



**VALUATION OF THE
EDUCATION BENEFITS FUND**

SEPTEMBER 30, 2009

DoD Office of the Actuary

November 2010

ACTUARIAL CERTIFICATION

This report on the Education Benefits Fund (Fund) as of September 30, 2009, 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 2.4%, 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.



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EDUCATION BENEFITS FUND REPORT – TABLE OF CONTENTS

<u>Sections</u>	<u>Page</u>
Actuarial Certification	2
Table of Contents	3
Section 1 – Introduction	4
Section 2 – Executive Summary	5
Section 3 – Valuation Data	6
Section 4 – Assets, Unfunded Liabilities, and Annual Changes	7
Section 5 – Amortization Payments	12
Section 6 – Per Capita Costs	14
Section 7 –Transaction Process	16
<u>Appendices</u>	<u>Page</u>
Appendix A – Description of Benefits	19
Appendix B – Population Data	25
Appendix C – Assumptions and Methods	29
Appendix D – Fund History	37
Appendix E – Legislative History	41
Appendix F – Benefit Payment Projections	46
Appendix G – SFFAS Accounting Statement	47
Appendix H – Glossary	48

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 E) and the Fund can now pay for the following benefits:

- Title 38, Chapter 30/33 kicker and transferred kicker benefits¹
- Title 10, Chapter 1606 basic and transferred basic benefits²
- Title 10, Chapter 1606 kicker and transferred kicker benefits²
- Title 10, Chapter 1607 basic and transferred basic benefits²
- Title 38, Chapter 30 basic benefits for Post-Vietnam Era and Involuntary Separatees (Category III)
- Title 10, Chapter 31, Section 510 National Call to Service³
- Title 38, Chapter 30, Section 3020 Transferability Benefits³

The Board, whose members are appointed by the Secretary of Defense, approves methods and assumptions used in the Fund valuation 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.
- The FY 2012 normal costs can be found in Appendix C under “decrement assumptions.”
- 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 provided by contacting the Office of the Actuary as detailed on page 2.

¹Current legislation requires that the Department of Veterans Affairs fund Chapter 33 kickers. However, DoD has traditionally funded all kickers as they are a recruitment and retention tool. Per an informal understanding with the VA, DoD plans to fund Chapter 33 kickers through the Education Benefits Fund.

² Transferred benefits are not currently offered under Chapters 1606 and 1607.

³ 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

	<u>Chapter 30/33</u>	<u>Chapter 1606</u>	<u>Chapter 1607</u>	<u>Other²</u>	<u>Total</u>
Sept. 30, 2009 Eligibles ¹	216,677	430,458	678,467	2,351	1,327,953
<u>Sept. 30, 2009 Fund Balance</u>					
Sept. 30, 2008 Fund Balance	\$694,503,571	\$723,070,123	\$408,086,902	\$3,812,618	\$1,829,473,214
FY09 Amortization Payments	7,115,811	18,121,148	74,740,518	2,880,843	102,858,320
FY09 Per Capita Contributions	101,017,858	223,080,895	209,679,143	0	533,777,896
FY09 Benefit Payments	(83,715,882)	(144,216,756)	(199,600,820)	(3,247,298)	(430,780,756)
<u>FY09 Interest</u>	<u>10,070,309</u>	<u>11,162,819</u>	<u>7,082,108</u>	<u>73,062</u>	<u>28,388,297</u>
FY09 Total Changes	34,488,095	108,148,016	91,900,949	(293,393)	234,243,756
Sept. 30, 2009 Fund Balance	\$728,991,666	\$831,218,229	\$499,987,850	\$3,519,225	\$2,063,716,971
<u>September 30, 2009 Snapshot</u>					
Actuarial Liability (AL)	\$1,017,302,229	\$417,553,951	\$319,421,676	\$15,753,126	\$1,770,030,981
<u>Fund Balance³</u>	<u>(728,991,666)</u>	<u>(831,218,229)</u>	<u>(499,987,850)</u>	<u>(3,519,225)</u>	<u>(2,063,716,971)</u>
Unfunded AL (Surplus)	\$288,310,563	\$(413,664,279)	\$(180,566,174)	\$12,233,900	\$(293,685,990)

The above summarizes FY 2009 Fund experience and actuarial valuation results as of Sept. 30, 2009. The majority of liabilities detailed in this report stem from active duty kickers, reserve kickers and reserve basic benefits.

On June 30, 2008, the most comprehensive education legislation since the original GI Bill was passed into law and came to be known as the "Post-9/11 GI Bill." The Post-9/11 GI Bill created a new benefit structure including benefits for tuition, housing, books, and moving expenses as well as an ability for members to transfer some or all of their benefits to their spouse or child. While the VA portion of the Post 9/11 GI Bill benefits is not covered in this report, the liability amounts presented in this report were greatly affected by this comprehensive legislative change.

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.

¹ Members eligible for multiple programs are counted separately for each program.

² 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.

³ 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. Input 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. Data on benefit payments and contributions are from DFAS. An overview of the number of members in each program and their status can be found in Appendix B.

The data has not been audited by the DoD Office of the Actuary (OACT). 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. In the case of benefit payments, 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.

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, 2009) 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. The assets are given at book value, rather than at market value. The unfunded liabilities or surpluses are as follows:

Chapter 30/Chapter 33 Kicker Benefits as of September 30, 2009

<u>Program</u>	<u>Actuarial Liability</u>	<u>Assets</u>	<u>Unfunded Liability (Surplus)</u>
Army	\$705,073,938	(559,296,655)	\$145,777,283
Navy	177,332,934	(60,434,336)	116,898,598
Marine Corps	134,210,318	(109,223,210)	24,987,108
<u>Coast Guard</u>	<u>685,039</u>	<u>(37,465)</u>	<u>647,574</u>
Total	1,017,302,229	(728,991,666)	288,310,563

Chapter 1606 Basic Benefits as of September 30, 2009

<u>Program</u>	<u>Actuarial Liability</u>	<u>Assets</u>	<u>Unfunded Liability (Surplus)</u>
Army National Guard	\$103,675,041	\$(252,921,424)	\$(149,246,383)
Army Reserve	55,802,682	(104,076,782)	(48,274,100)
Navy Reserve	9,766,879	(25,656,497)	(15,889,618)
Marine Corps Reserve	13,342,830	(46,052,241)	(32,709,411)
Air National Guard	33,133,651	(24,803,300)	8,330,351
Air Force Reserve	8,927,299	(9,697,260)	(769,962)
<u>Coast Guard Reserve</u>	<u>1,790,765</u>	<u>81,221</u>	<u>1,871,987</u>
Total	226,439,147	(463,126,283)	(236,687,136)

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

Chapter 1606 Kicker Benefits as of September 30, 2009

<u>Program</u>	<u>Actuarial Liability</u>	<u>Assets</u>	<u>Unfunded Liability (Surplus)</u>
Army National Guard	\$104,208,289	\$(159,835,603)	\$(55,627,314)
Army Reserve	40,722,254	(156,581,768)	(115,859,514)
Navy Reserve	527,774	(1,045,735)	(517,962)
Marine Corps Reserve	1,228,586	(5,169,720)	(3,941,133)
Air National Guard	35,501,871	(34,306,686)	1,195,184
Air Force Reserve	8,926,030	(11,153,335)	(2,227,305)
<u>Coast Guard Reserve</u>	<u>0</u>	<u>901</u>	<u>901</u>
Total	191,114,803	(368,091,946)	\$(176,977,142)

Chapter 1607 Basic Benefits as of September 30, 2009

<u>Program</u>	<u>Actuarial Liability</u>	<u>Assets</u>	<u>Unfunded Liability (Surplus)</u>
Army National Guard	\$198,496,045	\$(267,833,829)	\$(69,337,784)
Army Reserve	63,419,592	(87,810,026)	(24,390,434)
Navy Reserve	4,619,504	(29,503,441)	(24,883,937)
Marine Corps Reserve	13,395,028	(13,605,924)	(210,896)
Air National Guard	26,176,207	(51,443,363)	(25,267,156)
Air Force Reserve	12,508,187	(45,700,637)	(33,192,450)
<u>Coast Guard Reserve</u>	<u>807,113</u>	<u>(4,090,630)</u>	<u>(3,283,517)</u>
Total	319,421,676	(499,987,850)	(180,566,174)

In addition to the above 25 items, there are 15 items not reflected (some of which are zero), one for each component for Category III, National Call to Service, and Chapter 30 transferred benefits paid from the Fund¹. 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.

