



**VALUATION OF THE
EDUCATION BENEFITS FUND**

SEPTEMBER 30, 2013

DoD Office of the Actuary

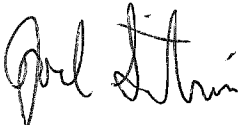
January 2015

ACTUARIAL CERTIFICATION

This September 30, 2013 report on the Education Benefits Fund (Fund) has been prepared in accordance with generally accepted actuarial principles and practices. In preparing the report, we have relied upon information maintained by the Department of Defense and Department of Veteran Affairs 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 3.5%, an ultimate Consumer Price Index increase of 2.3%, 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, given the material limitations to available data as detailed in Section 3.



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* Meets the qualification standards of the American Academy of Actuaries to render the actuarial opinion referenced above.

EDUCATION BENEFITS FUND REPORT

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SECTION 1 – INTRODUCTION

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

- Title 38, Chapter 30/33 kicker and transferred kicker benefits
- Title 10, Chapter 1606 basic and transferred basic benefits¹
- Title 10, Chapter 1606 kicker and transferred kicker benefits¹
- Title 10, Chapter 1607 basic and transferred basic benefits¹
- Title 38, Chapter 30 basic benefits for Post-Vietnam Era and Involuntary Separatees (Category III)
- Title 10, Chapter 31, Section 510 National Call to Service²
- Title 38, Chapter 30, Section 3020 transferred benefits²

The Board³, whose members are appointed by the Secretary of Defense, approves methods and assumptions used in the Fund valuation, reports to the Secretary of Defense annually on the actuarial status of the Fund, and recommends changes needed to maintain the Fund on a sound actuarial basis.

How to Use this Report

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

¹ Transferred benefits are not currently offered under Chapters 1606 and 1607.

² 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.

³ Assumptions and methodologies for this valuation were reviewed and approved by DoD Board of Actuaries members James Verlautz (Chairman), Marcia Dush, and Ronald Gebhardtshauer.

SECTION 2 - EXECUTIVE SUMMARY

(\$ in millions)

	<u>Chapter 30/33</u>	<u>Chapter 1606</u>	<u>Chapter 1607</u>	<u>Other</u> ²	<u>Total</u>
<u>Sept. 30, 2013 Eligibles</u> ¹	216,307	444,305	805,389	2,810	1,468,811
<u>Sept. 30, 2013 Fund Balance</u>					
Sept. 30, 2012 Fund Balance	\$838.7	\$869.2	\$339.9	\$6.3	\$2,054.1
FY13 Asset Transfer	\$(0.5)	\$(1.8)	\$1.8	\$0.5	\$0.0
FY13 Amortization Payments	26.5	0.0	0.0	0.9	27.3
FY13 Per Capita Contributions	0.0	115.9	31.8	0.0	147.7
FY13 Benefit Payments	(119.5)	(176.6)	(70.2)	(1.0)	(367.3)
<u>FY13 Interest</u>	<u>26.3</u>	<u>27.6</u>	<u>10.6</u>	<u>0.2</u>	<u>64.7</u>
FY13 Total Charges	\$(67.3)	\$(35.0)	\$(25.9)	\$0.6	\$(127.5)
Sept. 30, 2013 Fund Balance ³	\$771.5	\$834.2	\$314.0	\$6.9	\$1,926.6
<u>Sept. 30, 2013 Snapshot</u>					
Actuarial Liability (AL)	\$975.0	\$303.3	\$244.9	\$2.1	\$1,525.3
<u>Fund Balance</u> ³	<u>(771.5)</u>	<u>(834.2)</u>	<u>(314.0)</u>	<u>(6.9)</u>	<u>(1,926.6)</u>
Unfunded AL (Surplus)	\$203.5	\$(530.9)	\$(69.1)	\$(4.8)	\$(401.3)

The above summarizes FY 2013 Fund experience and actuarial valuation results as of September 30, 2013. The majority of liabilities detailed in this report stem from active duty kickers, reserve kickers, and reserve basic benefits.

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. Fund balances and eligible counts for National Call to Service and Chapter 30 transferability are reflected in this column but are based on older data and may not be accurate.

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. 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, Office of the Secretary of Defense (OSD) (Reserve Affairs), and OSD (Comptroller). An overview of the number of members in each program and their status can be found in Appendix B. Data on benefit payments and contributions are from DFAS. In the case of benefit payments, Department of Veteran Affairs (VA) makes payments to members and receives reimbursement from the Fund where appropriate; DFAS reports information submitted to them by VA. In the case of Fund contributions, DFAS reports monies and associated information received from the military components.

The Office of the Actuary (OACT) has unresolved concerns with VA regarding the inability of VA to make member level data available to DoD. The missing data creates a large material limitation to valuation accuracy.

Benefit Valued	Benefit taken with:	Member Level Data Available?	Experience Used Because Member Data Unavailable
Chap 30 Kicker	Chap 30 Basic	Yes	
	Chap 33 Basic	No	Chap 30 Kicker taken with 30 Basic
Chap 1606 Basic	No Kicker	Yes	
	Chap 1606 Kicker	Yes	
	Chap 33 Kicker	Possible but not Offered	Chap 1606 Basic taken with 1606 Kicker
Chap 1606 Kicker	Chap 1606 Basic	Yes	
	Chap 33 Basic	No	Chap 1606 Kicker taken with Chapter 1606 Basic
Chap 1607 Basic	No Kicker	Yes ¹	
	Chap 1606 Kicker	No	Chap 1606 Basic
	Chap 33 Kicker	Possible but not Offered	Chap 1606 Basic

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

¹ While some Chapter 1607 data is now available, usage is not reported accurately for all of Chapter 1607.

SECTION 4 – ASSETS, UNFUNDED LIABILITIES, AND ANNUAL CHANGES

(\$ in millions)

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, 2013) was obtained from the Fund's investment manager at DFAS. For official accounting, the assets and liabilities are pooled into one Fund. However, OACT tracks assets and liabilities separately by program and component and may transfer assets between programs (not components) with Board approval. The assets are given at book value, rather than at market value. The programs' unfunded liabilities or surpluses are as follows:

Chapter 30/Chapter 33 Kicker Benefits as of September 30, 2013

<u>Program</u>	<u>Actuarial Liability</u>	<u>Assets</u>	<u>Unfunded Liability or (Surplus)</u>
Army	\$680.2	\$(657.1)	\$23.1
Navy	160.6	(35.2)	125.4
Marine Corps	132.1	(79.0)	53.1
<u>Coast Guard</u>	<u>2.1</u>	<u>(0.1)</u>	<u>1.9</u>
Total	\$975.0	\$(771.5)	\$203.5

Chapter 1606 Basic and Kicker Benefits as of September 30, 2013

<u>Program</u>	<u>Actuarial Liability</u>	<u>Assets</u>	<u>Unfunded Liability or (Surplus)</u>
Army National Guard	\$128.1	\$(362.0)	\$(233.9)
Army Reserve	74.4	(210.7)	(136.3)
Navy Reserve	10.8	(28.0)	(17.2)
Marine Corps Reserve	13.9	(61.3)	(47.4)
Air National Guard	53.7	(107.8)	(54.1)
Air Force Reserve	21.4	(59.9)	(38.5)
<u>Coast Guard Reserve</u>	<u>0.9</u>	<u>(4.4)</u>	<u>(3.5)</u>
Total	\$303.3	\$(834.2)	\$(530.9)

SECTION 4 – ASSETS, UNFUNDED LIABILITIES, AND ANNUAL CHANGES

(cont.)

(\$ in millions)

Chapter 1607 Basic Benefits as of September 30, 2013

<u>Program</u>	<u>Actuarial Liability</u>	<u>Assets</u>	<u>Unfunded Liability or (Surplus)</u>
Army National Guard	\$154.5	\$(199.3)	\$(44.7)
Army Reserve	51.6	(45.8)	5.8
Navy Reserve	3.3	(19.6)	(16.4)
Marine Corps Reserve	5.5	(13.1)	(7.6)
Air National Guard	24.0	(13.5)	10.5
Air Force Reserve	5.7	(22.0)	(16.3)
<u>Coast Guard Reserve</u>	<u>0.3</u>	<u>(0.7)</u>	<u>(0.3)</u>
Total	\$244.9	\$(314.0)	\$(69.1)

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

SECTION 4 – ASSETS, UNFUNDED LIABILITIES, AND ANNUAL CHANGES

(cont.)

(\$ in millions)

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

<u>Chapter 30/33 Annual Changes</u>	<u>Actuarial Liability</u>	<u>% of Projected Actuarial Liability</u>
Projected September 30, 2013 Assets	\$778.9	
<u>Projected September 30, 2013 Liability</u>	<u>897.3</u>	
Projected September 30, 2013 Unfunded Liability	\$118.4	
Actual September 30, 2013 Assets	\$771.5	
<u>Actual September 30, 2013 Liability</u>	<u>975.0</u>	
Actual September 30, 2013 Unfunded Liability	\$203.5	
September 30, 2013 (Gain)/Loss	\$85.1	9.5%
<u>(Gain)/Loss Due to Liability</u>		
Withdrawal Experience & Census Changes	\$14.2	1.6%
Interest Rate Assumption Change	0.0	0.0%
Usage Rate and Other Assumption Changes	63.5	7.1%
<u>2013 Population Changes</u>	<u>0.0</u>	<u>0.0%</u>
Total Liability (Gain)/Loss	\$77.7	8.7%
<u>(Gain)/Loss Due to Assets</u>		
Benefit Usage Experience	\$5.4	0.6%
Contribution Experience	0.0	0.0%
<u>Interest Experience¹</u>	<u>2.1</u>	<u>0.3%</u>
Total Assets (Gain)/Loss	\$7.4	0.8%

The development above reflects the changes in actuarial liability from the last valuation (projected) to the latest valuation (actual) for Chapter 30/33. Rates are reviewed each year to reflect the most recent experience. In FY 2013, member level data for benefit usage of active duty kickers used with a Chapter 33 basic benefit was not available.

¹ The percentage change for Interest Experience is expressed as a percent of Projected September 30, 2013 Assets.

SECTION 4 – ASSETS, UNFUNDED LIABILITIES, AND ANNUAL CHANGES

(cont.)

