	\$51.2	\$34.0	\$12.3	\$0.1	\$97.6
2007	\$49.2	\$34.0	\$13.6	\$0.1	\$96.9
2008	\$44.6	\$33.2	\$14.6	\$0.1	\$92.4
2009	\$36.4	\$31.6	\$15.6	\$0.1	\$83.7
2010	\$45.3	\$37.4	\$17.3	\$0.1	\$100.1

### **Chapter 30 & 33 Kicker Benefit End of Year Fund Balance**

<b><u>FY</u></b>	<b><u>Army</u></b>	<b><u>Navy</u></b>	<b><u>Marine Corps</u></b>	<b><u>Coast Guard</u></b>	<b><u>Total</u></b>
2001	\$381.6	\$169.3	\$76.4	\$0.0	\$627.2
2002	\$430.1	\$188.4	\$90.9	\$0.0	\$709.3
2003	\$437.6	\$181.8	\$97.2	\$0.3	\$716.9
2004	\$414.7	\$164.3	\$100.4	\$0.3	\$679.6
2005	\$424.5	\$144.0	\$100.5	\$0.2	\$669.2
2006	\$427.3	\$118.0	\$101.2	\$0.2	\$646.7
2007	\$442.0	\$96.3	\$111.0	\$0.1	\$649.4
2008	\$501.8	\$80.1	\$112.5	\$0.1	\$694.5
2009	\$559.3	\$60.4	\$109.2	\$0.0	\$729.0
2010	\$703.9	\$53.1	\$99.4	-\$0.1	\$856.4

<sup>1</sup> The breakouts (by component and program) show OACT's internal allocation of the Fund. There is only one EBF.

## **APPENDIX D: FUND HISTORY (cont.)**

(Dollar Amounts in Millions)

### **Chapter 1606 Basic and Kicker Benefit Contributions**

<b><u>FY</u></b>	<b><u>ARNG</u></b>	<b><u>USAR</u></b>	<b><u>USNR</u></b>	<b><u>USMCR</u></b>	<b><u>ANG</u></b>	<b><u>USAFR</u></b>	<b><u>USCGR</u></b>	<b><u>Total</u></b>
2001	\$41.9	\$41.0	\$4.1	\$16.1	\$13.4	\$3.6	\$0.0	\$120.0
2002	\$50.4	\$53.6	\$1.2	\$13.8	\$18.0	\$9.9	\$0.0	\$146.9
2003	\$84.6	\$48.7	\$0.4	\$13.5	\$27.0	\$5.5	\$0.0	\$179.6
2004	\$83.8	\$32.1	\$0.3	\$13.4	\$35.1	\$5.4	\$0.0	\$170.1
2005	\$93.9	\$43.3	\$1.0	\$16.5	\$36.5	\$5.0	\$0.0	\$196.2
2006	\$138.0	\$49.5	\$9.7	\$20.9	\$43.8	\$8.1	\$0.0	\$269.9
2007	\$129.7	\$39.3	\$4.0	\$12.8	\$45.6	\$7.8	\$0.9	\$240.0
2008	\$123.8	\$72.9	\$5.8	\$9.3	\$46.6	\$7.5	\$0.9	\$266.8
2009	\$113.7	\$63.0	\$4.4	\$10.5	\$43.3	\$5.4	\$0.9	\$241.2
2010	\$114.8	\$54.1	\$3.8	\$18.1	\$38.2	\$13.6	\$0.8	\$243.4

### **Chapter 1606 Basic and Kicker Benefit Interest**

<b><u>FY</u></b>	<b><u>ARNG</u></b>	<b><u>USAR</u></b>	<b><u>USNR</u></b>	<b><u>USMCR</u></b>	<b><u>ANG</u></b>	<b><u>USAFR</u></b>	<b><u>USCGR</u></b>	<b><u>Total</u></b>
2001	\$6.0	\$5.1	\$2.1	\$1.1	\$0.9	\$2.7	\$0.0	\$17.9
2002	\$4.4	\$5.2	\$1.8	\$1.0	\$0.6	\$2.3	\$0.0	\$15.3
2003	\$3.9	\$5.3	\$1.4	\$1.0	\$0.6	\$2.1	\$0.0	\$14.2
2004	\$3.8	\$4.5	\$1.0	\$0.9	\$0.3	\$1.5	\$0.0	\$12.0
2005	\$4.4	\$4.7	\$0.8	\$1.0	\$0.2	\$1.3	\$0.0	\$12.5
2006	\$9.0	\$7.0	\$1.1	\$1.8	\$0.8	\$1.5	\$0.0	\$21.2
2007	\$10.4	\$6.9	\$1.1	\$1.8	\$0.9	\$1.2	\$0.0	\$22.3
2008	\$16.1	\$9.8	\$1.3	\$2.3	\$2.1	\$1.3	\$0.0	\$32.7
2009	\$5.5	\$3.4	\$0.4	\$0.7	\$0.9	\$0.3	\$0.0	\$11.2
2010	\$12.1	\$7.4	\$0.7	\$1.4	\$2.0	\$0.7	\$0.1	\$24.3