¹ The Chapter 30/Chapter 33 Kicker Benefits section only shows four components because Air Force does not currently offer these benefits. However, some of the 15 items not reflected are Air Force lines.

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

On the following 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. Note that the percentage change for Interest Experience is expressed as a percent of Projected September 30, 2009 Assets.

Chapter 30/33 Annual Changes

	<u>FY 2009</u>	<u>% of Projected Actuarial Liability</u>
Projected September 30, 2009 Assets	\$758,239,774	
<u>Projected September 30, 2009 Liability</u>	\$1,066,546,852	
Projected September 30, 2009 Unfunded Liability	\$308,307,078	
Actual September 30, 2009 Assets	\$728,991,666	
<u>Actual September 30, 2009 Liability</u>	\$1,017,302,229	
Actual September 30, 2009 Unfunded Liability	\$288,310,563	
September 30, 2009 (Gain)/Loss	\$(19,996,515)	-1.9%
<u>(Gain)/Loss Due to Liability</u>		
Withdrawal Experience & Census Changes	\$11,506,228	1.1%
Interest Rate Assumption Change	\$0	0.0%
Usage Rate and Other Assumption Changes	\$(36,533,929)	-3.4%
<u>2009 Population Changes</u>	<u>\$(24,216,923)</u>	<u>-2.3%</u>
Total Liability (Gain)/Loss	\$(49,244,623)	-4.6%
<u>(Gain)/Loss Due to Assets</u>		
Benefit Usage Experience	\$(1,276,813)	-0.1%
Contribution Experience	\$8,161,316	0.8%
<u>Interest Experience</u>	<u>\$22,363,605</u>	<u>3.1%</u>
Total Assets (Gain)/Loss	\$29,248,108	2.7%

The Liability (Gain)/Loss development above reflects the changes in actuarial liability from the last valuation (projected) to the latest valuation (actual) for Chapter 30/33. Rates are updated each year to reflect the most recent experience.

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

Chapter 1606 Annual Changes

	<u>FY 2009</u>	<u>% of Projected Actuarial Liability</u>
Projected September 30, 2009 Assets	\$797,740,336	
<u>Projected September 30, 2009 Liability</u>	\$476,305,735	
Projected September 30, 2009 Unfunded Liability	\$(321,434,601)	
Actual September 30, 2009 Assets	\$831,218,229	
<u>Actual September 30, 2009 Liability</u>	\$417,553,951	
Actual September 30, 2009 Unfunded Liability	\$(413,664,279)	
September 30, 2009 (Gain)/Loss	\$(92,229,678)	-19.4%
<u>(Gain)/Loss Due to Liability</u>		
2009 Census Experience	\$(22,906,457)	-4.8%
Interest Rate Assumption Change	\$0	0%
Other Economic Experience	\$4,760,826	1.0%
<u>Non-Economic Assumption Changes</u>	<u>\$(40,606,154)</u>	<u>-8.5%</u>
Total Liability (Gain)/Loss	\$(58,751,785)	-12.3%
<u>(Gain)/Loss Due to Assets</u>		
Benefit Usage Experience	\$(2,358,350)	-0.5%
Contribution Experience	\$(55,760,531)	-11.7%
<u>Interest Experience</u>	<u>\$24,640,988</u>	<u>3.1%</u>
Total Assets (Gain)/Loss	\$(33,477,894)	-7.0%

The Liability (Gain)/Loss 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 will not be offered through that chapter. The Office of the Actuary has reduced the liabilities under the assumption that this will continue to be the case. This reduction is reflected in the “Non-Economic Assumption Changes” line.

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

Chapter 1607 Annual Changes

	<u>FY 2009</u>	<u>% of Projected Actuarial Liability</u>
Projected September 30, 2009 Assets	\$498,166,268	
<u>Projected September 30, 2009 Liability</u>	\$230,503,396	
Projected September 30, 2009 Unfunded Liability	\$(267,662,832)	
Actual September 30, 2009 Assets	\$499,987,850	
<u>Actual September 30, 2009 Liability</u>	\$319,421,676	
Actual September 30, 2009 Unfunded Liability	\$(180,566,174)	
September 30, 2009 (Gain)/Loss	\$87,096,658	37.8%
<u>(Gain)/Loss Due to Liability</u>		
2009 Census Experience	\$18,106,050	8.0%
Interest Rate Assumption Change	\$0	0.0%
Other Economic Experience	\$9,999,062	4.3%
<u>Non-Economic Assumption Changes</u>	<u>\$60,813,169</u>	<u>26.4%</u>
Total Liability (Gain)/Loss	\$88,918,281	38.6%
<u>(Gain)/Loss Due to Assets</u>		
Benefit Usage Experience	\$39,181,238	17.0%
Contribution Experience	\$(56,640,497)	-24.6%
<u>Interest Experience</u>	<u>\$15,637,637</u>	<u>3.1%</u>
Total Assets (Gain)/Loss	\$(1,821,622)	-0.8%

The Liability (Gain)/Loss 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 Board of Actuaries approved a large increase to actuarial liability calculations to reflect expectations that the Post 9/11 GI Bill would not immediately create the large reductions previously expected. This large increase is reflected in the “Non-Economic Assumption Changes” line.

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 do not reflect all data available as of the date the amortization payments are made.

The amortization payments for FY 2011 (determined in the September 30, 2008, valuation) and FY 2012 (determined in the September 30, 2009, valuation) are shown in the following tables. The amortization payment for the Chapter 1606 basic program and the Chapter 1606 kicker program is calculated as a single Chapter 1606 amortization payment.

Before computing FY 2012 amortization payments for Chapters 1606 and 1607, assets were transferred in some cases between a component's 1606 (1607) account and that same component's 1607 (1606) account. Such transfers only occurred when surpluses were available and needed to reduce all FY 2012 amortization payments for Chapters 1606 and 1607 to zero.

Note that the payment for Category III is determined differently. The payment for October 1, 2010 for Involuntary Separatees and Voluntary Separation Incentive/Special Separation Bonus recipients (i.e., Category III) was determined by estimating FY 2010 benefit payments, and by bringing forward any surplus or liability from October 1, 2009. Both items were adjusted by interest and then added together to determine the October 1, 2010 payment.