(\$ in millions)

<u>Chapter 1606 Annual Changes</u>	<u>Actuarial Liability</u>	<u>% of Projected Actuarial Liability</u>
Projected September 30, 2013 Assets	\$844.2	
<u>Projected September 30, 2013 Liability</u>	<u>290.7</u>	
Projected September 30, 2013 Unfunded Liability	\$(553.5)	
Actual September 30, 2013 Assets	\$834.2	
<u>Actual September 30, 2013 Liability</u>	<u>303.3</u>	
Actual September 30, 2013 Unfunded Liability	\$(530.9)	
September 30, 2013 (Gain)/Loss	22.6	7.8%
<u>(Gain)/Loss Due to Liability</u>		
Withdrawal Experience & Census Changes	\$(8.5)	-2.9%
Interest Rate Assumption Change	0.0	0.0%
Usage Rate and Other Assumption Changes	25.0	8.6%
<u>2013 Population Changes</u>	<u>(3.9)</u>	<u>-1.3%</u>
Total Liability (Gain)/Loss	\$12.6	4.3%
<u>(Gain)/Loss Due to Assets</u>		
Benefit Usage Experience	\$17.0	5.8%
Contribution Experience	(\$9.2)	-3.1%
<u>Interest Experience¹</u>	<u>\$2.2</u>	<u>0.3%</u>
Total Assets (Gain)/Loss	\$10.0	3.4%

The development above reflects the changes in actuarial liability from the last valuation to the latest valuation for Chapter 1606. Rates are updated each year to reflect the most recent experience. The organizations responsible for administering transferability under Chapter 1606 have communicated to the Office of the Actuary that transferability is not currently offered through Chapter 1606.

Recent increases in the expected usage rates for Chapter 1606 are the largest driver of the loss due to “Usage Rate and Other Assumption Changes.”

¹The percentage change for Interest Experience is expressed as a percent of Projected September 30, 2013 Assets.

SECTION 4 – ASSETS, UNFUNDED LIABILITIES, AND ANNUAL CHANGES

(cont.)

(\$ in millions)

<u>Chapter 1607 Annual Changes</u>	<u>Actuarial Liability</u>	<u>% of Projected Actuarial Liability</u>
Projected September 30, 2013 Assets	\$302.1	
<u>Projected September 30, 2013 Liability</u>	<u>179.0</u>	
Projected September 30, 2013 Unfunded Liability	\$(123.2)	
Actual September 30, 2013 Assets	\$314.0	
<u>Actual September 30, 2013 Liability</u>	<u>244.9</u>	
Actual September 30, 2013 Unfunded Liability	\$(69.1)	
September 30, 2013 (Gain)/Loss	\$54.1	30.2%
<u>(Gain)/Loss Due to Liability</u>		
Withdrawal Experience & Census Changes	\$6.5	3.6%
Interest Rate Assumption Change	0.0	0.0%
Usage Rate and Other Assumption Changes	55.0	30.7%
<u>2013 Population Changes</u>	<u>4.4</u>	<u>2.5%</u>
Total Liability (Gain)/Loss	\$65.9	36.8%
<u>(Gain)/Loss Due to Assets</u>		
Benefit Usage Experience	\$(0.6)	-0.4%
Contribution Experience	(12.0)	-6.7%
<u>Interest Experience¹</u>	<u>\$0.8</u>	<u>0.3%</u>
Total Assets (Gain)/Loss	\$(11.8)	-6.6%

The development above reflects the changes in actuarial liability from the last valuation to the latest valuation for Chapter 1607. Rates are updated each year to reflect the most recent experience. The organizations responsible for administering transferability under Chapter 1607 have communicated to the Office of the Actuary that transferability is not currently offered through that chapter.

Newly available demographic data is the largest driver of the loss due to “Usage Rate and Other Assumption Changes.”

¹The percentage change for Interest Experience is expressed as a percent of Projected September 30, 2013 Assets.

SECTION 5 - AMORTIZATION PAYMENTS

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

The amortization payments for FY 2015 (determined in the September 30, 2012 valuation) and FY 2016 (determined in the September 30, 2013 valuation) are shown in the following tables. The amortization payments for the Chapter 1606 basic program and the Chapter 1606 kicker program are calculated together as a single Chapter 1606 amortization payment.

Note that the payment for Category III is determined differently. The payment for October 1, 2014 for Involuntary Separatees and Voluntary Separation Incentive/Special Separation Bonus recipients (i.e., Category III) was determined by estimating FY 2014 benefits and by bringing forward any surplus or liability from October 1, 2013. Both items were adjusted by interest and then added together to determine the October 1, 2014 payment.

Chapter 30/33 Annual Amortization Amounts

	<u>Fiscal Year</u> <u>Due Date</u>	<u>2015</u> <u>10/1/2014</u>	<u>2016</u> <u>10/1/2015</u>
Army		\$0	\$4,351,746
Navy		\$20,239,276	\$19,198,160
Marine Corps		\$6,975,547	\$9,621,809
Coast Guard		\$323,092	\$287,705

Chapter 1606 Annual Amortization Amounts

	<u>Fiscal Year</u> <u>Due Date</u>	<u>2015</u> <u>10/1/2014</u>	<u>2016</u> <u>10/1/2015</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

SECTION 5 - AMORTIZATION PAYMENTS (cont.)

Chapter 1607 Basic Benefits Annual Amortization Amounts

	<u>Fiscal Year</u> <u>Due Date</u>	<u>2015</u> <u>10/1/2014</u>	<u>2016</u> <u>10/1/2015</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>2015</u> <u>10/1/2014</u>	<u>2016</u> <u>10/1/2015</u>
Army		\$267,769	Set next year
Navy		\$166,261	Set next year
Marine Corps		\$33,093	Set next year
Air Force		\$184,802	Set next year
Coast Guard		\$20,464	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

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 5 year amortization schedule at the valuation interest rate for reserve programs, and the first year's payment of a 10 year amortization schedule at the valuation interest rate for active duty programs. The amortization schedule is reset each year, i.e. the schedule is given a "fresh start" every year. The Chapter 30/33 kicker amortization offset is capped at 50% of the projected normal costs, thus the per capita costs are at least 50% of the normal cost. For budgetary reasons, expected surpluses (and unfunded liabilities) are determined two years in advance and therefore do not reflect all data available as of the date the per capita costs are paid.

Chapter 30/33 Kicker Benefit Per Capita Costs During FY 2015

	<u>Army</u> <u>2 Year</u>	<u>Army</u> <u>3 Year</u>	<u>Army</u> <u>4 Year</u>	<u>Army</u> <u>5 Year</u>	<u>Army</u> <u>6 Year</u>	<u>Navy</u> <u>4 Year</u>	<u>M.C.</u> <u>4 Year</u>	<u>M.C.</u> <u>5 Year</u>	<u>M.C.</u> <u>6 Year</u>	<u>C.G. 4</u> <u>Year</u>
\$150	\$1,118	\$737	\$813	\$639	\$642	\$1,976	\$1,887	\$1,788	\$1,816	\$2,154
\$250	\$1,882	\$1,240	\$1,364	\$1,071	\$1,074	\$3,315	\$3,167	\$3,006	\$3,049	\$3,621
\$350	\$2,660	\$1,751	\$1,922	\$1,508	\$1,509	\$4,671	\$4,465	\$4,242	\$4,300	\$5,112
\$450	\$3,452	\$2,270	\$2,487	\$1,948	\$1,947	\$6,044	\$5,779	\$5,496	\$5,568	\$6,628
\$550	\$4,258	\$2,797	\$3,059	\$2,393	\$2,388	\$7,432	\$7,110	\$6,769	\$6,852	\$8,166
\$650	\$5,076	\$3,332	\$3,638	\$2,842	\$2,832	\$8,836	\$8,455	\$8,058	\$8,152	\$9,727
\$750	\$5,905	\$3,874	\$4,222	\$3,295	\$3,278	\$10,254	\$9,816	\$9,364	\$9,467	\$11,310
\$850	\$6,747	\$4,424	\$4,813	\$3,751	\$3,727	\$11,686	\$11,190	\$10,686	\$10,797	\$12,914
\$950	\$7,599	\$4,981	\$5,409	\$4,211	\$4,179	\$13,132	\$12,579	\$12,024	\$12,142	\$14,540

Chapter 30/33 Kicker Benefit Per Capita Costs During FY 2016

	<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	\$2,381	\$1,468	\$1,686	\$1,251	\$1,309	\$1,988	\$1,983	\$1,969	\$1,920	\$2,264
\$250	\$4,010	\$2,469	\$2,832	\$2,102	\$2,192	\$3,338	\$3,329	\$3,309	\$3,225	\$3,808
\$350	\$5,669	\$3,488	\$3,993	\$2,965	\$3,083	\$4,707	\$4,694	\$4,671	\$4,548	\$5,377
\$450	\$7,357	\$4,525	\$5,170	\$3,841	\$3,982	\$6,093	\$6,077	\$6,052	\$5,890	\$6,971
\$550	\$9,075	\$5,579	\$6,361	\$4,728	\$4,889	\$7,497	\$7,477	\$7,453	\$7,248	\$8,591
\$650	\$10,819	\$6,649	\$7,568	\$5,626	\$5,804	\$8,918	\$8,893	\$8,873	\$8,624	\$10,234
\$750	\$12,590	\$7,736	\$8,788	\$6,536	\$6,725	\$10,355	\$10,325	\$10,310	\$10,016	\$11,901
\$850	\$14,387	\$8,838	\$10,022	\$7,456	\$7,654	\$11,807	\$11,773	\$11,766	\$11,424	\$13,592
\$950	\$16,207	\$9,956	\$11,269	\$8,386	\$8,589	\$13,274	\$13,235	\$13,238	\$12,847	\$15,305

SECTION 6 - PER CAPITA COSTS (cont.)