### **Chapter 1606 Basic and Kicker Benefit Payments**

<b><u>FY</u></b>	<b><u>ARNG</u></b>	<b><u>USAR</u></b>	<b><u>USNR</u></b>	<b><u>USMCR</u></b>	<b><u>ANG</u></b>	<b><u>USAFR</u></b>	<b><u>USCGR</u></b>	<b><u>Total</u></b>
2001	\$56.7	\$31.4	\$5.2	\$15.4	\$19.8	\$6.6	\$0.0	\$135.0
2002	\$64.7	\$36.0	\$4.5	\$14.1	\$23.1	\$7.4	\$0.0	\$149.9
2003	\$76.2	\$38.5	\$5.4	\$10.9	\$29.8	\$9.2	\$0.0	\$170.1
2004	\$73.5	\$34.1	\$6.3	\$13.6	\$37.8	\$11.7	\$0.0	\$176.9
2005	\$72.2	\$41.2	\$6.1	\$11.7	\$39.8	\$14.3	\$0.0	\$185.2
2006	\$57.3	\$29.5	\$4.9	\$6.9	\$33.8	\$14.1	\$0.0	\$146.6
2007	\$38.9	\$18.7	\$3.9	\$5.3	\$24.1	\$11.0	\$0.7	\$102.6
2008	\$53.3	\$23.7	\$4.1	\$7.0	\$29.2	\$9.4	\$0.8	\$127.6
2009	\$66.7	\$28.4	\$5.0	\$7.0	\$27.3	\$9.0	\$0.8	\$144.2
2010	\$87.4	\$42.7	\$5.1	\$6.7	\$28.9	\$8.8	\$0.6	\$180.2

### **Chapter 1606 Basic and Kicker Benefit End of Year Fund Balance**

<b><u>FY</u></b>	<b><u>ARNG</u></b>	<b><u>USAR</u></b>	<b><u>USNR</u></b>	<b><u>USMCR</u></b>	<b><u>ANG</u></b>	<b><u>USAFR</u></b>	<b><u>USCGR</u></b>	<b><u>Total</u></b>
2001	\$95.4	\$94.8	\$36.1	\$18.7	\$12.5	\$44.4	\$0.0	\$301.9
2002	\$85.5	\$117.6	\$34.6	\$20.6	\$9.7	\$49.2	\$0.0	\$317.2
2003	\$97.7	\$133.0	\$31.0	\$24.2	\$7.5	\$47.5	\$0.0	\$340.9
2004	\$111.7	\$135.6	\$26.0	\$24.9	\$5.1	\$42.8	\$0.0	\$346.0
2005	\$137.9	\$142.4	\$21.6	\$30.7	\$2.0	\$34.8	\$0.0	\$369.5
2006	\$227.5	\$169.5	\$27.5	\$46.5	\$12.8	\$30.3	\$0.0	\$514.1
2007	\$273.7	\$163.6	\$23.9	\$42.6	\$22.8	\$24.8	-\$0.2	\$551.2
2008	\$360.3	\$222.6	\$26.9	\$47.1	\$42.3	\$24.1	-\$0.2	\$723.1
2009	\$412.8	\$260.7	\$26.7	\$51.2	\$59.1	\$20.9	-\$0.1	\$831.2
2010	\$452.3	\$273.6	\$26.1	\$55.9	\$70.5	\$26.4	\$1.9	\$906.6

## **APPENDIX D: FUND HISTORY (cont.)**

(Dollar Amounts in Millions)

### **Chapter 1607 Basic Benefit Contributions**

<b><u>FY</u></b>	<b><u>ARNG</u></b>	<b><u>USAR</u></b>	<b><u>USNR</u></b>	<b><u>USMCR</u></b>	<b><u>ANG</u></b>	<b><u>USAFR</u></b>	<b><u>USCGR</u></b>	<b><u>Total</u></b>
2001	-	-	-	-	-	-	-	-
2002	-	-	-	-	-	-	-	-
2003	-	-	-	-	-	-	-	-
2004	-	-	-	-	-	-	-	-
2005	-	-	-	-	-	-	-	-
2006	\$57.467	\$35.969	\$7.854	\$0.000	\$0.000	\$21.944	\$0.000	\$123.233
2007	\$37.875	\$23.126	\$10.471	\$7.968	\$0.215	\$16.033	\$0.384	\$96.072
2008	\$127.965	\$29.674	\$0.000	\$9.629	\$20.740	\$8.151	\$0.843	\$197.002
2009	\$136.312	\$36.821	\$0.000	\$10.645	\$25.378	\$0.477	\$0.047	\$209.679
2010	\$45.643	\$3.063	\$0.000	\$0.000	\$0.000	\$0.000	\$0.024	\$48.729