Chapter 30/33 Annual Amortization Amounts

<u>Fiscal Year</u> <u>Due Date</u>	<u>2011</u> <u>10/1/2010</u>	<u>2012</u> <u>10/1/2011</u>
Army	\$29,937,620	\$11,991,283
Navy	19,781,165	19,636,270
Marine Corps	4,137,318	4,909,015
Coast Guard	84,812	137,196

SECTION 5 - AMORTIZATION PAYMENTS (cont.)

Chapter 1606 Annual Amortization Amounts

<u>Fiscal Year</u> <u>Due Date</u>	<u>2011</u> <u>10/1/2010</u>	<u>2012</u> <u>10/1/2011</u>
Army National Guard	\$0	\$0
Army Reserve	0	0
Navy Reserve	0	0
Marine Corps Reserve	0	0
Air National Guard	3,673,929	0
Air Force Reserve	0	0
Coast Guard Reserve	236,053	0

Chapter 1607 Basic Benefits Annual Amortization Amounts

<u>Fiscal Year</u> <u>Due Date</u>	<u>2011</u> <u>10/1/2010</u>	<u>2012</u> <u>10/1/2011</u>
Army National Guard	\$0	\$0
Army Reserve	0	0
Navy Reserve	0	0
Marine Corps Reserve	0	0
Air National Guard	0	0
Air Force Reserve	0	0
Coast Guard Reserve	0	0

Category III Basic Annual Amortization Amounts¹

<u>Fiscal Year</u> <u>Due Date</u>	<u>2011</u> <u>10/1/2010</u>	<u>2012</u> <u>10/1/2011</u>
Army	\$854,162	Set next year
Navy	1,216,355	Set next year
Marine Corps	93,432	Set next year
Air Force	403,271	Set next year
Coast Guard	167	Set next year

¹ 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

Monthly per capita contributions are made to the EBF based on the number of new entrants during the previous month. For each new entrant in the previous month, a per capita cost is paid. 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 and is spread over projected new entrants for the year. The amortization schedule is reset each year, i.e. the schedule is given a "fresh start" every year. For budgetary reasons, expected surpluses (and unfunded liabilities) are determined two years in advance and 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 2011

	<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	\$2,351	\$2,178	\$1,850	\$1,633	\$1,613	\$1,555	\$2,087	\$1,589	\$1,796	\$1,826
\$250	3,953	3,652	3,103	2,736	2,703	2,607	3,505	2,674	3,016	3,073
\$350	5,578	5,144	4,373	3,850	3,803	3,671	4,943	3,777	4,253	4,343
\$450	7,226	6,652	5,657	4,974	4,913	4,747	6,400	4,898	5,507	5,634
\$550	8,895	8,174	6,955	6,109	6,032	5,833	7,875	6,036	6,777	6,945
\$650	10,582	9,711	8,266	7,252	7,159	6,930	9,366	7,192	8,061	8,275
\$750	12,287	11,261	9,590	8,404	8,295	8,036	10,874	8,363	9,360	9,622
\$850	14,008	12,823	10,925	9,564	9,439	9,151	12,397	9,550	10,671	10,987
\$950	15,743	14,397	12,273	10,732	10,590	10,275	13,934	10,751	11,995	12,369

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	8,421
\$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

SECTION 6 - PER CAPITA COSTS (cont.)

Chapter 1606 Basic and Kicker Benefit Per Capita Costs During FY 2011

	<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	\$1,330	\$998	\$560	\$1,489	\$3,892	\$2,137	\$1,402
\$100 Kicker	1,310	997	712	974	1,763	1,371	1,156
\$200 Kicker	2,608	1,933	1,783	2,085	2,842	2,307	2,244
\$350 Kicker	4,755	3,050	4,129	4,287	5,268	4,128	3,957

Chapter 1606 Basic and Kicker 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 1607 Basic Benefit Per Capita Costs During FY 2011

	<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	\$591	\$75	\$0	\$0	\$0	\$0	\$0
60% of MGIB-AD	935	124	0	0	0	0	0
80% of MGIB-AD	1,201	152	0	0	0	0	0

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

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 DoD¹, (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.

¹ References to "DoD" in this section also include Coast Guard.

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

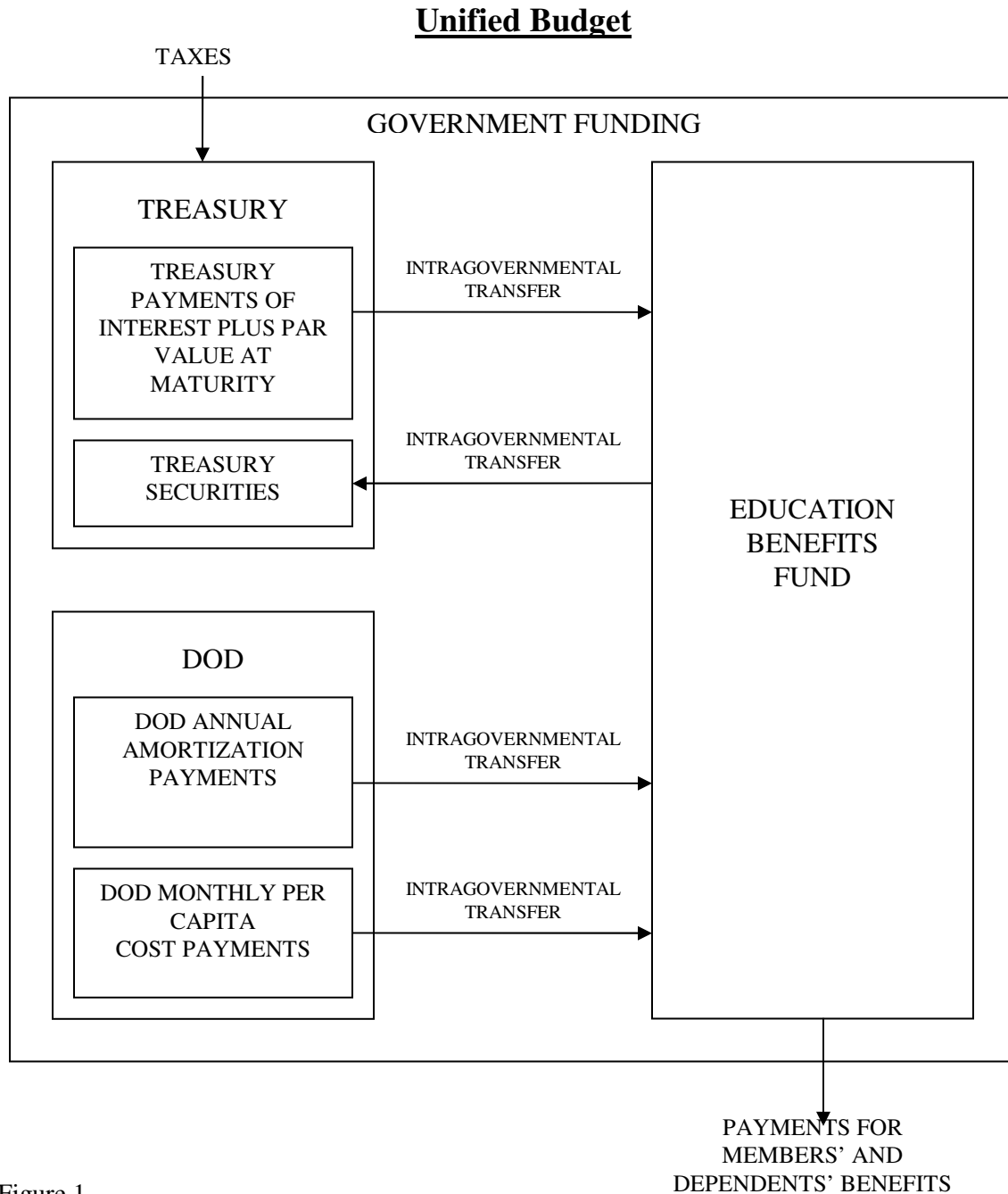


Figure 1

All of the intragovernmental 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

Note: 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 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 active duty veterans serving active duty service after September 10, 2001, the following chart applies:

<u>Member Serves</u>	<u>Percentage of Maximum Benefit Payable</u>
At least 36 months	100%
At least 30 continuous days on active duty 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.