Chapter 1606 Basic and Kicker Benefit Per Capita Costs During FY 2015

	<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	\$0	\$0	\$0	\$0	\$1,364	\$0	\$0
\$100 Kicker	\$923	\$818	\$855	\$758	\$1,573	\$1,263	\$1,192
\$200 Kicker	\$1,735	\$1,763	\$2,058	\$1,683	\$2,831	\$2,377	\$2,351
\$350 Kicker	\$3,803	\$3,291	\$4,716	\$2,881	\$4,682	\$3,297	\$3,808

Chapter 1606 Basic and Kicker Benefit Per Capita Costs During FY 2016

	<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	\$122	\$0	\$0	\$0	\$588	\$0	\$0
\$100 Kicker	\$841	\$791	\$890	\$823	\$1,276	\$1,109	\$882
\$200 Kicker	\$1,571	\$1,723	\$2,103	\$1,831	\$2,288	\$1,976	\$1,700
\$350 Kicker	\$3,845	\$2,976	\$4,810	\$3,125	\$3,884	\$2,872	\$2,744

Chapter 1607 Basic Benefit Per Capita Costs During FY 2015

	<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	\$0	\$0	\$0	\$0	\$412	\$0	\$0
60% of MGIB-AD	\$0	\$0	\$0	\$0	\$552	\$0	\$0
80% of MGIB-AD	\$0	\$0	\$0	\$0	\$703	\$0	\$0

Chapter 1607 Basic Benefit Per Capita Costs During FY 2016

	<u>Army</u> <u>Guard</u>	<u>Army</u> <u>Reserve</u>	<u>Navy</u> <u>Reserve</u>	<u>Marine</u> <u>Reserve</u>	<u>Air</u> <u>Guard</u>	<u>Air</u> <u>Reserve</u>	<u>Coast</u> <u>Guard</u>
40% of MGIB-AD	\$1,174	\$1,398	\$0	\$0	\$2,183	\$0	\$0
60% of MGIB-AD	\$1,192	\$1,527	\$0	\$0	\$2,278	\$0	\$0
80% of MGIB-AD	\$823	\$1,091	\$0	\$0	\$1,667	\$0	\$0

SECTION 7 - EDUCATION BENEFITS FUND TRANSACTION PROCESS

The effect of the EBF transaction process on the deficit, the debt, the DoD budget, and benefit security described 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 intra-governmental 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 intra-governmental transfer, while a payment for a member's or dependent's benefit is not.

Effect of the EBF transaction process on the deficit

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 (which decrease the deficit) and payments for members' or dependents' benefits (which increase the deficit). The intra-governmental 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 in 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.)

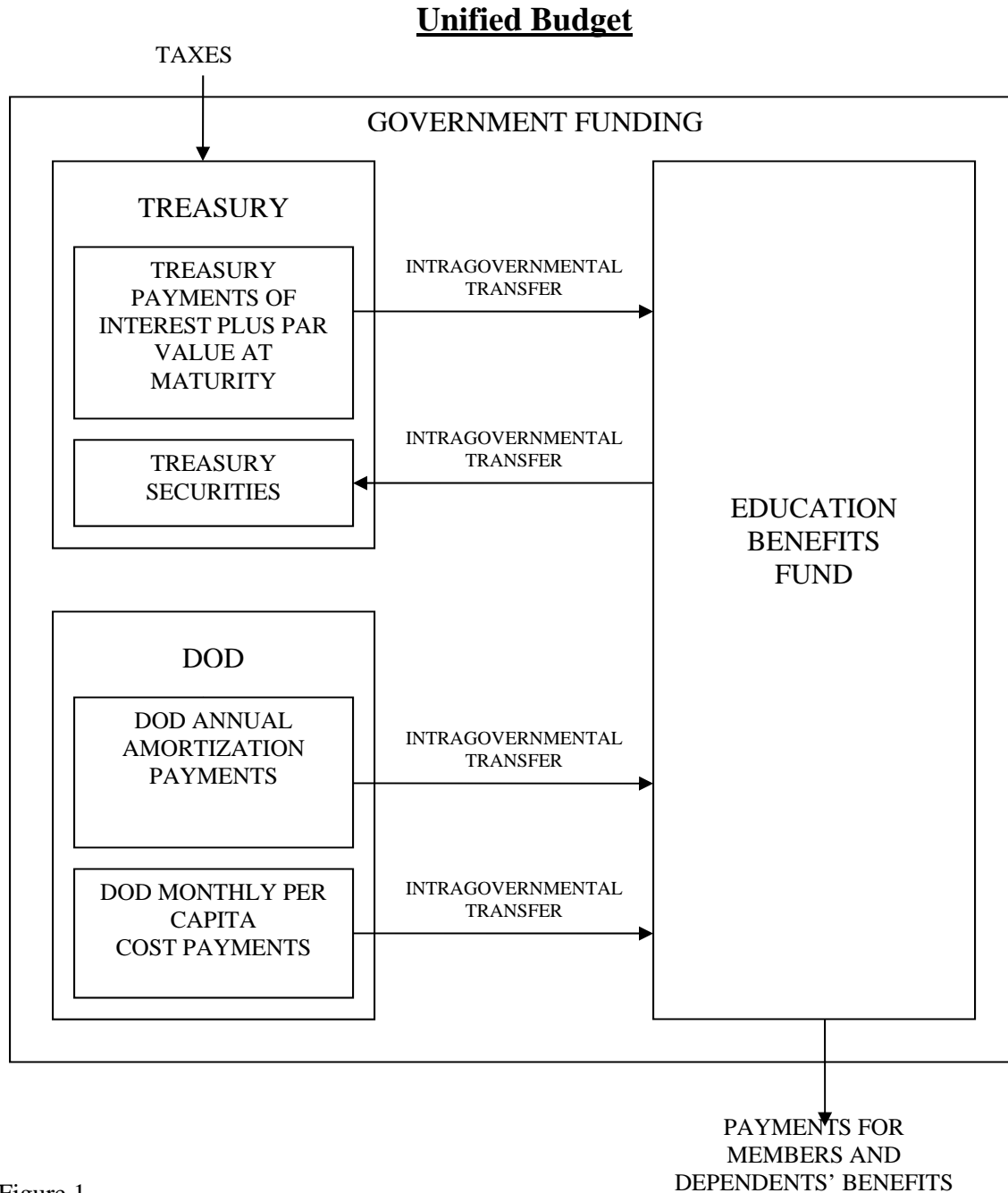


Figure 1

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

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

Effect of the EBF transaction process on the debt

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.

Effect of the EBF transaction process on the DoD budget

The EBF transaction process has an effect on the **DoD budget**. With the per capita cost payments in the DoD budget, policymakers are forced to consider how manpower decisions affect future costs. 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 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 (typically active duty kickers are used after a service member completes their contract).

Effect of the EBF transaction process on benefit security

The EBF transaction process also provides benefit security that the pay-as-you-go method does not. In the short term, the EBF transaction process provides benefit security because it is not dependent on obtaining the necessary appropriation from Congress each year in order to pay benefits. In the long term the EBF transaction process provides benefit security because it helps prevent benefits from being over extended and later reduced.

APPENDIX A – DESCRIPTION OF BENEFITS

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

Chapter 30 Kicker Eligibility

A member can not receive a Chapter 30 kicker benefit without being eligible to receive the Chapter 30 or the Chapter 33 basic benefit. Eligibility for the basic benefit requires an honorable discharge, a high school diploma or GED, and meeting the requirements of one of the four main categories. Categories I, II, and IV are described here and Category III is described in a separate 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 (as opposed to 15 years for Chapter 33) after the date of their last discharge. However, if the member's eligibility is based on two years of active duty and four years in the Selected Reserve, the 10 years begins on the date of release from active duty, or the date of completion of the four-year Selected Reserve obligation, whichever is later.

APPENDIX A – DESCRIPTION OF BENEFITS

Chapter 33 Kicker Eligibility

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

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

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

Chapter 33 Kicker Benefit Amount

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

Chapter 33 Kicker Transferred Benefits

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

Chapter 33 Kicker Restrictions

The period of eligibility for the Post-9/11 GI Bill ends 15 years (as opposed to 10 years for Chapter 30 and Category III) 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 \$362 per month for fiscal year 2014. This rate became effective October 1, 2013. 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.

Generally, the entitlement time period for a member of the Selected Reserve expires at the date the member is separated from the Selected Reserve. 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 period of entitlement expires at the end of the 14-year period beginning on the date on which the person became entitled to the benefit. The time period does not run if the member is prevented from pursuing a program of education because of a mental or physical disability incurred in or aggravated by service in the Selected Reserve.

APPENDIX A – DESCRIPTION OF BENEFITS (cont.)

Chapter 1607 Eligibility

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

Chapter 1607 Benefit Amount

Each member is eligible for a portion of the Montgomery GI Bill Active Duty (MGIB-AD) 3-year benefit rate. The following rates become effective October 1, 2013:

- Members who serve 90 days to less than 1 year receive:
40% of the MGIB-AD 3-year rate or \$659.20 per month
- Members who serve 1 year but less than 2 years receive:
60% of the MGIB-AD 3-year rate or \$988.80 per month
- Members who serve 2 or more continuous years (or 3 years cumulative) receive:
80% of the MGIB-AD 3-year rate or \$1318.40 per month

Annual increases for Chapter 1607 are linked to the MGIB-AD annual increases as 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 \$1,648 per month for fiscal year 2014. This rate became effective October 1, 2013. 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 (as opposed to 15 years for Chapter 33) 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, 2012</u>	<u>Sept. 30, 2013</u>
<u>On Active Duty</u>		
Army 2-year	877	801
Army 3-year	16,217	11,068
Army 4-year	23,778	18,964
Army 5-year	4,902	3,629
Army 6-year	4,196	3,409
Navy 2-year	5	4
Navy 3-year	344	330
Navy 4-year	15,289	13,635
Marine Corps 4-year	4,669	3,479
Marine Corps 5-year	3,821	2,684
Marine Corps 6-year	74	70
<u>Coast Guard 4-year</u>	<u>244</u>	<u>232</u>
Total	74,416	58,305
<u>Not On Active Duty, Has Not Used the Benefit</u>		
Army 2-year	4,225	3,650
Army 3-year	12,814	15,711
Army 4-year	23,588	24,764
Army 5-year	3,522	3,994
Army 6-year	1,847	2,263
Navy 2-year	20	13
Navy 3-year	341	220
Navy 4-year	16,229	8,943
Marine Corps 4-year	6,066	6,076
Marine Corps 5-year	2,968	3,629
Marine Corps 6-year	16	20
<u>Coast Guard 4-year</u>	<u>130</u>	<u>125</u>
Total	71,766	69,407
<u>Not On Active Duty, Who Have Used the Benefit</u>		
Army 2-year	4,995	4,151
Army 3-year	11,693	11,641
Army 4-year	28,399	28,378
Army 5-year	612	1,215
Army 6-year	283	530
Navy 2-year	16	22
Navy 3-year	883	700
Navy 4-year	31,899	31,060
Marine Corps 4-year	8,015	8,361
Marine Corps 5-year	2,005	2,475
Marine Corps 5-year	1	1
<u>Coast Guard 4-year</u>	<u>50</u>	<u>62</u>
Total	88,851	88,595
Army	141,948	134,167
Navy	65,026	54,926
Marine Corps	27,635	26,795
<u>Coast Guard</u>	<u>424</u>	<u>419</u>
Total	235,033	216,307

APPENDIX B – POPULATION DATA (cont.)