### **Chapter 1607 Basic Benefit Interest**

<b><u>FY</u></b>	<b><u>ARNG</u></b>	<b><u>USAR</u></b>	<b><u>USNR</u></b>	<b><u>USMCR</u></b>	<b><u>ANG</u></b>	<b><u>USAFR</u></b>	<b><u>USCGR</u></b>	<b><u>Total</u></b>
2001	-	-	-	-	-	-	-	-
2002	-	-	-	-	-	-	-	-
2003	-	-	-	-	-	-	-	-
2004	-	-	-	-	-	-	-	-
2005	-	-	-	-	-	-	-	-
2006	\$1.271	\$1.064	\$0.534	-\$0.021	\$0.376	\$0.862	\$0.075	\$4.161
2007	\$4.989	\$3.521	\$1.328	\$0.466	\$0.874	\$2.052	\$0.149	\$13.380
2008	\$8.461	\$4.620	\$1.653	\$0.837	\$1.531	\$2.598	\$0.215	\$19.915
2009	\$3.621	\$1.373	\$0.436	\$0.252	\$0.646	\$0.694	\$0.060	\$7.082
2010	\$7.201	\$2.279	\$0.795	\$0.514	\$1.323	\$1.204	\$0.062	\$13.377

### **Chapter 1607 Basic Benefit Payments**

<b><u>FY</u></b>	<b><u>ARNG</u></b>	<b><u>USAR</u></b>	<b><u>USNR</u></b>	<b><u>USMCR</u></b>	<b><u>ANG</u></b>	<b><u>USAFR</u></b>	<b><u>USCGR</u></b>	<b><u>Total</u></b>
2001	-	-	-	-	-	-	-	-
2002	-	-	-	-	-	-	-	-
2003	-	-	-	-	-	-	-	-
2004	-	-	-	-	-	-	-	-
2005	-	-	-	-	-	-	-	-
2006	\$65.198	\$33.985	\$1.172	\$13.548	\$8.561	\$3.465	\$0.379	\$126.308
2007	\$116.781	\$58.345	\$2.219	\$18.064	\$16.650	\$7.849	\$0.751	\$220.659
2008	\$90.124	\$46.119	\$2.470	\$13.082	\$11.989	\$7.584	\$0.542	\$171.910
2009	\$104.170	\$52.269	\$3.679	\$17.512	\$12.719	\$8.698	\$0.554	\$199.601
2010	\$73.678	\$29.313	\$2.037	\$7.122	\$8.550	\$5.301	\$0.342	\$126.343

### **Chapter 1607 Basic Benefit End of Year Fund Balance**

<b><u>FY</u></b>	<b><u>ARNG</u></b>	<b><u>USAR</u></b>	<b><u>USNR</u></b>	<b><u>USMCR</u></b>	<b><u>ANG</u></b>	<b><u>USAFR</u></b>	<b><u>USCGR</u></b>	<b><u>Total</u></b>
2001	-	-	-	-	-	-	-	-
2002	-	-	-	-	-	-	-	-
2003	-	-	-	-	-	-	-	-
2004	-	-	-	-	-	-	-	-
2005	-	-	-	-	-	-	-	-
2006	\$20.339	\$22.648	\$15.316	-\$7.869	\$4.015	\$28.141	\$1.532	\$84.123
2007	\$66.235	\$58.220	\$33.564	\$4.336	\$10.715	\$49.372	\$3.124	\$225.565
2008	\$184.521	\$83.848	\$32.746	\$14.586	\$34.621	\$53.228	\$4.537	\$408.087
2009	\$267.834	\$87.810	\$29.503	\$13.606	\$51.443	\$45.701	\$4.091	\$499.988
2010	\$246.999	\$69.664	\$28.261	\$15.107	\$44.215	\$41.604	\$2.108	\$447.959

## **APPENDIX D: FUND HISTORY (cont.)**

(Dollar Amounts in Millions)

### **Category III Contributions**

<b><u>FY</u></b>	<b><u>Army</u></b>	<b><u>Navy</u></b>	<b><u>Marine Corps</u></b>	<b><u>Air Force</u></b>	<b><u>Coast Guard</u></b>	<b><u>Total</u></b>
2001	\$3.540	\$1.204	\$0.607	\$3.414	-	\$8.764
2002	\$3.567	\$1.348	\$0.621	\$3.585	-	\$9.121
2003	\$4.068	\$1.745	\$0.778	\$4.091	-	\$10.681
2004	\$3.618	\$1.499	\$0.722	\$3.211	-	\$9.049
2005	\$2.904	\$1.463	\$0.475	\$3.266	-	\$8.108
2006	\$2.204	\$1.770	\$0.371	\$1.882	-	\$6.228
2007	\$1.247	\$1.728	\$0.259	\$0.130	\$0.125	\$3.488
2008	\$1.193	\$1.955	\$0.135	\$0.486	\$0.015	\$3.784
2009	\$0.857	\$1.637	\$0.056	\$0.331	-	\$2.881
2010	\$0.941	\$1.734	\$0.086	\$0.477	\$0.155	\$3.392