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 \$333 per month for fiscal year 2010. This amount became effective October 1, 2009. 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 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, 2009:

- Members who serve 90 days to less than 1 year receive:
40% of the MGIB-AD 3-year rate or \$547.20 per month
- Members who serve 1 year but less than 2 years receive:
60% of the MGIB-AD 3-year rate or \$821.80 per month
- Members who serve 2 or more continuous years (or 3 years cumulative) receive:
80% of the MGIB-AD 3-year rate or \$1,094.40 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 II¹, 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 \$1,368 per month for fiscal year 2010. This rate became effective October 1, 2009. 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.

¹ 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, 2008</u>	<u>Sept. 30, 2009</u>
<u>On Active Duty</u>		
Army 2-year	1,559	1,315
Army 3-year	13,455	18,168
Army 4-year	28,185	29,724
Army 5-year	6,583	7,128
Army 6-year	3,711	4,361
Navy 2-year	13	11
Navy 3-year	440	414
Navy 4-year	20,908	20,393
Marine Corps 4-year	7,398	8,080
Marine Corps 5-year	4,604	5,168
Marine Corps 6-year	0	57
<u>Coast Guard 4-year</u>	<u>66</u>	<u>135</u>
Total	86,922	94,954
<u>Not On Active Duty, Who Have Not Used the Benefit</u>		
Army 2-year	2,713	2,207
Army 3-year	6,010	6,227
Army 4-year	15,861	15,125
Army 5-year	1,178	1,068
Army 6-year	947	782
Navy 2-year	25	19
Navy 3-year	454	341
Navy 4-year	17,897	16,325
Marine Corps 4-year	3,401	3,298
Marine Corps 5-year	1,134	1,235
Marine Corps 6-year	0	0
<u>Coast Guard 4-year</u>	<u>22</u>	<u>29</u>
Total	49,642	46,656
<u>Not On Active Duty, Who Have Used the Benefit</u>		
Army 2-year	6,261	5,009
Army 3-year	10,548	8,951
Army 4-year	24,020	23,841
Army 5-year	66	350
Army 6-year	132	254
Navy 2-year	13	7
Navy 3-year	753	509
Navy 4-year	34,694	27,795
Marine Corps 4-year	6,438	6,522
Marine Corps 5-year	1,576	1,793
Marine Corps 6-year	0	0
<u>Coast Guard 4-year</u>	<u>33</u>	<u>36</u>
Total	84,534	75,067
<u>Total Eligible</u>	221,098	216,677

APPENDIX B – POPULATION DATA (cont.)

Chapter 1606 Eligibles

	<u>Sept. 30, 2008</u>	<u>Sept. 30, 2009</u>
<u>Eligible for Basic Benefit</u>		
Army National Guard	94,410	82,040
Army Reserve	49,446	47,293
Navy Reserve	14,970	13,668
Marine Corps Reserve	11,558	9,917
Air National Guard	29,581	24,728
Air Force Reserve	12,591	11,100
<u>Coast Guard Reserve</u>	<u>1,845</u>	<u>1,452</u>
Total	214,401	190,198
<u>Eligible for Kicker - \$100 per month</u>		
Army National Guard	2,831	2,344
Army Reserve	24,157	21,166
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	26,988	23,510
<u>Eligible for Kicker - \$200 per month</u>		
Army National Guard	61,072	70,831
Army Reserve	7,666	7,615
Navy Reserve	608	682
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	69,346	79,128
<u>Eligible for Kicker - \$350 per month</u>		
Army National Guard	10,704	16,682
Army Reserve	13,118	24,190
Navy Reserve	0	0
Marine Corps Reserve	596	808
Air National Guard	25,393	30,446
Air Force Reserve	9,882	10,389
<u>Coast Guard Reserve</u>	<u>2</u>	<u>0</u>
Total	59,695	82,515

APPENDIX B – POPULATION DATA (cont.)

Chapter 1607 Eligibles

	<u>Sept. 30, 2008</u>	<u>Sept. 30, 2009</u>
<u>Eligible for 40% of MGIB</u>		
Army National Guard	84,834	84,968
Army Reserve	54,222	52,985
Navy Reserve	25,971	27,694
Marine Corps Reserve	35,379	36,491
Air National Guard	38,475	42,284
Air Force Reserve	25,812	28,723
<u>Coast Guard Reserve</u>	<u>4,361</u>	<u>4,517</u>
Total	269,054	277,662
<u>Eligible for 60% of MGIB</u>		
Army National Guard	155,510	183,641
Army Reserve	84,934	96,609
Navy Reserve	8,884	10,672
Marine Corps Reserve	8,578	12,688
Air National Guard	12,578	14,367
Air Force Reserve	10,738	11,110
<u>Coast Guard Reserve</u>	<u>1,212</u>	<u>1,279</u>
Total	282,434	330,366
<u>Eligible for 80% of MGIB</u>		
Army National Guard	22,773	28,170
Army Reserve	21,271	25,178
Navy Reserve	2,007	2,052
Marine Corps Reserve	4,439	4,002
Air National Guard	4,656	5,237
Air Force Reserve	4,350	4,455
<u>Coast Guard Reserve</u>	<u>1,288</u>	<u>1,345</u>
Total	60,784	70,439

APPENDIX B – POPULATION DATA (cont.)

Category III Eligibles¹

Number of Persons at Fiscal Year End

	<u>Involuntary</u>		<u>VSI/SSB</u>		<u>Total</u>	
	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>
<u>Enrolled but No Benefit Use</u>						
Army	76	26	9	3	85	29
Navy	322	333	27	27	349	360
Marine Corps	12	8	1	1	13	9
Air Force	11	7	10	7	21	14
<u>Coast Guard</u>	<u>7</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>7</u>	<u>1</u>
Total	428	375	47	38	475	413
<u>Enrolled and Has Used the Benefit</u>						
Army	100	37	3	3	103	40
Navy	462	442	234	287	696	729
Marine Corps	23	18	2	3	25	21
Air Force	18	10	14	14	32	24
<u>Coast Guard</u>	<u>14</u>	<u>2</u>	<u>0</u>	<u>0</u>	<u>14</u>	<u>2</u>
Total	617	509	253	307	870	816
<u>Total</u>						
Army	176	63	12	6	188	69
Navy	784	775	261	314	1,045	1,089
Marine Corps	35	26	3	4	38	30
Air Force	29	17	24	21	53	38
<u>Coast Guard</u>	<u>21</u>	<u>3</u>	<u>0</u>	<u>0</u>	<u>21</u>	<u>3</u>
Total	1,045	884	300	345	1,345	1,229

¹ 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

The passage of this landmark legislation creates significant uncertainty with respect to future usage of education benefits. We expect higher benefit amounts and the ability to transfer benefits to dependents to influence usage levels and other behaviors, such as decisions about how long to stay in the service. However, projecting behaviors at this time is very difficult; as actual usage levels become known, our assumptions (and hence our actuarial results) may change significantly in future years.