Chapter 1606 Eligibles

	<u>Sept. 30, 2012</u>	<u>Sept. 30, 2013</u>
<u>Eligible for Basic Benefit (Excludes 1607 Eligibles)</u>		
Army National Guard	100,126	101,037
Army Reserve	44,429	42,599
Navy Reserve	15,113	14,639
Marine Corps Reserve	16,259	17,052
Air National Guard	25,850	23,851
Air Force Reserve	13,701	13,548
<u>Coast Guard Reserve</u>	<u>1,094</u>	<u>1,084</u>
Total	216,572	213,810
 <u>Eligible for Kicker - \$100 per month</u>		
Army National Guard	962	894
Army Reserve	14,432	15,786
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	15,394	16,680
 <u>Eligible for Kicker - \$200 per month</u>		
Army National Guard	54,959	47,969
Army Reserve	11,365	12,954
Navy Reserve	631	592
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	66,955	61,515
 <u>Eligible for Kicker - \$350 per month</u>		
Army National Guard	15,976	12,397
Army Reserve	24,809	21,480
Navy Reserve	0	0
Marine Corps Reserve	447	255
Air National Guard	32,717	30,986
Air Force Reserve	12,426	12,749
<u>Coast Guard Reserve</u>	<u>0</u>	<u>0</u>
Total	86,375	77,867

APPENDIX B – POPULATION DATA (cont.)

Chapter 1607 Eligibles

	<u>Sept. 30, 2012</u>	<u>Sept. 30, 2013</u>
<u>Eligible for 40% of MGIB</u>		
Army National Guard	88,330	86,559
Army Reserve	48,465	38,748
Navy Reserve	30,092	31,270
Marine Corps Reserve	33,984	26,865
Air National Guard	52,301	55,789
Air Force Reserve	35,861	34,736
<u>Coast Guard Reserve</u>	<u>4,780</u>	<u>4,670</u>
Total	293,813	278,637
<u>Eligible for 60% of MGIB</u>		
Army National Guard	235,096	240,200
Army Reserve	118,800	132,116
Navy Reserve	14,974	16,083
Marine Corps Reserve	19,922	27,442
Air National Guard	13,512	13,869
Air Force Reserve	10,834	11,979
<u>Coast Guard Reserve</u>	<u>1,403</u>	<u>1,775</u>
Total	414,541	443,464
<u>Eligible for 80% of MGIB</u>		
Army National Guard	30,076	32,071
Army Reserve	25,772	27,491
Navy Reserve	3,459	3,468
Marine Corps Reserve	5,107	5,633
Air National Guard	6,347	6,585
Air Force Reserve	5,168	7,008
<u>Coast Guard Reserve</u>	<u>1,121</u>	<u>1,032</u>
Total	77,050	83,288

APPENDIX B – POPULATION DATA (cont.)

Category III Eligibles¹

Number of Voluntary and Involuntary Separates as of September 30, 2013

Enrolled, But No Benefit Usage

Army	87
Navy	372
Marine Corps	15
Air Force	29
<u>Coast Guard</u>	<u>18</u>
Total	521

Enrolled, Has Used The Benefit

Army	98
Navy	965
Marine Corps	24
Air Force	51
<u>Coast Guard</u>	<u>30</u>
Total	1,167

Total

Army	185
Navy	1,337
Marine Corps	39
Air Force	80
<u>Coast Guard</u>	<u>48</u>
Total	1,688

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

APPENDIX C – ASSUMPTIONS AND METHODS

Board Minutes Links

Minutes documenting the board meetings in which methods and assumptions for the September 30, 2012 valuation can be found here:

<http://www.facadatabase.gov/committee/historymeetingdocuments.aspx?flr=110442&cid=2191&fy=2013>

Minutes documenting the board meetings in which methods and assumptions for the September 30, 2013 valuation can be found here:

<http://www.facadatabase.gov/committee/meetingdocuments.aspx?flr=122938&cid=2191>

Post-9/11 GI Bill

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

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

Chapter 30/33 Kicker Normal Cost:	4.2%
Chapter 30/33 Kicker Actuarial Liability:	4.2%

In past years, a pattern of annual reductions in benefit payments had been observed for Chapter 1607¹ and was assumed to continue through 2016 for all components. In past years, tapering (i.e., reduction) factors were applied to benefit payments in the Chapter 1607 normal cost and actuarial liability calculations in projection years through and including FY 2016. However, as of this valuation, the tapering factor methodology is only applied to Army National Guard. The assumed annual factors are shown below.

	<u>2012 Valuation</u>	<u>2013 Valuation</u>
Army National Guard	80%	83%
Army Reserve	69%	100%
Navy Reserve	67%	100%
Marine Corps Reserve	59%	100%
Air National Guard	69%	100%
Air Force Reserve	57%	100%
Coast Guard Reserve	61%	100%

¹The primary reason for these reductions is the passage of the Post-9/11 GI Bill. In many cases where members are eligible for both Chapter 1607 and Post-9/11 GI Bill benefits, the latter provides a higher level of benefits.

APPENDIX C – ASSUMPTIONS AND METHODS (cont.)

Actuarial Assumptions

Actual experience of the programs will not coincide exactly with assumed experience, regardless of the choice of the assumptions, the skill of the actuary, and the precision of the calculations. 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.

Rate Determination Methodology

Programs for which data is available depend on rates¹ determined by actual experience in the most recent 10-year period with adjustments when results are based on too few cases to be credible as well as adjustments for future expectations. Beginning with setting costs for Fiscal Year 2014, recent years' historical experience was weighted more heavily than older years. For active duty rates, each year is weighted 20% less than the year after it. For Reserve program rates, such weight is 40% less. Usage may be adjusted if it is expected to deviate from historical averages when different conditions may be forecast than existed during the time period the historical rates were taken.

Individual level Chapter 1607 data was received for the first time in FY 2012 and has been included in this valuation. However, to de-emphasize one particular year's experience, partial weight is still given to past assumptions. The partial weight given to this year's data is approximately 40% and the partial weight given to past year's data is approximately 60%. While some Chapter 1607 data is now available, usage is not reported accurately for all of Chapter 1607 and much of it is of poor quality. OACT expects cleaner data in future years. Thus, this year, as in previous years, aggregate model expectations have been adjusted to account for the poor quality of data.

Economic Assumptions

The Board of Actuaries, independently of DoD, approves the methods and assumptions used to determine the costs of these programs. In July 2014, the DoD Board of Actuaries adopted the following economic assumptions for use in the valuation as of September 30, 2013.

¹"Rate" refers to probabilities or averages, for example, the probability of staying in service, probability of using the benefit in a given year, or average months of benefit used in a given year

APPENDIX C – ASSUMPTIONS AND METHODS (cont.)

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 2.3% per year and the select rates are given in the table below. These rates are projected using Blue Chip financial forecasts. Note that the only benefit covered by the EBF that is directly adjusted by this CPI index is the Chapter 1606 basic benefit.

	<u>2012 Valuation</u>	<u>2013 Valuation</u>
FY 2014 to FY 2015	2.1%	1.5%
FY 2015 to FY 2016	2.3%	2.6%
FY 2016 to FY 2017	2.4%	2.1%
FY 2017 to FY 2018	2.4%	2.2%
FY 2018 to FY 2019	2.4%	2.3%
FY 2019 to FY 2020	2.4%	2.4%
FY 2020 to FY 2021	2.4%	2.3%
FY 2021 to FY 2022	2.4%	2.3%

Annual inflation for Chapter 30 and Chapter 1607 is based on the National Center for Education Statistics' average cost of undergraduate tuition. The future 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 3.5% annually.

Methodology

All benefits are pre-funded except for Category III benefits. For all pre-funded benefits, monthly contributions known as per capita costs go into the Fund. Per capitas are reduced, if possible, by transferring money between programs. For all pre-funded benefits with a projected deficit, if assets can not be transferred between programs to reduce such a deficit to \$0, a portion of the unfunded liability is scheduled to be paid on the first day of the projected fiscal year. The annual amortization payment and the monthly per capita costs are collectively referred to in this report as contributions to the Fund.

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

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

Normal Cost Calculation

In addition to the approach outlined in the “Methodology” section above, the normal cost can be derived by multiplying the “Average Benefit Amount” times the “Percent of Benefit Used” times the “Discount Factor” times 36 months, as detailed on the pages immediately following. “Average Benefit Amount” is the dollar amount for benefits that are not indexed; for benefits that are indexed, it reflects the effect of future projected increases to the benefit. “Percent of Benefit Used” reflects what portion (of a hypothetical new entrant group) is projected to become eligible for and use the benefit, and how much of the potential 36-month total entitlement is projected to be used during the eligibility period. “Discount Factor” reflects the reduction in the normal cost due to discounting for interest and changes in timing due to other assumptions. For example, a discount factor of 0.800 indicates the normal cost is 20% less than it otherwise would be if calculated with a zero interest rate. The normal costs can be found on the pages immediately following.

APPENDIX C – ASSUMPTIONS AND METHODS (cont.)