### **Category III Interest**

<b><u>FY</u></b>	<b><u>Army</u></b>	<b><u>Navy</u></b>	<b><u>Marine Corps</u></b>	<b><u>Air Force</u></b>	<b><u>Coast Guard</u></b>	<b><u>Total</u></b>
2001	-\$0.108	-\$0.042	-\$0.019	-\$0.108	-	-\$0.277
2002	-\$0.101	-\$0.044	-\$0.019	-\$0.100	-	-\$0.265
2003	-\$0.076	-\$0.032	-\$0.015	-\$0.067	-	-\$0.190
2004	-\$0.049	-\$0.026	-\$0.008	-\$0.057	-	-\$0.140
2005	-\$0.035	-\$0.032	-\$0.006	-\$0.029	-\$0.001	-\$0.103
2006	-\$0.023	-\$0.036	-\$0.005	0.003	-\$0.003	-\$0.065
2007	-\$0.024	-\$0.040	-\$0.002	-\$0.010	-\$0.006	-\$0.083
2008	-\$0.018	-\$0.036	-\$0.001	-\$0.007	-\$0.007	-\$0.068
2009	-\$0.006	-\$0.011	-\$0.001	-\$0.003	-\$0.002	-\$0.023
2010	-\$0.010	-\$0.015	-\$0.001	-\$0.005	-\$0.000	-\$0.031

### **Category III Benefit Payments**

<b><u>FY</u></b>	<b><u>Army</u></b>	<b><u>Navy</u></b>	<b><u>Marine Corps</u></b>	<b><u>Air Force</u></b>	<b><u>Coast Guard</u></b>	<b><u>Total</u></b>
2001	\$3.480	\$1.340	\$0.618	\$3.478	-	\$8.917
2002	\$3.856	\$1.624	\$0.725	\$3.865	-	\$10.070
2003	\$3.602	\$1.506	\$0.721	\$3.274	-	\$9.103
2004	\$2.805	\$1.489	\$0.467	\$3.233	\$0.012	\$8.006
2005	\$2.123	\$1.697	\$0.363	\$1.545	\$0.035	\$5.763
2006	\$1.338	\$1.726	\$0.258	\$0.412	\$0.063	\$3.798
2007	\$1.081	\$1.784	\$0.118	\$0.422	\$0.023	\$3.428
2008	\$0.909	\$1.718	\$0.077	\$0.363	\$0.010	\$3.076
2009	\$0.911	\$1.671	\$0.088	\$0.455	\$0.008	\$3.133
2010	\$0.864	\$1.194	\$0.086	\$0.397	\$0.001	\$2.541

### **Category III End of Year Fund Balance**

<b><u>FY</u></b>	<b><u>Army</u></b>	<b><u>Navy</u></b>	<b><u>Marine Corps</u></b>	<b><u>Air Force</u></b>	<b><u>Coast Guard</u></b>	<b><u>Total</u></b>
2001	-\$3.620	-\$1.394	-\$0.637	-\$3.617	-	-\$9.268
2002	-\$4.010	-\$1.715	-\$0.761	-\$3.996	-	-\$10.482
2003	-\$3.621	-\$1.507	-\$0.719	-\$3.247	-	-\$9.094
2004	-\$2.857	-\$1.523	-\$0.472	-\$3.326	-\$0.012	-\$8.190
2005	-\$2.111	-\$1.789	-\$0.366	-\$1.634	-\$0.048	-\$5.948
2006	-\$1.268	-\$1.781	-\$0.258	-\$0.161	-\$0.115	-\$3.583
2007	-\$1.126	-\$1.878	-\$0.119	-\$0.463	-\$0.144	-\$3.730
2008	-\$0.860	-\$1.677	-\$0.062	-\$0.346	-\$0.145	-\$3.091
2009	-\$0.920	-\$1.722	-\$0.095	-\$0.474	-\$0.155	-\$3.365
2010	-\$0.853	-\$1.197	-\$0.096	-\$0.398	-\$0.000	-\$2.546



## **APPENDIX E – LEGISLATIVE HISTORY**

### **Background**

Chapter 34 of Title 38 covers service back to 1955. The immediate predecessor of the MGIB was the VEAP. It is covered by Chapter 32 of Title 38 and provides for those who first entered active duty between January 1, 1977 and June 30, 1985.

The Montgomery GI Bill provides education benefits for those entering the armed forces beginning July 1, 1985. It is called the Montgomery GI Bill (MGIB) after Congressman Sonny Montgomery, who was instrumental in passing the legislation. The permanent law for the MGIB is given by Chapter 1606 and Chapter 1607 of Title 10 and by Chapter 30 and Chapter 33 of Title 38. Chapter 1606, Chapter 1607, and Chapter 33 cover Reservists and Chapter 30 covers active duty (or former active duty) members.

Title 38 covers veterans and the MGIB benefits for active duty members are generally used after members become veterans. Title 10, on the other hand, covers DoD, and Reservists generally use their MGIB benefits while they are still members of the Selected Reserve, where they attend monthly drills, etc.

Beginning in 1991, subsequent legislation required that basic Chapter 30 benefits be paid from the Fund for veterans who entered service in the VEAP era and were permitted to enroll in the MGIB as a consequence of involuntary separation or acceptance of a VSI or SSB benefit. In this case, the basic Chapter 30 benefit is paid by the Fund. These benefits are not pre-funded and are paid by a series of annual contributions. These benefit amounts are referred to in this report as Category III.