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 members nearing retirement.

The organizations responsible for administering transferability under 10 U.S.C. Chapter 1606 and 10 U.S.C. Chapter 1607 have communicated to the Office of the Actuary that transferability will not be offered through those chapters. The Office of the Actuary will calculate costs for FY 2012 and future years under the assumption that this will continue to be the case. In the event this changes, the Board reserves the right to require the Office of the Actuary to recalculate costs. Loading factors for transferability have been applied as follows¹:

Component	9/30/2008	9/30/2009
Chapter 30/33 Kicker Normal Cost	7.5%	5.0%
Chapter 30/33 Kicker Actuarial Liability	10.0%	7.5%
Chapter 1606 Basic Normal Cost	15.0%	0.0%
Chapter 1607 Basic Normal Cost	17.5%	0.0%
Chapter 1606 Kicker Normal Cost	5.0%	0.0%
Chapter 1606 Basic Actuarial Liability:	20.0%	0.0%
Chapter 1607 Basic Actuarial Liability	25.0%	0.0%
Chapter 1606 Kicker Actuarial Liability	10.0%	0.0%

Significant reductions are expected to be experienced for Chapter 1607 as members choose to participate in the larger benefits offered by Chapter 33. In addition to the load factors mentioned above, multipliers have been applied to Chapter 1607 normal costs and actuarial liabilities as shown in the table below. Note the significant increases in costs of going from, for example, a 15% Air Force Reserve multiplier at 9/30/2008 to a 44% multiplier at 9/30/2009. These multipliers were approved by the Board of Actuaries after extensive discussion. While the Chapter 1607 reductions that will ultimately be experienced are unknown, preliminary experience under the Post-9/11 GI Bill, which began August 2009, does not show as large reductions as assumed in the 9/30/2008 valuation, and it was decided to increase the multipliers (i.e., decrease the assumed reductions) for the 9/30/2009 valuation.

Component	9/30/2008	9/30/2009
Army National Guard	40%	60%
Army Reserve	15%	38%
Navy Reserve	15%	37%
Marine Corps Reserve	15%	26%
Air National Guard	20%	43%
Air Force Reserve	15%	44%
Coast Guard Reserve	15%	24%

¹ The loading factors shown for Chapter 30/33 represent averages. The actual impacts on individual programs vary with the characteristics of the program.

APPENDIX C – ASSUMPTIONS AND METHODS (cont.)

Valuation Date

The valuation date for this report is September 30, 2009. However, OACT considers asset, contribution and expense values after September 30, 2009 when calculating expected future liabilities, per capita rates, and amortization amounts.

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, 2010, the Board adopted the following economic assumptions for use in the valuation as of September 30, 2009.

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 2.4% 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.

2011	1.2%
2012	1.6%
2013	1.9%
2014	2.2%
2015	2.3%
2016	2.4%
2017	2.4%
2018	2.4%

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% compounded 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 fiscal year. The annual 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.

Calculating the actuarial liability is similar to calculating the per capita costs. For both calculations, if participants are projected to receive a benefit in the future, we find the expected value of that benefit, 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 date of the valuation.

Normal Cost Calculation

Normal costs are used to determine the per capita rates. Per capita rates are the actual per person cost after appropriate adjustments. In addition to the approach outlined in the “Methodology” section above, the normal cost can be derived by multiplying the “Average (Monthly) Benefit Amount” times the “Percent of Benefit Used” times the “Discount Factor” times 36 months. “Average (Monthly) Benefit Amount” is the dollar amount for kicker 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 where results are not 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 Decrement Assumptions FY 2012

	<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>
<u>Chapter 33 Kicker</u>				
Army 2 Year	\$150	56.7%	0.751	\$2,298
Army 2 Year	\$250	57.0%	0.752	\$3,857
Army 2 Year	\$350	57.3%	0.753	\$5,437
Army 2 Year	\$450	57.6%	0.754	\$7,035
Army 2 Year	\$550	57.8%	0.755	\$8,649
Army 2 Year	\$650	58.1%	0.756	\$10,280
Army 2 Year	\$750	58.3%	0.757	\$11,925
Army 2 Year	\$850	58.6%	0.758	\$13,584
Army 2 Year	\$950	58.8%	0.759	\$15,256
<u>Chapter 33 Kicker</u>				
Army 3 Year	\$150	53.4%	0.692	\$1,995
Army 3 Year	\$250	53.6%	0.693	\$3,344
Army 3 Year	\$350	53.8%	0.694	\$4,708
Army 3 Year	\$450	54.0%	0.695	\$6,085
Army 3 Year	\$550	54.2%	0.696	\$7,476
Army 3 Year	\$650	54.4%	0.697	\$8,878
Army 3 Year	\$750	54.6%	0.698	\$10,292
Army 3 Year	\$850	54.8%	0.699	\$11,718
Army 3 Year	\$950	54.9%	0.700	\$13,154
<u>Chapter 33 Kicker</u>				
Army 4 Year	\$150	50.8%	0.654	\$1,797
Army 4 Year	\$250	51.1%	0.655	\$3,013
Army 4 Year	\$350	51.3%	0.656	\$4,242
Army 4 Year	\$450	51.5%	0.657	\$5,484
Army 4 Year	\$550	51.7%	0.658	\$6,739
Army 4 Year	\$650	51.9%	0.659	\$8,005
Army 4 Year	\$750	52.1%	0.660	\$9,283
Army 4 Year	\$850	52.2%	0.661	\$10,571
Army 4 Year	\$950	52.4%	0.662	\$11,870

APPENDIX C – ASSUMPTIONS AND METHODS (cont.)

Chapter 33 Decrement Assumptions FY 2012 (cont.)

	<u>Average Benefit Amount</u>	<u>Percent of Benefit Used</u>	<u>Discount Factor</u>	<u>Normal Cost</u>
<u>Chapter 33 Kicker</u>				
Army 5 Year	\$150	45.1%	0.639	\$1,556
Army 5 Year	\$250	45.3%	0.640	\$2,608
Army 5 Year	\$350	45.5%	0.640	\$3,670
Army 5 Year	\$450	45.6%	0.641	\$4,742
Army 5 Year	\$550	45.8%	0.642	\$5,823
Army 5 Year	\$650	46.0%	0.643	\$6,914
Army 5 Year	\$750	46.1%	0.644	\$8,013
Army 5 Year	\$850	46.3%	0.644	\$9,121
Army 5 Year	\$950	46.4%	0.645	\$10,237
<u>Chapter 33 Kicker</u>				
Army 6 Year	\$150	43.4%	0.625	\$1,463
Army 6 Year	\$250	43.5%	0.626	\$2,450
Army 6 Year	\$350	43.7%	0.626	\$3,447
Army 6 Year	\$450	43.8%	0.627	\$4,451
Army 6 Year	\$550	44.0%	0.627	\$5,464
Army 6 Year	\$650	44.1%	0.628	\$6,485
Army 6 Year	\$750	44.3%	0.629	\$7,513
Army 6 Year	\$850	44.4%	0.629	\$8,548
Army 6 Year	\$950	44.5%	0.630	\$9,589
<u>Chapter 33 Kicker</u>				
Navy 4 Year	\$150	48.9%	0.671	\$1,772
Navy 4 Year	\$250	49.1%	0.672	\$2,971
Navy 4 Year	\$350	49.3%	0.674	\$4,183
Navy 4 Year	\$450	49.5%	0.675	\$5,408
Navy 4 Year	\$550	49.7%	0.676	\$6,644
Navy 4 Year	\$650	49.8%	0.677	\$7,893
Navy 4 Year	\$750	50.0%	0.678	\$9,152
Navy 4 Year	\$850	50.2%	0.679	\$10,421
Navy 4 Year	\$950	50.3%	0.680	\$11,701
<u>Chapter 33 Kicker</u>				
Marines Corp 4 Year	\$150	56.7%	0.701	\$2,144
Marines Corp 4 Year	\$250	57.0%	0.702	\$3,598
Marines Corp 4 Year	\$350	57.3%	0.703	\$5,069
Marines Corp 4 Year	\$450	57.5%	0.703	\$6,558
Marines Corp 4 Year	\$550	57.8%	0.704	\$8,063
Marines Corp 4 Year	\$650	58.1%	0.705	\$9,583
Marines Corp 4 Year	\$750	58.3%	0.706	\$11,119
Marines Corp 4 Year	\$850	58.6%	0.707	\$12,668
Marines Corp 4 Year	\$950	58.8%	0.707	\$14,231