Chapter 33 Usage Assumptions FY 2016

	<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	60.2%	73.3%	\$2,381
Army 2 Year	\$250	60.7%	73.5%	\$4,010
Army 2 Year	\$350	61.1%	73.6%	\$5,669
Army 2 Year	\$450	61.6%	73.7%	\$7,357
Army 2 Year	\$550	62.0%	73.9%	\$9,075
Army 2 Year	\$650	62.5%	74.0%	\$10,819
Army 2 Year	\$750	62.9%	74.1%	\$12,590
Army 2 Year	\$850	63.3%	74.2%	\$14,387
Army 2 Year	\$950	63.7%	74.4%	\$16,207
<u>Chapter 33 Kicker</u>				
Army 3 Year	\$150	39.9%	68.1%	\$1,468
Army 3 Year	\$250	40.2%	68.3%	\$2,469
Army 3 Year	\$350	40.5%	68.4%	\$3,488
Army 3 Year	\$450	40.8%	68.5%	\$4,525
Army 3 Year	\$550	41.1%	68.6%	\$5,579
Army 3 Year	\$650	41.3%	68.8%	\$6,649
Army 3 Year	\$750	41.6%	68.9%	\$7,736
Army 3 Year	\$850	41.9%	69.0%	\$8,838
Army 3 Year	\$950	42.1%	69.1%	\$9,956
<u>Chapter 33 Kicker</u>				
Army 4 Year	\$150	47.4%	65.8%	\$1,686
Army 4 Year	\$250	47.7%	65.9%	\$2,832
Army 4 Year	\$350	48.0%	66.0%	\$3,993
Army 4 Year	\$450	48.3%	66.1%	\$5,170
Army 4 Year	\$550	48.5%	66.2%	\$6,361
Army 4 Year	\$650	48.8%	66.3%	\$7,568
Army 4 Year	\$750	49.0%	66.4%	\$8,788
Army 4 Year	\$850	49.3%	66.5%	\$10,022
Army 4 Year	\$950	49.5%	66.6%	\$11,269

APPENDIX C – ASSUMPTIONS AND METHODS (cont.)

Chapter 33 Usage Assumptions FY 2016 (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	35.4%	65.5%	\$1,251
Army 5 Year	\$250	35.6%	65.6%	\$2,102
Army 5 Year	\$350	35.9%	65.6%	\$2,965
Army 5 Year	\$450	36.1%	65.7%	\$3,841
Army 5 Year	\$550	36.3%	65.7%	\$4,728
Army 5 Year	\$650	36.6%	65.8%	\$5,626
Army 5 Year	\$750	36.8%	65.8%	\$6,536
Army 5 Year	\$850	37.0%	65.9%	\$7,456
Army 5 Year	\$950	37.2%	65.9%	\$8,386
<u>Chapter 33 Kicker</u>				
Army 6 Year	\$150	39.4%	61.5%	\$1,309
Army 6 Year	\$250	39.5%	61.6%	\$2,192
Army 6 Year	\$350	39.7%	61.6%	\$3,083
Army 6 Year	\$450	39.9%	61.7%	\$3,982
Army 6 Year	\$550	40.0%	61.7%	\$4,889
Army 6 Year	\$650	40.2%	61.8%	\$5,804
Army 6 Year	\$750	40.3%	61.8%	\$6,725
Army 6 Year	\$850	40.4%	61.9%	\$7,654
Army 6 Year	\$950	40.6%	61.9%	\$8,589
<u>Chapter 33 Kicker</u>				
Navy 4 Year	\$150	55.0%	66.9%	\$1,988
Navy 4 Year	\$250	55.3%	67.0%	\$3,338
Navy 4 Year	\$350	55.6%	67.1%	\$4,707
Navy 4 Year	\$450	55.9%	67.2%	\$6,093
Navy 4 Year	\$550	56.2%	67.3%	\$7,497
Navy 4 Year	\$650	56.5%	67.4%	\$8,918
Navy 4 Year	\$750	56.8%	67.5%	\$10,355
Navy 4 Year	\$850	57.1%	67.6%	\$11,807
Navy 4 Year	\$950	57.3%	67.7%	\$13,274
<u>Chapter 33 Kicker</u>				
Marines Corp 4 Year	\$150	51.1%	71.8%	\$1,983
Marines Corp 4 Year	\$250	51.5%	71.9%	\$3,329
Marines Corp 4 Year	\$350	51.8%	72.0%	\$4,694
Marines Corp 4 Year	\$450	52.1%	72.1%	\$6,077
Marines Corp 4 Year	\$550	52.3%	72.1%	\$7,477
Marines Corp 4 Year	\$650	52.6%	72.2%	\$8,893
Marines Corp 4 Year	\$750	52.9%	72.3%	\$10,325
Marines Corp 4 Year	\$850	53.2%	72.4%	\$11,773
Marines Corp 4 Year	\$950	53.4%	72.4%	\$13,235

APPENDIX C – ASSUMPTIONS AND METHODS (cont.)

Chapter 33 Usage Assumptions FY 2016 (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	54.6%	66.8%	\$1,969
Marines Corps 5 Year	\$250	55.0%	66.9%	\$3,309
Marines Corps 5 Year	\$350	55.4%	67.0%	\$4,671
Marines Corps 5 Year	\$450	55.7%	67.0%	\$6,052
Marines Corps 5 Year	\$550	56.1%	67.1%	\$7,453
Marines Corps 5 Year	\$650	56.4%	67.2%	\$8,873
Marines Corps 5 Year	\$750	56.8%	67.3%	\$10,310
Marines Corps 5 Year	\$850	57.1%	67.3%	\$11,766
Marines Corps 5 Year	\$950	57.4%	67.4%	\$13,238
<u>Chapter 33 Kicker</u>				
Marines Corps 6 Year	\$150	54.1%	65.8%	\$1,920
Marines Corps 6 Year	\$250	54.4%	65.9%	\$3,225
Marines Corps 6 Year	\$350	54.7%	66.0%	\$4,548
Marines Corps 6 Year	\$450	55.0%	66.1%	\$5,890
Marines Corps 6 Year	\$550	55.3%	66.1%	\$7,248
Marines Corps 6 Year	\$650	55.6%	66.2%	\$8,624
Marines Corps 6 Year	\$750	55.9%	66.3%	\$10,016
Marines Corps 6 Year	\$850	56.2%	66.4%	\$11,424
Marines Corps 6 Year	\$950	56.5%	66.5%	\$12,847
<u>Chapter 33 Kicker</u>				
Coast Guard 4 Year	\$150	67.0%	62.6%	\$2,264
Coast Guard 4 Year	\$250	67.3%	62.9%	\$3,808
Coast Guard 4 Year	\$350	67.6%	63.1%	\$5,377
Coast Guard 4 Year	\$450	67.9%	63.3%	\$6,971
Coast Guard 4 Year	\$550	68.2%	63.6%	\$8,591
Coast Guard 4 Year	\$650	68.5%	63.8%	\$10,234
Coast Guard 4 Year	\$750	68.8%	64.0%	\$11,901
Coast Guard 4 Year	\$850	69.1%	64.2%	\$13,592
Coast Guard 4 Year	\$950	69.4%	64.5%	\$15,305

APPENDIX C – ASSUMPTIONS AND METHODS (cont.)

Chapter 1606 Usage Assumptions FY 2016

	<u>Average Benefit Amount</u>	<u>Percent of Benefit Used</u>	<u>Discount Factor</u>	<u>Normal Cost</u>
<u>Chapter 1606 Basic</u>				
Army National Guard	\$395	10.9%	92.7%	\$1,441
Army Reserve	\$395	9.4%	93.0%	\$1,238
Navy Reserve	\$403	5.5%	90.0%	\$714
Marine Corps Reserve	\$396	8.4%	92.3%	\$1,108
Air National Guard	\$397	18.9%	92.5%	\$2,490
Air Force Reserve	\$399	9.8%	91.6%	\$1,290
Coast Guard Reserve	\$402	8.5%	90.7%	\$1,108
<u>Chapter 1606 Kicker - \$100</u>				
Army National Guard	\$100	25.8%	90.5%	\$841
Army Reserve	\$100	24.0%	91.5%	\$791
Navy Reserve	\$100	27.0%	91.4%	\$890
Marine Corps Reserve	\$100	24.3%	94.1%	\$823
Air National Guard	\$100	39.1%	90.6%	\$1,276
Air Force Reserve	\$100	34.2%	90.0%	\$1,109
Coast Guard Reserve	\$100	26.5%	92.4%	\$882
<u>Chapter 1606 Kicker - \$200</u>				
Army National Guard	\$200	24.5%	89.2%	\$1,571
Army Reserve	\$200	26.0%	92.0%	\$1,723
Navy Reserve	\$200	31.7%	92.0%	\$2,103
Marine Corps Reserve	\$200	27.0%	94.2%	\$1,831
Air National Guard	\$200	35.3%	90.1%	\$2,288
Air Force Reserve	\$200	30.5%	90.1%	\$1,976
Coast Guard Reserve	\$200	25.5%	92.7%	\$1,700
<u>Chapter 1606 Kicker - \$350</u>				
Army National Guard	\$350	33.1%	92.2%	\$3,845
Army Reserve	\$350	25.8%	91.4%	\$2,976
Navy Reserve	\$350	41.0%	93.2%	\$4,810
Marine Corps Reserve	\$350	26.6%	93.1%	\$3,125
Air National Guard	\$350	33.9%	91.0%	\$3,884
Air Force Reserve	\$350	25.2%	90.4%	\$2,872
Coast Guard Reserve	\$350	23.7%	92.0%	\$2,744

APPENDIX C – ASSUMPTIONS AND METHODS (cont.)