Transferability test programs were offered under Section 3020 to approximately 100 Air Force and 400 Army active duty members, where a member who has been in the service for six years and agrees to stay for four more years can transfer part of his Chapter 30 eligibility for benefits to a dependent. This program is partly paid by the Veterans Administration (VA) and partly by the Fund. The part paid by the Fund is pre-funded by a normal cost mechanism.

Transferability is currently offered to all Chapter 33 participants where a member who has been in the service for six years and agrees to stay for four more years can transfer part of his Chapter 30 eligibility for benefits to a dependent.

### **Major Amendment History**

Public Law 101-510 (November 5, 1990) allows active members involuntarily separated after February 2, 1991, with honorable discharges to enroll in the MGIB. Those who entered the service during the post-Vietnam era (January 1, 1977 through June 30, 1985) have their basic benefits paid from the Fund. Those who entered after June 30, 1985 have their basic benefits paid from other funds by VA. Those who entered prior to January 1, 1977 also have their basic benefits paid by VA, unless because of discontinuous service they are not already enrolled in the MGIB. The eligible involuntary separatees would receive the basic MGIB benefit, but not the "kicker" benefit.

## **APPENDIX E – LEGISLATIVE HISTORY (cont.)**

### **Major Amendment History (cont.)**

Public Law 102-25 (April 6, 1991) temporarily increased the Chapter 30 (active) basic benefit to \$275 per month for 2-year enlistments (formerly \$250) and \$350 per month for 3- and 4-year enlistments (formerly \$300), effective October 1, 1991. The Chapter 1606 (reserve) benefit was increased to \$170 per month (formerly \$140), effective October 1, 1991.

Public Law 102-568 (October 29, 1992) permanently increased the basic Chapter 30 benefit to \$400 per month for 3- and 4-year programs and \$325 per month for 2-year programs, beginning April 1, 1993. In addition, the benefit was automatically increased by the CPI each October, beginning October 1, 1993. Public Law 102-568 also increased the Chapter 1606 benefit to \$190 per month, beginning on April 1, 1993, and provided automatic CPI indexing for the Chapter 1606 benefit. The CPI indexing is to be based on a year ending with the June CPI that precedes the October increase, compared to the previous June. Informally, VA, the Office of Management and Budget, and DoD have decided (1) to use the CPI-W for this purpose, (2) to construct the multiplier by adding twelve months of CPI-W ending in the June prior to the increase and dividing by the sum of twelve months of CPI-W ending with the preceding June, (3) to round the multiplier to the nearest 1/10th of one percent for full cost-of-living adjustments (COLAs) and the nearest 1/100th of one percent for reduced COLAs, and (4) to compute the Chapter 1606 and Chapter 30 basic benefit to the nearest penny. Public Law 102-568 (October 29, 1992) increased the basic Chapter 30 benefits of those who enlisted in 2-year programs, but served three or more years. Their benefits are now identical to those whose initial enlistment was for three or more years. This has no effect on the “kicker” amounts.

Neither Public Law 102-25 nor Public Law 102-568 directly affects the kicker benefit. However, the Army, with DoD approval, modified their kicker amounts, effective April 1, 1993, so that the total of basic + kicker for 36 months would equal \$20,000, \$25,000, and \$30,000, respectively, for the 2-, 3-, and 4-year programs. The effect of this was to increase the 2-year and 4-year kicker benefits, effective April 1, 1993, while decreasing the 3-year kicker benefit. Effective August 1, 1993, the Marine Corps, which began a 4-year kicker program January 1, 1993, raised the amount to that of the Army 4-year program. Effective May 1, 1994, the Navy also switched to this procedure for their 4-year program and added a 3-year program that also follows this procedure. For the near future, the kicker benefits would fall whenever the basic benefits increased, since the \$20,000, \$25,000, and \$30,000 totals of basic + kicker would remain constant. The benefit maximum would actually be larger than the \$20,000, \$25,000, and \$30,000, respectively, however. This occurred because the time of enrollment in a kicker program is what determined the benefit, but the time of benefit use (i.e. going to school) is what determined the basic benefit level.

Public Law 102-484 (October 23, 1992) treats separatees in the SSB and VSI programs in the same way that involuntary separatees were treated under Public Law 101-510. They can enroll in the MGIB. If they entered the service in the post-Vietnam era, their basic benefits are paid from the Fund. Persons separating under VSI or SSB prior to enactment are also eligible to enroll.

## **APPENDIX E – LEGISLATIVE HISTORY (cont.)**

### **Major Amendment History (cont.)**

Public Law 102-484 also waived the continued service requirement for Chapter 1606 eligibility for persons involuntarily separated from the Selected Reserve during the period October 1, 1991 through September 30, 1995.

Public Law 103-66 (August 10, 1993) eliminated the October 1, 1993 COLA , and reduced the October 1, 1994 COLA to one-half the value it would have been.

Public Law 103-160 (November 30, 1993) provided graduate school education under Chapter 1606. The benefit is still limited to 36 full-time months or their equivalent.