APPENDIX C – ASSUMPTIONS AND METHODS (cont.)

Chapter 33 Decrement Assumptions FY 2012 (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>
<u>Chapter 33 Kicker</u>				
Marines Corps 5 Year	\$150	48.8%	0.650	\$1,712
Marines Corps 5 Year	\$250	49.1%	0.650	\$2,874
Marines Corps 5 Year	\$350	49.4%	0.651	\$4,051
Marines Corps 5 Year	\$450	49.7%	0.652	\$5,244
Marines Corps 5 Year	\$550	49.9%	0.652	\$6,450
Marines Corps 5 Year	\$650	50.2%	0.653	\$7,671
Marines Corps 5 Year	\$750	50.4%	0.654	\$8,904
Marines Corps 5 Year	\$850	50.7%	0.655	\$10,151
Marines Corps 5 Year	\$950	50.9%	0.655	\$11,410
<u>Chapter 33 Kicker</u>				
Marines Corps 6 Year	\$150	50.2%	0.642	\$1,741
Marines Corps 6 Year	\$250	50.5%	0.643	\$2,921
Marines Corps 6 Year	\$350	50.8%	0.644	\$4,117
Marines Corps 6 Year	\$450	51.0%	0.644	\$5,326
Marines Corps 6 Year	\$550	51.3%	0.645	\$6,549
Marines Corps 6 Year	\$650	51.5%	0.646	\$7,786
Marines Corps 6 Year	\$750	51.8%	0.646	\$9,035
Marines Corps 6 Year	\$850	52.0%	0.647	\$10,296
Marines Corps 6 Year	\$950	52.2%	0.648	\$11,569
<u>Chapter 33 Kicker</u>				
Coast Guard 4 Year	\$150	52.2%	0.574	\$1,618
Coast Guard 4 Year	\$250	52.4%	0.576	\$2,716
Coast Guard 4 Year	\$350	52.6%	0.577	\$3,829
Coast Guard 4 Year	\$450	52.9%	0.579	\$4,957
Coast Guard 4 Year	\$550	53.1%	0.580	\$6,098
Coast Guard 4 Year	\$650	53.3%	0.581	\$7,253
Coast Guard 4 Year	\$750	53.5%	0.583	\$8,421
Coast Guard 4 Year	\$850	53.7%	0.584	\$9,602
Coast Guard 4 Year	\$950	53.9%	0.585	\$10,795

APPENDIX C – ASSUMPTIONS AND METHODS (cont.)

Chapter 1606 Decrement Assumptions FY 2012

	<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>
<u>Chapter 1606 Basic</u>				
Army National Guard	\$361	14.2%	0.907	\$1,668
Army Reserve	\$361	13.7%	0.908	\$1,611
Navy Reserve	\$367	6.4%	0.882	\$744
Marine Corps Reserve	\$359	15.0%	0.915	\$1,772
Air National Guard	\$361	30.9%	0.909	\$3,648
Air Force Reserve	\$361	16.6%	0.908	\$1,961
Coast Guard Reserve	\$367	18.1%	0.881	\$2,103
<u>Chapter 1606 Kicker - \$100</u>				
Army National Guard	\$100	42.0%	0.940	\$1,423
Army Reserve	\$100	29.0%	0.923	\$964
Navy Reserve	\$100	22.4%	0.908	\$731
Marine Corps Reserve	\$100	29.6%	0.938	\$998
Air National Guard	\$100	56.7%	0.907	\$1,850
Air Force Reserve	\$100	43.1%	0.909	\$1,410
Coast Guard Reserve	\$100	35.4%	0.923	\$1,177
<u>Chapter 1606 Kicker - \$200</u>				
Army National Guard	\$200	49.8%	0.930	\$3,334
Army Reserve	\$200	27.4%	0.922	\$1,820
Navy Reserve	\$200	27.8%	0.923	\$1,849
Marine Corps Reserve	\$200	32.2%	0.942	\$2,181
Air National Guard	\$200	46.6%	0.915	\$3,070
Air Force Reserve	\$200	36.3%	0.926	\$2,418
Coast Guard Reserve	\$200	35.3%	0.932	\$2,370
<u>Chapter 1606 Kicker - \$350</u>				
Army National Guard	\$350	41.5%	0.919	\$4,799
Army Reserve	\$350	26.2%	0.918	\$3,027
Navy Reserve	\$350	36.3%	0.925	\$4,230
Marine Corps Reserve	\$350	35.9%	0.922	\$4,167
Air National Guard	\$350	45.5%	0.912	\$5,232
Air Force Reserve	\$350	34.9%	0.916	\$4,029
Coast Guard Reserve	\$350	34.9%	0.914	\$4,011

APPENDIX C – ASSUMPTIONS AND METHODS (cont.)

Chapter 1607 Decrement Assumptions FY 2012

	<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>
<u>Chapter 1607 40% of MGIB-AD</u>				
Army National Guard	\$797	4.3%	0.815	\$1,006
Army Reserve	\$799	2.3%	0.816	\$541
Navy Reserve	\$780	1.1%	0.830	\$253
Marine Corps Reserve	\$782	2.1%	0.828	\$490
Air National Guard	\$814	3.4%	0.803	\$793
Air Force Reserve	\$779	2.5%	0.832	\$576
Coast Guard Reserve	\$832	1.2%	0.789	\$292
<u>Chapter 1607 60% of MGIB-AD</u>				
Army National Guard	\$1,198	4.4%	0.815	\$1,548
Army Reserve	\$1,196	2.4%	0.817	\$846
Navy Reserve	\$1,172	1.1%	0.829	\$400
Marine Corps Reserve	\$1,190	2.1%	0.820	\$721
Air National Guard	\$1,237	3.3%	0.796	\$1,173
Air Force Reserve	\$1,181	2.4%	0.825	\$851
Coast Guard Reserve	\$1,240	1.3%	0.793	\$463
<u>Chapter 1607 80% of MGIB-AD</u>				
Army National Guard	\$1,631	4.1%	0.802	\$1,941
Army Reserve	\$1,644	2.2%	0.798	\$1,024
Navy Reserve	\$1,622	0.9%	0.806	\$443
Marine Corps Reserve	\$1,602	2.0%	0.814	\$944
Air National Guard	\$1,694	3.1%	0.780	\$1,459
Air Force Reserve	\$1,628	2.1%	0.804	\$1,007
Coast Guard Reserve	\$1,789	0.9%	0.747	\$457