Chapter 1607 Usage Assumptions FY 2016

	<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	\$922	7.7%	87.8%	\$2,235
Army Reserve	\$928	4.8%	87.5%	\$1,398
Navy Reserve	\$934	1.5%	86.6%	\$424
Marine Corps Reserve	\$937	2.1%	86.4%	\$615
Air National Guard	\$929	7.5%	87.5%	\$2,183
Air Force Reserve	\$940	2.0%	86.5%	\$582
Coast Guard Reserve	\$925	0.9%	87.0%	\$266
<u>Chapter 1607 60% of MGIB-AD</u>				
Army National Guard	\$1,461	5.1%	85.0%	\$2,270
Army Reserve	\$1,467	3.4%	84.8%	\$1,527
Navy Reserve	\$1,477	1.1%	84.1%	\$512
Marine Corps Reserve	\$1,473	1.8%	84.1%	\$801
Air National Guard	\$1,482	5.1%	84.2%	\$2,278
Air Force Reserve	\$1,479	1.5%	84.1%	\$694
Coast Guard Reserve	\$1,440	0.8%	85.1%	\$351
<u>Chapter 1607 80% of MGIB-AD</u>				
Army National Guard	\$2,164	2.5%	79.7%	\$1,567
Army Reserve	\$2,162	1.8%	79.6%	\$1,091
Navy Reserve	\$2,138	0.7%	80.1%	\$440
Marine Corps Reserve	\$2,065	1.5%	81.6%	\$928
Air National Guard	\$2,216	2.7%	78.5%	\$1,667
Air Force Reserve	\$2,154	1.0%	79.6%	\$598
Coast Guard Reserve	\$2,230	0.4%	77.8%	\$258

APPENDIX D: FUND HISTORY¹

(\$ 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>
2004	\$11.1	\$5.7	\$8.1	\$0.0	\$24.9
2005	\$46.4	\$6.8	\$6.4	\$0.0	\$59.6
2006	\$35.0	\$2.1	\$8.6	\$0.0	\$45.8
2007	\$44.0	\$7.3	\$18.4	\$0.0	\$69.7
2008	\$80.7	\$12.4	\$10.5	\$0.0	\$103.6
2009	\$86.5	\$10.9	\$10.8	\$0.0	\$108.1
2010	\$171.8	\$28.2	\$4.6	\$0.0	\$204.5
2011	\$35.9	\$19.9	\$11.6	\$0.1	\$67.5
2012	\$13.6	\$19.7	\$4.9	\$0.1	\$38.3
2013	\$0.0	\$22.9	\$3.2	\$0.4	\$26.5

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>
2004	\$14.6	\$5.9	\$3.4	\$0.0	\$23.9
2005	\$14.3	\$5.3	\$3.4	\$0.0	\$23.1
2006	\$19.0	\$5.9	\$4.5	\$0.0	\$29.4
2007	\$19.9	\$5.0	\$4.9	\$0.0	\$29.8
2008	\$23.7	\$4.6	\$5.6	\$0.0	\$33.9
2009	\$7.5	\$1.0	\$1.6	\$0.0	\$10.1
2010	\$18.1	\$1.9	\$2.9	\$0.0	\$23.0
2011	\$29.2	\$2.4	\$4.1	\$0.0	\$35.8
2012	\$21.0	\$1.6	\$2.9	\$0.0	\$25.5
2013	\$21.9	\$1.6	\$2.8	\$0.0	\$26.3

Chapter 30 & 33 Kicker Benefit Payments

<u>FY</u>	<u>Army</u>	<u>Navy</u>	<u>Marine Corps</u>	<u>Coast Guard</u>	<u>Total</u>
2004	\$48.7	\$29.1	\$8.3	\$0.0	\$86.1
2005	\$51.0	\$32.4	\$9.7	\$0.1	\$93.2
2006	\$51.2	\$34.0	\$12.3	\$0.1	\$97.6
2007	\$49.2	\$34.0	\$13.6	\$0.1	\$96.9
2008	\$44.6	\$33.2	\$14.6	\$0.1	\$92.4
2009	\$36.4	\$31.6	\$15.6	\$0.1	\$83.7
2010	\$45.3	\$37.4	\$17.3	\$0.1	\$100.1
2011	\$39.7	\$28.0	\$13.3	\$0.1	\$81.2
2012	\$56.4	\$30.1	\$16.9	\$0.1	\$103.6
2013	\$71.8	\$27.8	\$19.7	\$0.2	\$119.5

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>
2004	\$414.7	\$164.3	\$100.4	\$0.3	\$679.6
2005	\$424.5	\$144.0	\$100.5	\$0.2	\$669.2
2006	\$427.3	\$118.0	\$101.2	\$0.2	\$646.7
2007	\$442.0	\$96.3	\$111.0	\$0.1	\$649.4
2008	\$501.8	\$80.1	\$112.5	\$0.1	\$694.5
2009	\$559.3	\$60.4	\$109.2	\$0.0	\$729.0
2010	\$703.9	\$53.1	\$99.4	-\$0.1	\$856.4
2011	\$729.4	\$47.4	\$101.8	-\$0.1	\$878.5
2012	\$707.6	\$38.6	\$92.7	-\$0.1	\$838.7
2013	\$657.1	\$35.2	\$79.0	\$0.1	\$771.5

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

APPENDIX D: FUND HISTORY (cont.)

(\$ 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>
2004	\$83.8	\$32.1	\$0.3	\$13.4	\$35.1	\$5.4	\$0.0	\$170.1
2005	\$93.9	\$43.3	\$1.0	\$16.5	\$36.5	\$5.0	\$0.0	\$196.2
2006	\$138.0	\$49.5	\$9.7	\$20.9	\$43.8	\$8.1	\$0.0	\$269.9
2007	\$129.7	\$39.3	\$4.0	\$12.8	\$45.6	\$7.8	\$0.9	\$240.0
2008	\$123.8	\$72.9	\$5.8	\$9.3	\$46.6	\$7.5	\$0.9	\$266.8
2009	\$113.7	\$63.0	\$4.4	\$10.5	\$43.3	\$5.4	\$0.9	\$241.2
2010	\$114.8	\$54.1	\$3.8	\$18.1	\$38.2	\$13.6	\$0.8	\$243.4
2011	\$62.6	\$29.3	\$2.3	\$8.2	\$31.3	\$11.4	\$1.6	\$146.8
2012	\$28.8	\$22.8	\$1.5	\$6.6	\$28.4	\$14.6	\$0.4	\$103.1
2013	\$49.3	\$19.1	\$0.7	\$4.7	\$29.9	\$12.2	\$0.0	\$115.9

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>
2004	\$3.8	\$4.5	\$1.0	\$0.9	\$0.3	\$1.5	\$0.0	\$12.0
2005	\$4.4	\$4.7	\$0.8	\$1.0	\$0.2	\$1.3	\$0.0	\$12.5
2006	\$9.0	\$7.0	\$1.1	\$1.8	\$0.8	\$1.5	\$0.0	\$21.2
2007	\$10.4	\$6.9	\$1.1	\$1.8	\$0.9	\$1.2	\$0.0	\$22.3
2008	\$16.1	\$9.8	\$1.3	\$2.3	\$2.1	\$1.3	\$0.0	\$32.7
2009	\$5.5	\$3.4	\$0.4	\$0.7	\$0.9	\$0.3	\$0.0	\$11.2
2010	\$12.1	\$7.4	\$0.7	\$1.4	\$2.0	\$0.7	\$0.1	\$24.3
2011	\$17.4	\$10.4	\$1.0	\$2.3	\$3.1	\$1.2	\$0.1	\$35.6
2012	\$11.8	\$7.1	\$0.8	\$1.8	\$3.1	\$1.5	\$0.1	\$26.2
2013	\$12.0	\$7.2	\$0.9	\$2.0	\$3.4	\$1.9	\$0.1	\$27.6

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>
2004	\$73.5	\$34.1	\$6.3	\$13.6	\$37.8	\$11.7	\$0.0	\$176.9
2005	\$72.2	\$41.2	\$6.1	\$11.7	\$39.8	\$14.3	\$0.0	\$185.2
2006	\$57.3	\$29.5	\$4.9	\$6.9	\$33.8	\$14.1	\$0.0	\$146.6
2007	\$38.9	\$18.7	\$3.9	\$5.3	\$24.1	\$11.0	\$0.7	\$102.6
2008	\$53.3	\$23.7	\$4.1	\$7.0	\$29.2	\$9.4	\$0.8	\$127.6
2009	\$66.7	\$28.4	\$5.0	\$7.0	\$27.3	\$9.0	\$0.8	\$144.2
2010	\$87.4	\$42.7	\$5.1	\$6.7	\$28.9	\$8.8	\$0.6	\$180.2
2011	\$89.7	\$49.1	\$4.5	\$6.7	\$28.7	\$8.1	\$0.4	\$187.3
2012	\$84.5	\$50.0	\$4.3	\$6.2	\$27.5	\$8.7	\$0.3	\$181.5
2013	\$79.8	\$49.5	\$4.5	\$7.4	\$25.9	\$9.1	\$0.3	\$176.6

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>
2004	\$111.7	\$135.6	\$26.0	\$24.9	\$5.1	\$42.8	\$0.0	\$346.0
2005	\$137.9	\$142.4	\$21.6	\$30.7	\$2.0	\$34.8	\$0.0	\$369.5
2006	\$227.5	\$169.5	\$27.5	\$46.5	\$12.8	\$30.3	\$0.0	\$514.1
2007	\$273.7	\$163.6	\$23.9	\$42.6	\$22.8	\$24.8	-\$0.2	\$551.2
2008	\$360.3	\$222.6	\$26.9	\$47.1	\$42.3	\$24.1	-\$0.2	\$723.1
2009	\$412.8	\$260.7	\$26.7	\$51.2	\$59.1	\$20.9	-\$0.1	\$831.2
2010	\$452.3	\$273.6	\$26.1	\$55.9	\$70.5	\$26.4	\$1.9	\$906.6
2011	\$424.4	\$254.0	\$25.0	\$59.8	\$76.1	\$30.8	\$3.2	\$873.3
2012	\$380.5	\$234.0	\$27.7	\$62.0	\$106.0	\$55.0	\$4.1	\$869.2
2013	\$362.0	\$210.7	\$28.0	\$61.3	\$107.8	\$59.9	\$4.4	\$834.2

APPENDIX D: FUND HISTORY (cont.)