Public Law 104-106 (February 10, 1996) permits a supplement beyond the reserve basic MGIB benefit for persons in critical skills or units. It provides up to an additional \$350 per month under Chapter 1606 for persons in critical skills or critical units, at the discretion of the Secretary of Defense.

Public Law 105-178 (June 9, 1998) increased basic benefits in both the Chapter 30 and Chapter 1606 programs by 20% beginning in FY 1999. This is in lieu of the cost-of-living increase, rather than in addition to it. Normal CPI increases resumed in FY 2000. The 20% increase does not apply to the kicker amounts. However, for Chapter 30, the practice of solving for the kicker amount [using  $\text{kicker} = (\text{advertised amount} - 36 * \text{basic monthly amount})/36$ ] means that groups entering in FY 1999 will have lower kickers for a given advertised amount, such as \$40,000. Public Law 105-178 also caused the basic monthly amount to be rounded to the nearest dollar.

Public Law 105-261 (October 17, 1998) increased the kicker limit to \$950 per month, effective October 1, 1998.

Public Law 106-65 (October 5, 1999) made it possible for the Coast Guard to fund their Chapter 30 kicker benefits from the Fund.

Public Law 106-419 (November 1, 2000) increased the Chapter 30 basic MGIB benefits to \$528 per month for 2-year programs and to \$650 per month for programs of 3 or more years of active service. Section 102 of the bill also made eligible those in both the Chapter 30 and Chapter 1606 programs who completed the educational prerequisites (such as being a high-school graduate), but not before completing their obligated service (in the case of Chapter 30) or not before completing initial active duty training (in the case of Chapter 1606). Section 103 reduced from three years to two years the obligated service needed for full benefits for some types of separations.

## **APPENDIX E – LEGISLATIVE HISTORY (cont.)**

### **Major Amendment History (cont.)**

Public Law 107-103 (December 27, 2001) increased the Chapter 30 basic MGIB benefits to \$650 per month for 2-year programs and \$800 per month for programs of 3 or more years of active service. These increases were effective January 1, 2002. The law also increased the monthly full-time benefits on October 1, 2002 to \$732 (for 2-year programs) and to \$900 (for programs of 3 or more years of active service). The law further increased the monthly full-time benefits on October 1, 2003 to \$800 (for 2-year programs) and to \$985 (for programs of 3 or more years of active service).

Public Law 107-107 (December 28, 2001) permits transferring entitlement of MGIB benefits to dependents in certain conditions. Under the Service Secretary's discretion, those with critical military skills may transfer up to 18 months of benefits to one or more dependents. The military members transferring benefits must have served six years and agree to serve another four. A spouse can use the benefit immediately, but a child has to wait until the member has completed ten years of service. The law requires that the present value of the benefit for increased usage be transferred to the Fund on a monthly basis as new takers agree to serve an additional four years for the benefit.

Public Law 107-314 (December 2, 2002) extended the eligibility period for using Chapter 1606 benefits from 10 to 14 years (given that the member is still in the Selected Reserve).

Public Law 108-183 (December 16, 2003) removed the rounding on Chapter 30 benefits so that Chapter 30 benefits are now rounded to the nearest cent.

Public Law 108-375 (October 28, 2004) Section 527 created Chapter 1607, which provides educational assistance to members of the reserve components called or ordered to active service in response to a war or national emergency. Eligible members receive benefits based on their longest continuous length of service. Benefits range from 40% to 80% of MGIB-AD.

Public Law 108-454 (December 10, 2004) Section 106 provided education benefits for the payment of national admissions exams and national exams for credit at institutions of higher learning under Chapter 30.

Public Law 109-163 (January 6, 2006) Section 539, provides that licensing and certification tests are now payable under Chapters 1606 and 1607 of title 10, U.S. Code. Entitlement for licensing and certification tests taken under Chapters 1606 and 1607 will be charged by dividing the amount paid for the test by the member's full-time rate, less any kicker the member would receive. Section 540 provides that a member can have a break in Selected Reserve service of up to 90 days and still receive Chapter 1607 benefits as long as the member remains in the Ready Reserve during and after the break. DoD and the Department of Homeland Security (for Coast Guard cases) determine eligibility under Chapter 1607 and will administer the provision. Section 545 amends Title 10 to clearly state that VA is to administer the two education incentive benefits provided by the National Call to Service program. (These two incentive programs are an education allowance equal to the chapter 30 3-year rate payable of up to 12 months or equal to one-half the chapter 30 2-year rates payable up to 36 months.

## **APPENDIX E – LEGISLATIVE HISTORY (cont.)**

### **Major Amendment History (cont.)**

Public Law 109-461 (December 22, 2006), Section 305, requires VA and DoD to submit separate biennial reports to Congress on education benefits beginning 180 days after December 22, 2006 (date of enactment of this Act) and ending January 1, 2011.