APPENDIX D: FUND HISTORY FY 2000 – 2009¹

(Dollar Amounts in Millions)

Chapter 30 & 33 Kicker Benefit Contributions

<u>FY</u>	<u>Army</u>	<u>Navy</u>	<u>Marine Corps</u>	<u>Coast Guard</u>	<u>Total</u>
2000	\$90.9	\$28.3	\$17.6	\$0.0	\$136.7
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

Chapter 30 & 33 Kicker Benefit Interest

<u>FY</u>	<u>Army</u>	<u>Navy</u>	<u>Marine Corps</u>	<u>Coast Guard</u>	<u>Total</u>
2000	\$18.4	\$8.2	\$2.9	\$0.0	\$29.5
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

Chapter 30 & 33 Kicker Benefit Benefit Payments

<u>FY</u>	<u>Army</u>	<u>Navy</u>	<u>Marine Corps</u>	<u>Coast Guard</u>	<u>Total</u>
2000	\$54.0	\$15.0	\$2.4	\$0.0	\$71.4
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

Chapter 30 & 33 Kicker Benefit End of Year Fund Balance

<u>FY</u>	<u>Army</u>	<u>Navy</u>	<u>Marine Corps</u>	<u>Coast Guard</u>	<u>Total</u>
2000	\$316.7	\$138.5	\$55.5	\$0.0	\$510.7
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

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

APPENDIX D: FUND HISTORY FY 2000 – 2009 (cont.)

(Dollar Amounts in Millions)

Chapter 1606 Basic and Kicker Benefit Contributions

<u>FY</u>	<u>ARNG</u>	<u>USAR</u>	<u>USNR</u>	<u>USMCR</u>	<u>ANG</u>	<u>USAFR</u>	<u>USCGR</u>	<u>Total</u>
2000	\$43.3	\$32.7	\$3.0	\$17.0	\$13.2	\$2.0	\$0.0	\$111.2
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

Chapter 1606 Basic and Kicker Benefit Interest

<u>FY</u>	<u>ARNG</u>	<u>USAR</u>	<u>USNR</u>	<u>USMCR</u>	<u>ANG</u>	<u>USAFR</u>	<u>USCGR</u>	<u>Total</u>
2000	\$6.4	\$4.7	\$2.2	\$0.9	\$1.1	\$2.8	\$0.0	\$18.1
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

Chapter 1606 Basic and Kicker Benefit Payments

<u>FY</u>	<u>ARNG</u>	<u>USAR</u>	<u>USNR</u>	<u>USMCR</u>	<u>ANG</u>	<u>USAFR</u>	<u>USCGR</u>	<u>Total</u>
2000	\$44.5	\$27.0	\$5.4	\$13.1	\$14.3	\$4.8	\$0.0	\$109.1
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

Chapter 1606 Basic and Kicker Benefit End of Year Fund Balance

<u>FY</u>	<u>ARNG</u>	<u>USAR</u>	<u>USNR</u>	<u>USMCR</u>	<u>ANG</u>	<u>USAFR</u>	<u>USCGR</u>	<u>Total</u>
2000	\$104.2	\$80.1	\$35.1	\$16.9	\$18.0	\$44.7	\$0.0	\$299.0
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

APPENDIX D: FUND HISTORY (cont.)

(Dollar Amounts in Millions)

Chapter 1607 Basic Benefit Contributions

<u>FY</u>	<u>ARNG</u>	<u>USAR</u>	<u>USNR</u>	<u>USMCR</u>	<u>ANG</u>	<u>USAFR</u>	<u>USCGR</u>	<u>Total</u>
2000	-	-	-	-	-	-	-	-
2001	-	-	-	-	-	-	-	-
2002	-	-	-	-	-	-	-	-
2003	-	-	-	-	-	-	-	-
2004	-	-	-	-	-	-	-	-
2005	-	-	-	-	-	-	-	-
2006	\$57.5	\$36.0	\$7.9	\$0.0	\$0.0	\$21.9	\$0.0	\$123.2
2007	\$37.9	\$23.1	\$10.5	\$8.0	\$0.2	\$16.0	\$0.4	\$96.1
2008	\$128.0	\$29.7	\$0.0	\$9.6	\$20.7	\$8.2	\$0.8	\$197.0
2009	\$136.3	\$36.8	\$0.0	\$10.6	\$25.4	\$0.5	\$0.0	\$209.7

Chapter 1607 Basic Benefit Interest

<u>FY</u>	<u>ARNG</u>	<u>USAR</u>	<u>USNR</u>	<u>USMCR</u>	<u>ANG</u>	<u>USAFR</u>	<u>USCGR</u>	<u>Total</u>
2000	-	-	-	-	-	-	-	-
2001	-	-	-	-	-	-	-	-
2002	-	-	-	-	-	-	-	-
2003	-	-	-	-	-	-	-	-
2004	-	-	-	-	-	-	-	-
2005	-	-	-	-	-	-	-	-
2006	\$1.3	\$1.1	\$0.5	\$0.0	\$0.4	\$0.9	\$0.1	\$4.2
2007	\$5.0	\$3.5	\$1.3	\$0.5	\$0.9	\$2.1	\$0.1	\$13.4
2008	\$8.5	\$4.6	\$1.7	\$0.8	\$1.5	\$2.6	\$0.2	\$19.9
2009	\$3.6	\$1.4	\$0.4	\$0.3	\$0.6	\$0.7	\$0.1	\$7.1

Chapter 1607 Basic Benefit Payments

<u>FY</u>	<u>ARNG</u>	<u>USAR</u>	<u>USNR</u>	<u>USMCR</u>	<u>ANG</u>	<u>USAFR</u>	<u>USCGR</u>	<u>Total</u>
2000	-	-	-	-	-	-	-	-
2001	-	-	-	-	-	-	-	-
2002	-	-	-	-	-	-	-	-
2003	-	-	-	-	-	-	-	-
2004	-	-	-	-	-	-	-	-
2005	-	-	-	-	-	-	-	-
2006	\$65.2	\$34.0	\$1.2	\$13.5	\$8.6	\$3.5	\$0.4	\$126.3
2007	\$116.8	\$58.3	\$2.2	\$18.1	\$16.6	\$7.8	\$0.8	\$220.7
2008	\$90.1	\$46.1	\$2.5	\$13.1	\$12.0	\$7.6	\$0.5	\$171.9
2009	\$104.2	\$52.3	\$3.7	\$17.5	\$12.7	\$8.7	\$0.6	\$199.6

Chapter 1607 Basic Benefit End of Year Fund Balance

<u>FY</u>	<u>ARNG</u>	<u>USAR</u>	<u>USNR</u>	<u>USMCR</u>	<u>ANG</u>	<u>USAFR</u>	<u>USCGR</u>	<u>Total</u>
2000	-	-	-	-	-	-	-	-
2001	-	-	-	-	-	-	-	-
2002	-	-	-	-	-	-	-	-
2003	-	-	-	-	-	-	-	-
2004	-	-	-	-	-	-	-	-
2005	-	-	-	-	-	-	-	-
2006	\$20.3	\$22.6	\$15.3	-\$7.9	\$4.0	\$28.1	\$1.5	\$84.1
2007	\$66.2	\$58.2	\$33.6	\$4.3	\$10.7	\$49.4	\$3.1	\$225.6
2008	\$184.5	\$83.8	\$32.7	\$14.6	\$34.6	\$53.2	\$4.5	\$408.1
2009	\$267.8	\$87.8	\$29.5	\$13.6	\$51.4	\$45.7	\$4.1	\$500.0

APPENDIX D: FUND HISTORY FY 2000 – 2009 (cont.)