(\$ 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>
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
2010	\$45.6	\$3.1	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$48.7
2011	\$34.2	\$0.7	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$35.0
2012	\$27.9	\$5.4	\$0.0	\$5.4	\$0.7	\$0.4	\$0.0	\$39.8
2013	\$23.0	\$5.7	\$0.0	\$0.4	\$2.0	\$0.7	\$0.0	\$31.8

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>
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
2010	\$7.2	\$2.3	\$0.8	\$0.5	\$1.3	\$1.2	\$0.1	\$13.4
2011	\$10.2	\$2.8	\$1.1	\$0.5	\$1.7	\$1.6	\$0.1	\$18.1
2012	\$6.7	\$1.6	\$0.7	\$0.4	\$0.3	\$0.7	\$0.0	\$10.4
2013	\$6.8	\$1.6	\$0.6	\$0.4	\$0.5	\$0.7	\$0.0	\$10.6

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>
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
2010	\$73.7	\$29.3	\$2.0	\$7.1	\$8.6	\$5.3	\$0.3	\$126.3
2011	\$72.0	\$22.9	\$1.4	\$4.4	\$7.2	\$3.5	\$0.2	\$111.6
2012	\$54.0	\$15.8	\$1.0	\$2.8	\$4.4	\$1.9	\$0.1	\$80.0
2013	\$48.7	\$13.3	\$0.8	\$1.9	\$4.0	\$1.5	\$0.1	\$70.2

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>
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
2010	\$247.0	\$69.7	\$28.3	\$15.1	\$44.2	\$41.6	\$2.1	\$448.0
2011	\$237.6	\$60.6	\$28.0	\$11.2	\$38.7	\$39.7	\$1.9	\$417.7
2012	\$218.2	\$51.8	\$23.0	\$14.2	\$9.5	\$22.1	\$1.2	\$339.9
2013	\$199.3	\$45.8	\$19.6	\$13.1	\$13.5	\$22.0	\$0.7	\$314.0

APPENDIX D: FUND HISTORY (cont.)

(\$ in thousands)

Category III 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>
2004	\$3,617.5	\$1,498.8	\$722.0	\$3,211.0	\$0.0	\$9,049.3
2005	\$2,903.7	\$1,462.9	\$474.8	\$3,266.3	\$0.0	\$8,107.7
2006	\$2,204.1	\$1,770.4	\$371.5	\$1,882.1	\$0.0	\$6,228.1
2007	\$1,246.7	\$1,727.8	\$258.5	\$130.5	\$124.9	\$3,488.4
2008	\$1,192.6	\$1,954.5	\$134.9	\$486.4	\$15.3	\$3,783.7
2009	\$856.6	\$1,637.2	\$56.1	\$330.9	\$146.5	\$3,027.4
2010	\$941.1	\$1,733.7	\$85.7	\$477.0	\$8.4	\$3,245.8
2011	\$854.2	\$1,216.4	\$93.4	\$403.3	\$0.2	\$2,567.4
2012	\$696.9	\$937.0	\$87.9	\$339.9	\$0.8	\$2,062.5
2013	\$525.9	\$606.7	\$23.9	\$209.5	\$17.0	\$1,383.0

Category III 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>
2004	-\$48.6	-\$26.0	-\$8.0	-\$57.1	-\$0.2	-\$139.9
2005	-\$35.2	-\$31.6	-\$6.2	-\$28.9	-\$1.0	-\$103.0
2006	-\$23.3	-\$36.4	-\$5.1	\$2.8	-\$3.5	-\$65.5
2007	-\$23.8	-\$40.1	-\$2.4	-\$10.3	-\$5.8	-\$82.5
2008	-\$17.6	-\$35.9	-\$1.0	-\$7.2	-\$6.8	-\$68.4
2009	-\$5.9	-\$11.3	-\$0.7	-\$3.1	-\$2.1	-\$23.0
2010	-\$10.4	-\$14.8	-\$1.3	-\$4.9	\$0.0	-\$31.5
2011	-\$12.7	-\$16.4	-\$1.7	-\$6.0	-\$0.1	-\$36.9
2012	-\$7.1	-\$7.6	-\$0.3	-\$2.7	-\$0.3	-\$18.0
2013	-\$6.5	-\$4.0	-\$0.5	-\$3.6	-\$0.2	-\$14.7

Category III 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>
2004	\$2,804.7	\$1,489.0	\$466.7	\$3,233.3	\$12.0	\$8,005.7
2005	\$2,122.9	\$1,697.0	\$363.0	\$1,545.0	\$34.6	\$5,762.5
2006	\$1,337.8	\$1,726.2	\$257.8	\$412.4	\$63.5	\$3,797.6
2007	\$1,080.8	\$1,784.4	\$117.7	\$421.6	\$23.3	\$3,427.9
2008	\$909.1	\$1,718.0	\$76.7	\$362.7	\$9.6	\$3,076.0
2009	\$911.2	\$1,670.5	\$88.1	\$455.4	\$7.6	\$3,132.8
2010	\$863.5	\$1,194.3	\$86.0	\$396.6	\$0.5	\$2,540.9
2011	\$686.6	\$926.7	\$84.5	\$337.4	\$4.0	\$2,039.2
2012	\$528.0	\$600.3	\$17.4	\$208.6	\$14.0	\$1,368.4
2013	\$416.1	\$293.7	\$43.5	\$240.2	\$14.2	\$1,007.8

Category III 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>
2004	-\$2,856.5	-\$1,523.3	-\$471.9	-\$3,326.1	-\$12.2	-\$8,190.1
2005	-\$2,111.0	-\$1,789.0	-\$366.3	-\$1,633.7	-\$47.9	-\$5,947.9
2006	-\$1,267.9	-\$1,781.2	-\$257.7	-\$161.2	-\$114.8	-\$3,582.8
2007	-\$1,125.7	-\$1,877.9	-\$119.4	-\$462.7	-\$144.0	-\$3,729.7
2008	-\$859.9	-\$1,677.2	-\$62.2	-\$346.2	-\$145.1	-\$3,090.5
2009	-\$920.4	-\$1,721.7	-\$94.8	-\$473.8	-\$154.7	-\$3,365.5
2010	-\$853.2	-\$1,197.1	-\$96.5	-\$398.4	-\$0.3	-\$2,545.5
2011	-\$698.3	-\$923.8	-\$89.2	-\$338.6	-\$4.3	-\$2,054.2
2012	-\$536.5	-\$594.8	-\$19.0	-\$210.1	-\$17.7	-\$1,378.2
2012	-\$433.2	-\$285.0	-\$39.0	-\$244.4	-\$15.1	-\$1,017.6

APPENDIX E – LEGISLATIVE HISTORY

Background

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

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

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

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

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

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

Major Amendment History

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

APPENDIX E – LEGISLATIVE HISTORY (cont.)

Major Amendment History (cont.)

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

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

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

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

APPENDIX E – LEGISLATIVE HISTORY (cont.)

Major Amendment History (cont.)

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

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

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

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

Public Law 105-178 (June 9, 1998) increased basic benefits in both the Chapter 30 and Chapter 1606 programs by 20% beginning in FY 1999. This is in lieu of the cost-of-living increase, rather than in addition to it. Normal CPI increases resumed in FY 2000. The 20% increase does not apply to the kicker amounts. However, for Chapter 30, the practice of solving for the kicker amount [using 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 rates payable up to 36 months.

APPENDIX E – LEGISLATIVE HISTORY (cont.)

Major Amendment History (cont.)

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

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

Public Law 110-252 (June 30, 2008). Commonly referred to as the “Post-9/11 GI Bill”, this is the most comprehensive education legislation since the original GI Bill. The Post-9/11 GI Bill created a new benefit structure including benefits for tuition, housing, books, and moving expenses. Any member who served 90 consecutive days on Active Duty in the Armed Forces (including reserve and guard components) since September 11, 2001 is eligible. Benefit levels are determined by cumulative service with 3 years of cumulative service receiving 100% of benefits. Members with at least 6 years of active duty can transfer benefits to their spouse and/or children if they complete an additional service period of at least four years. The legislation also removed the 14 year eligibility period for Chapter 1606 eligibles (except in the case of disability or involuntary separation, in which case the VA interpretation is that the 14 year eligibility period still applies.)

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

APPENDIX F – PROJECTIONS

(\$ in Millions)