Public Law 110-181 (January 28, 2008). Commonly referred to as “NDAA 08”, this law allowed reservists otherwise eligible for MGIB-SR or REAP the potential to receive accelerated payments for a non-degree program lasting 2 years or less. It made the REAP 80% rate available to anyone who was mobilized for at least 2 continuous years of active duty **OR** served multiple mobilizations totaling 3 years or more. It created a \$600 buy-up program for REAP participants. It modified ending dates for REAP participants separated from the Selected Reserve and for MGIB-SR participants separated involuntarily. It expanded REAP eligibility to anyone having a break in service (regardless of length) as long as they continue to serve in another component of the Ready Reserve (such as IRR or ING) during the break in service.

Public Law 110-252 (June 30, 2008). Commonly referred to as the “Post-9/11 GI Bill”, this is the most comprehensive education legislation since the original GI Bill. The Post-9/11 GI Bill created a new benefit structure including benefits for tuition, housing, books, and moving expenses. Any member who served 90 consecutive days on Active Duty in the Armed Forces (including reserve and guard components) since September 11, 2001 is eligible. Benefit levels are determined by cumulative service with 3 years of cumulative service receiving 100% of benefits. Members with at least 6 years of active duty can transfer benefits to their spouse and/or children if they complete an additional service period of at least four years.

Public Law 111-377 (January 4, 2011) The Post 9/11 Veterans Educational Assistance Improvements Act of 2010 allows National Guard members to use Title 32 service for Post 9/11 GI Bill benefits, places a \$17,500 cap on annual tuition and fees for non-public institutions, and creates a funding priority structure that makes the Post 9/11 GI bill paid after any federal, state, institutional, or employer-based aid.

## **APPENDIX F – BENEFIT PAYMENT PROJECTIONS<sup>1</sup>**

<b><u>Fiscal Year</u></b>	<b><u>Chapter 30/33</u></b>	<b><u>Chapter 1606</u></b>	<b><u>Chapter 1607</u></b>	<b><u>Category III</u></b>	<b><u>Total</u></b>
2011	\$88,248,277	\$209,198,006	\$109,471,107	\$2,035,836	\$408,953,225
2012	\$104,663,466	\$204,506,806	\$100,565,490	\$2,563,741	\$412,299,504
2013	\$123,249,295	\$206,487,654	\$96,326,619	\$2,030,748	\$428,094,316
2014	\$135,614,807	\$207,591,213	\$92,543,058	\$2,172,447	\$437,921,525
2015	\$134,228,333	\$209,885,840	\$91,547,023	\$2,147,728	\$437,808,924
2016	\$121,158,760	\$213,488,920	\$96,235,369	\$0	\$430,883,049
2017	\$107,834,815	\$217,862,934	\$104,979,390	\$0	\$430,677,139
2018	\$96,486,870	\$222,708,526	\$102,292,523	\$0	\$421,487,919
2019	\$88,192,496	\$229,639,171	\$103,308,022	\$0	\$421,139,689
2020	\$81,591,904	\$237,250,160	\$104,376,695	\$0	\$423,218,759
2021	\$76,606,453	\$243,438,010	\$106,020,847	\$0	\$426,065,310
2022	\$72,663,024	\$248,633,339	\$108,429,991	\$0	\$429,726,354

<sup>1</sup> These projections rely on input, such as new entrant estimates, provided to OACT by Comptroller and Reserve Affairs. If new entrant estimates change, so will these projections.

## **APPENDIX G – SFFAS ACCOUNTING STATEMENT**

### **EBF CFO Statement for 9/30/2011**

	<b><u>Total</u></b>
Beginning Actuarial Liability 9/30/2010	\$1,900,494,799.44
Normal Cost Liability	\$436,448,462.82
Plan Amendment Liability	\$0.00
Assumption Change Liability	(\$112,950,805.98)
Benefit Outlays	(\$441,224,221.79)
Interest Cost	\$85,415,993.80
Actuarials (gains)/losses due to changes in experience	(\$91,967,827.37)
Actuarials (gains)/losses due to changes in trend assumptions	\$0.00
<u>Actuarials (gains)/losses due to other factors<sup>1</sup></u>	<u>(\$2,567,387.00)</u>
Ending Actuarial Liability 9/30/2011	\$1,773,649,013.93
Change in Actuarial Liability	(\$126,845,785.51)

For Education Benefits Fund liabilities, OACT performs an annual valuation that is governed by Sec 2006 of Title 10, United States Code, and uses methods and assumptions approved by the DoD Board of Actuaries. Prior to FY 2010, OACT used this Board valuation to calculate liabilities for financial statement purposes. However, even with consistent methods and assumptions, numbers from the Board valuation differ from financial statement numbers because of financial statement deadlines. For example, the 9/30/2009 actuarial liability for the financial statements was projected based on the 9/30/2008 Board valuation. The 9/30/2009 Board valuation was performed later, based on newer information, and estimated a different September 30, 2009 actuarial liability.

A separate financial statement valuation (i.e., with different assumptions) may be necessary to satisfy a financial statement regulation called the Statement of Federal Financial Accounting Standards 33 (SFFAS 33) because SFFAS 33 requires the use of a yield curve whereas the Board valuation uses a single average discount rate.