(Dollar Amounts in Millions)

Category III Basic Benefit Contributions

<u>FY</u>	<u>Army</u>	<u>Navy</u>	<u>Marine Corps</u>	<u>Air Force</u>	<u>Coast Guard</u>	<u>Total</u>
2000	\$3.834	\$1.254	\$0.816	\$3.793		\$9.698
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	\$0.000	\$2.881

Category III Basic Benefit Interest

<u>FY</u>	<u>Army</u>	<u>Navy</u>	<u>Marine Corps</u>	<u>Air Force</u>	<u>Coast Guard</u>	<u>Total</u>
2000	(\$0.114)	(\$0.038)	(\$0.018)	(\$0.109)		(\$0.280)
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)	(\$0.038)	(\$0.001)	(\$0.008)	(\$0.007)	(\$0.072)
2009	(\$0.006)	(\$0.011)	(\$0.001)	(\$0.003)	(\$0.002)	(\$0.023)

Category III Basic Benefit Payments

<u>FY</u>	<u>Army</u>	<u>Navy</u>	<u>Marine Corps</u>	<u>Air Force</u>	<u>Coast Guard</u>	<u>Total</u>
2000	\$3.346	\$1.158	\$0.608	\$3.279		\$8.391
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

Category III Basic Benefit End of Year Fund Balance

<u>FY</u>	<u>Army</u>	<u>Navy</u>	<u>Marine Corps</u>	<u>Air Force</u>	<u>Coast Guard</u>	<u>Total</u>
2000	(\$3.571)	(\$1.217)	(\$0.607)	(\$3.444)		(\$8.839)
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	(\$0.861)	(\$1.679)	(\$0.062)	(\$0.347)	(\$0.145)	(\$3.094)
2009	(\$0.920)	(\$1.722)	(\$0.095)	(\$0.474)	(\$0.155)	(\$3.3659)

APPENDIX E – LEGISLATIVE HISTORY

Background

Chapter 34 of Title 38 covers service back to 1955. The immediate predecessor of the MGIB was the Veteran's Educational Assistance Program (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 of Title 38. Chapter 1606 and Chapter 1607 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 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 her Chapter 30 eligibility for benefits to a dependent. This program is intended to be 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.

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 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 COLA for October 1, 1993, 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 kicker = (advertised amount - 36 * 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 rate 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 if they complete an additional service period. Members with at least 10 years of active duty can transfer benefits to their child if they complete an additional service period.

APPENDIX F – BENEFIT PAYMENT PROJECTIONS¹

<u>Fiscal Year</u>	<u>Chapter 30/33</u>	<u>Chapter 1606</u>	<u>Chapter 1607</u>	<u>Category III</u>	<u>Total</u>
2011	\$115,294,929	\$232,493,758	\$90,833,713	\$2,601,821	\$441,224,222
2012	\$127,345,158	\$252,602,636	\$87,791,246	\$2,546,453	\$470,285,493
2013	\$139,913,958	\$264,118,090	\$86,674,297	\$2,016,816	\$492,723,161
2014	\$151,526,019	\$270,985,280	\$85,538,887	\$2,157,258	\$510,207,444
2015	\$157,260,885	\$274,681,538	\$86,988,752	\$2,132,408	\$521,063,584
2016	\$157,189,478	\$277,155,321	\$90,198,679	\$0	\$524,543,478
2017	\$154,253,970	\$279,313,065	\$94,113,763	\$0	\$527,680,798
2018	\$149,856,857	\$283,463,367	\$95,457,757	\$0	\$528,777,980
2019	\$146,106,609	\$289,714,660	\$97,457,073	\$0	\$533,278,342
2020	\$142,961,716	\$296,044,047	\$98,966,653	\$0	\$537,972,416
2021	\$140,794,295	\$300,954,376	\$101,258,986	\$0	\$543,007,657

¹ 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. As stated earlier in the report, results will differ from projections to the extent experience differs from the underlying assumptions. The highly uncertain effects of the Post-9/11 GI Bill may cause such deviations, and may—as more credible experience emerges—cause future projections to differ substantially from these projections.

APPENDIX G – SFFAS ACCOUNTING STATEMENT

Financial Statement Reconciliation

	<u>FY 2010</u>
Beginning of Year (September 30, 2009) Actuarial Liability	\$1,797,246,793
Normal Cost Liability	\$464,086,245
Plan Amendment Liability	\$0
Assumption Change Liability	(\$59,443,674)
Benefit Outlays	(\$417,544,408)
Interest Cost	\$81,911,774
Actuarial (gains)/losses due to changes in experience	\$35,777,921
Actuarial (gains)/losses due to changes in trend assumptions	\$0
Actuarial (gains)/losses due to other factors	<u>(\$1,539,851)</u>
End of Year (September 30, 2010) Actuarial Liability	\$1,900,494,799
Change in Actuarial Liability	\$103,248,007

For Education Benefits Fund liabilities, OACT performs an annual valuation that is governed by Section 2006 of Title 10, United States Code, and uses methods and assumptions approved by the DoD Board of Actuaries. Historically, OACT has 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 (shown in the above table) was projected based on the 9/30/2008 Board valuation. The 9/30/2009 Board valuation (documented in this report) was performed later, based on newer information, and estimated a different September 30, 2009 actuarial liability.

Now, however, a separate financial statement valuation (i.e., with different assumptions) may be necessary to satisfy a newly published financial statement regulation called the Statement of Federal Financial Accounting Standards 33 (SFFAS 33). A separate financial statement valuation may be necessary because SFFAS 33 requires the use of a yield curve to discount cash flows 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. OACT used ten years of quarterly zero coupon Treasury spot rates (as published by the Office of Thrift Supervision), from 6/30/2000 to 3/31/2010 (40 quarterly interest rates), to find an SFFAS equivalent interest rate of 4.10%. 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. Decreasing the single average discount rate from 4.50% to 4.10% increases the EBF actuarial liabilities by 1.7%. As this difference is not material, the Board valuation single average discount rate of 4.50% will be used for 9/30/2010 financial statement purposes.

For 9/30/2010 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 inflation assumption on the same period used to derive the yield curve, and that adjustment is reflected in the above materiality test. Therefore, for 9/30/2010 financial statement purposes, all economic assumptions will be consistent with the 9/30/2009 Board valuation, and the actuarial liability estimate for the 9/30/2010 financial statements is shown in the above table.

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.

Discount Rate

The rate used to calculate the present value of future cashflows for the purpose of SFFAS 33. Sometimes this term is used interchangeably with interest rate.

DoD

Department of Defense

APPENDIX H – GLOSSARY (cont.)

DMDC

Defense Manpower Data Center

DFAS

Defense Finance and Accounting Service

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 for Training.

Inflation Rate

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

Interest Rate

The assumed long term 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.

New entrant

Members who enter the program after the valuation date.

Normal cost

The expected present value of liabilities for a new entrant.

APPENDIX H – GLOSSARY (cont.)

OACT

The Department of Defense Office of the Actuary

Offset

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

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.

SFFAS

Statement of Federal Financial Accounting Standards

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 right to transfer a benefit to a spouse or child dependent.

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 can be expected to separate from the service by the end of the year.