SFFAS 33 requires a minimum of five years of historical rates for the yield curve input and a consistency in the number of historical rates used from period to period. This year, as in the previous year, OACT used ten years of quarterly zero coupon Treasury spot rates. The rates used (as published by the Office of Thrift Supervision) were from the period 6/30/2001 to 3/31/2011 (40 quarterly interest rates). These quarterly rates are equivalent (in terms of producing the same EBF liability) to the SFFAS single equivalent rate of 3.82%. This compares to the Board valuation single average discount rate of 4.50%.

SFFAS 33 permits the use of a single average discount rate if the resulting present value is not materially different from what would be obtained using the yield curve. Increasing the single average discount rate from the SFFAS single equivalent rate of 3.82% to 4.50% decreases the EBF actuarial liabilities by 2.7%. As this difference is not material, the Board valuation single average discount rate of 4.50% will be used for 9/30/2011 financial statement purposes.

For 9/30/2011 financial statement purposes, SFFAS 33 did not require OACT to change any other assumption beside the discount rate. OACT considered the minor adjustment to expected future inflation that would result from basing the assumption on the same period used to derive the yield curve, and that adjustment is reflected in the above materiality test. Therefore, for 9/30/2011 financial statement purposes, all economic assumptions will be consistent with the Board valuation.

<sup>1</sup>Actuarials (gains)/losses due to other factors is a correction to the beginning liability for Cat 3, where an extra year of benefits was included.

## **APPENDIX H – GLOSSARY**

### **Actuarial Liability**

The present value of benefits expected to be paid from the Fund to current plan participants. Does not include new entrants after the valuation date.

### **Amortization Payment**

An annual payment of principal and interest on unfunded liability.

### **Basic Benefit**

The amount of basic educational assistance available in each program for approved education purposes. This amount may be reduced for education pursued on a less than full-time basis.

### **Benefit Usage Rates**

The likelihood that a member will use an offered benefit.

### **Board**

The Department of Defense Board of Actuaries.

### **Book Value**

Treasury bonds, notes, and bills that are valued with amortized premiums/discounts and yields that are set at purchase.

### **Closed Group**

The actuarial liability is based only on people already in the system. New entrants after the valuation date are not included. For this reason, the population is called a "closed" group.

### **Component**

In the case of active duty benefits, the term component refers to the branch of service: Army, Navy, Air Force, Marine Corps, or Coast Guard. In the case of reserve benefits, the term component refers to the separate guard and reserve services: Army National Guard, Army Reserve, Navy Reserve, Marine Corps Reserve, Air National Guard, Air Force Reserve, and the Coast Guard Reserve.

### **Decrement**

An event that causes the nature of liability to change. Decrements for this report include disability, withdrawal from and re-entry to service, and death.

### **DoD**

Department of Defense

### **DMDC**

Defense Manpower Data Center

### **DFAS**

Defense Finance and Accounting Service



## **APPENDIX H – GLOSSARY (cont.)**

### **Fund**

The Education Benefits Fund

### **Fund Balance**

The amount of monies, tracked separately for each program and each component, available to pay future benefits.

### **IADT**

Initial active duty.

### **Inflation Rate**

The rate of increase in the average price level of goods and services during a specified period.

### **Interest Rate**

The rate of investment return used to calculate the present value of a series of future payments.

### **Interest (or Investment Earnings)**

The amount of money the Fund earns from securities.

### **Kicker Benefit**

An additional benefit offered to members who have a critical skill or critical specialty. The Secretary of Defense may increase the amount of basic educational assistance by as much as \$950 per month.

### **Member**

A person eligible to participate in a Fund program.

### **MGIB-AD**

Montgomery GI Bill active duty benefits for Active Duty under Chapter 30.

### **MGIB-SR**

Montgomery GI Bill benefits for Selected Reserve under Chapter 1606.

### **Normal Cost**

The expected present value of liabilities for a new entrant.

### **OACT**

The Department of Defense Office of the Actuary

### **Offset**

A reduction applied to the normal cost in order to decrease a surplus.

## **APPENDIX H – GLOSSARY (cont.)**

### **Pay-as-you-go**

A method of recognizing the costs of a benefits system only as benefits are paid.

### **Per Capita Cost**

The normal cost minus any offset for expected surplus. This is the amount needed to be paid into a fund for future benefits for each new entrant. For the DoD Education Benefits Fund, the per capita cost is paid once for each new entrant.

### **Present Value of Benefits**

The amount, discounted to the valuation date, of benefits expected to be paid from the plan to current plan participants. Does not include new entrants after the valuation date.

### **REAP**

Reserve Education Assistance Program benefits under Chapter 1607.

### **Surplus**

The amount of assets in the Fund greater than the actuarial liability.

### **Time Value of Money**

The principle that an amount of money available at an earlier point in time has different usefulness and value than the same amount of money at a later point in time.

### **Transferability**

The ability to transfer a benefit to a spouse or dependent child.

### **Unfunded Liability**

The portion of the actuarial liability not covered by the Fund assets. If assets exceed the actuarial liability, there is a surplus.

### **VEAP**

Veteran's Educational Assistance Program

### **Withdrawal Rate**

The probability that an active military member at the beginning of the year will separate from the service by the end of the year.