<u>FY</u>	<u>Per Capitas</u>	<u>Amorts</u>	<u>Interest</u>	<u>Benefits</u>	<u>Transfers</u>	<u>BOY Fund</u>	<u>BOY UFL</u>	<u>BOY Liab</u>	<u>Net Cash Flow</u>
<u>All Programs</u>									
2014	\$32.0	\$21.5	\$60.9	\$349.2	\$0.0	\$1,919.6	(\$392.2)	\$1,527.5	(\$234.8)
2015	\$32.3	\$28.2	\$54.5	\$277.2	\$0.0	\$1,684.5	(\$315.0)	\$1,369.4	(\$162.1)
2016	\$41.0	\$34.1	\$49.5	\$265.5	\$0.0	\$1,522.3	(\$272.9)	\$1,249.4	(\$140.9)
2017	\$90.9	\$27.8	\$45.5	\$265.0	\$0.0	\$1,381.4	(\$227.6)	\$1,153.8	(\$100.9)
2018	\$101.2	\$22.6	\$42.6	\$269.9	\$0.0	\$1,280.4	(\$192.9)	\$1,087.5	(\$103.4)
2019	\$111.7	\$18.4	\$39.2	\$263.3	\$0.0	\$1,177.0	(\$164.6)	\$1,012.4	(\$93.9)
2020	\$118.3	\$15.0	\$36.1	\$258.0	\$0.0	\$1,083.0	(\$141.5)	\$941.5	(\$88.5)
2021	\$124.6	\$12.3	\$33.2	\$248.8	\$0.0	\$994.4	(\$122.7)	\$871.7	(\$78.7)
2022	\$133.7	\$10.0	\$30.7	\$240.2	\$0.0	\$915.7	(\$107.6)	\$808.0	(\$65.8)
2023	\$147.3	\$7.9	\$28.8	\$233.9	\$0.0	\$849.5	(\$95.5)	\$754.0	(\$49.9)
2024	\$153.2	\$6.4	\$27.4	\$224.8	\$0.0	\$799.6	(\$85.6)	\$714.0	(\$37.8)
2025	\$161.5	\$5.2	\$26.4	\$219.4	\$0.0	\$761.8	(\$77.7)	\$684.1	(\$26.4)
<u>Chapter 30 & 33 Kickers</u>									
2014	\$0.0	\$20.9	\$23.4	\$140.1	(\$0.4)	\$771.5	\$203.5	\$975.0	(\$96.2)
2015	\$0.0	\$27.5	\$21.2	\$113.4	\$0.0	\$675.2	\$189.3	\$864.5	(\$64.6)
2016	\$0.0	\$33.5	\$19.3	\$108.9	\$0.0	\$610.6	\$167.0	\$777.7	(\$56.1)
2017	\$0.0	\$27.2	\$17.4	\$101.8	\$0.0	\$554.5	\$137.9	\$692.4	(\$57.1)
2018	\$0.0	\$22.1	\$15.5	\$93.2	\$0.0	\$497.3	\$114.2	\$611.5	(\$55.6)
2019	\$0.0	\$18.0	\$13.7	\$85.3	\$0.0	\$441.8	\$94.9	\$536.6	(\$53.6)
2020	\$0.0	\$14.7	\$12.0	\$77.3	\$0.0	\$388.2	\$79.2	\$467.4	(\$50.7)
2021	\$0.0	\$11.9	\$10.4	\$68.9	\$0.0	\$337.5	\$66.4	\$403.9	(\$46.6)
2022	\$0.0	\$9.7	\$8.9	\$60.5	\$0.0	\$290.9	\$56.0	\$346.9	(\$41.8)
2023	\$0.0	\$7.9	\$7.7	\$52.1	\$0.0	\$249.0	\$47.6	\$296.6	(\$36.6)
2024	\$0.0	\$6.4	\$6.7	\$39.8	\$0.0	\$212.5	\$40.7	\$253.1	(\$26.7)
2025	\$0.0	\$5.2	\$6.0	\$31.9	\$0.0	\$185.8	\$35.1	\$220.9	(\$20.7)
<u>Chapter 1606 Basic and Kicker Benefits</u>									
2014	\$32.0	\$0.0	\$26.4	\$150.1	(\$29.8)	\$834.2	(\$530.9)	\$303.3	(\$121.5)
2015	\$31.5	\$0.0	\$23.7	\$113.3	\$0.0	\$712.7	(\$427.6)	\$285.1	(\$58.1)
2016	\$29.0	\$0.0	\$21.7	\$111.1	\$0.0	\$654.6	(\$380.8)	\$273.9	(\$60.4)
2017	\$80.6	\$0.0	\$20.4	\$118.0	\$0.0	\$594.3	(\$309.8)	\$284.5	(\$17.1)
2018	\$92.3	\$0.0	\$20.4	\$132.0	\$0.0	\$577.2	(\$254.0)	\$323.2	(\$19.2)
2019	\$104.1	\$0.0	\$19.7	\$143.9	\$0.0	\$558.0	(\$208.3)	\$349.8	(\$20.2)
2020	\$111.8	\$0.0	\$18.9	\$151.9	\$0.0	\$537.8	(\$170.6)	\$367.2	(\$21.2)
2021	\$119.0	\$0.0	\$18.2	\$156.3	\$0.0	\$516.7	(\$139.8)	\$376.8	(\$19.2)
2022	\$128.8	\$0.0	\$17.6	\$159.9	\$0.0	\$497.4	(\$114.6)	\$382.9	(\$13.5)
2023	\$143.1	\$0.0	\$17.2	\$164.3	\$0.0	\$483.9	(\$93.9)	\$390.1	(\$4.0)
2024	\$149.6	\$0.0	\$17.1	\$169.2	\$0.0	\$480.0	(\$76.9)	\$403.1	(\$2.5)
2025	\$158.4	\$0.0	\$17.1	\$174.2	\$0.0	\$477.5	(\$63.0)	\$414.5	\$1.3

APPENDIX F – PROJECTIONS (Cont.)¹

(Dollar Amounts in Millions)

	<u>Per</u>					<u>BOY</u>	<u>BOY</u>	<u>BOY</u>	<u>Net</u>
<u>FY</u>	<u>Capitas</u>	<u>Amorts</u>	<u>Interest</u>	<u>Benefits</u>	<u>Transfers</u>	<u>Fund</u>	<u>UFL</u>	<u>Liab</u>	<u>Cash</u>
									<u>Flow</u>
<u>Chapter 1607 Basic Benefits</u>									
2014	\$0.0	\$0.0	\$11.1	\$58.3	\$29.8	\$314.0	(\$69.1)	\$244.9	(\$17.5)
2015	\$0.8	\$0.0	\$9.6	\$49.9	\$0.0	\$296.5	(\$80.1)	\$216.4	(\$39.4)
2016	\$12.0	\$0.0	\$8.5	\$44.9	\$0.0	\$257.1	(\$62.0)	\$195.1	(\$24.4)
2017	\$10.3	\$0.0	\$7.6	\$44.7	\$0.0	\$232.6	(\$58.0)	\$174.7	(\$26.8)
2018	\$8.9	\$0.0	\$6.7	\$44.2	\$0.0	\$205.9	(\$54.9)	\$151.0	(\$28.7)
2019	\$7.7	\$0.0	\$5.8	\$33.7	\$0.0	\$177.2	(\$52.6)	\$124.6	(\$20.2)
2020	\$6.6	\$0.0	\$5.2	\$28.4	\$0.0	\$157.0	(\$51.0)	\$106.0	(\$16.7)
2021	\$5.7	\$0.0	\$4.6	\$23.2	\$0.0	\$140.3	(\$50.0)	\$90.3	(\$12.9)
2022	\$4.9	\$0.0	\$4.2	\$19.9	\$0.0	\$127.4	(\$49.4)	\$78.0	(\$10.8)
2023	\$4.2	\$0.0	\$3.9	\$17.5	\$0.0	\$116.6	(\$49.2)	\$67.4	(\$9.4)
2024	\$3.6	\$0.0	\$3.6	\$15.8	\$0.0	\$107.2	(\$49.4)	\$57.8	(\$8.6)
2025	\$3.1	\$0.0	\$3.3	\$13.3	\$0.0	\$98.6	(\$49.8)	\$48.8	(\$6.9)
<u>Cat III Benefits</u>									
2014	\$0.0	\$0.6	(\$0.0)	\$0.7	\$0.4	(\$0.0)	\$4.3	\$4.3	\$0.3
2015	\$0.0	\$0.7	(\$0.0)	\$0.6	\$0.0	\$0.0	\$3.4	\$3.4	\$0.1
2016	\$0.0	\$0.6	(\$0.0)	\$0.5	\$0.0	\$0.0	\$2.8	\$2.8	\$0.1
2017	\$0.0	\$0.5	(\$0.0)	\$0.5	\$0.0	\$0.0	\$2.3	\$2.3	\$0.1
2018	\$0.0	\$0.5	(\$0.0)	\$0.4	\$0.0	\$0.0	\$1.8	\$1.8	\$0.1
2019	\$0.0	\$0.4	(\$0.0)	\$0.4	\$0.0	\$0.0	\$1.4	\$1.4	\$0.0
2020	\$0.0	\$0.4	(\$0.0)	\$0.3	\$0.0	\$0.0	\$1.0	\$1.0	\$0.0
2021	\$0.0	\$0.3	(\$0.0)	\$0.3	\$0.0	\$0.0	\$0.6	\$0.6	\$0.0
2022	\$0.0	\$0.3	\$0.0	\$0.0	\$0.0	\$0.0	\$0.3	\$0.3	\$0.3
2023	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
2024	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
2025	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0

¹These projections rely on input, such as new entrant estimates, which are provided to OACT by the DoD Comptroller and Reserve Affairs. If new entrant estimates change, so will these projections.

APPENDIX G – SFFAS ACCOUNTING STATEMENT

(\$ in thousands)

EBF CFO Statement for 9/30/2014

Total

Beginning Actuarial Liability 9/30/2013	\$1,369,315
Normal Cost	\$142,610
Interest Cost	\$46,109
Plan Amendments	\$0
Experience Losses (Gains)	\$(59,771)
<u>Other Factors</u>	<u>\$(1)</u>
Subtotal: Expenses Before Losses (Gains) From Assumption Changes	\$128,947
Actuarial Losses (Gains) Due To:	
Changes in trend assumptions	\$0
<u>Changes in Assumptions Other Than Trend</u>	<u>\$151,970</u>
Subtotal: Losses (Gains) From Assumption Changes	\$151,970
Total Expenses	\$280,917
Less Benefit Outlays	\$(282,691)
Total Change in Actuarial Liability	\$(1,774)
Ending Actuarial Liability 9/30/2014	\$1,367,541

For Education Benefits Fund liabilities, OACT performs an annual valuation that is governed by Sec 2006 of Title 10, United States Code, and uses methods and assumptions approved by the DoD Board of Actuaries. Prior to FY 2010, OACT used Board-approved methods and assumptions to calculate liabilities for financial statement purposes, although timing differences led to differences between Board and financial statement numbers.

A separate financial statement valuation (i.e., with different assumptions) may be necessary to satisfy a financial statement regulation called the Statement of Federal Financial Accounting Standards 33 (SFFAS 33) because SFFAS 33 requires the use of a yield curve whereas the Board valuation uses a single average discount rate. (The terms ‘interest rate’ and ‘discount rate’ are often used interchangeably in this context.)

APPENDIX G – SFFAS ACCOUNTING STATEMENT (Cont.)

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. In previous years, OACT used the latest quarterly zero coupon Treasury spot rates (a series originally published by the Office of Thrift Supervision and later published by Department of Treasury-Office of Economic Policy). This year, OACT used the U.S. Department of the Treasury-Office of Economic Policy's 10-Year Average Yield Curve for Treasury Nominal Coupon Issues (TNC yield curve) representing average rates from April 1, 2004, through March 31, 2014. These quarterly rates are equivalent (in terms of producing the same EBF AL) to the SFFAS single equivalent rate of 3.31%. This compares to the Board valuation single average discount rate of 3.50%.

SFFAS 33 permits the use of a single average discount rate if the resulting present value is not materially different from what would be obtained using the yield curve. Increasing the single average discount rate from the SFFAS single equivalent rate of 3.31% to 3.50% decreases the EBF actuarial liabilities by 1.0%. As this difference is not material, the Board valuation single average discount rate of 3.50% will be used for 9/30/2014 financial statement purposes.

For 9/30/2014 financial statement purposes, SFFAS 33 did not require OACT to change any other assumption beside the discount rate. OACT considered the minor adjustment to expected future inflation that would result from basing the assumption on the same period used to derive the yield curve, and that adjustment is reflected in the above materiality test. Therefore, for 9/30/2014 financial statement purposes, all economic assumptions will be consistent with the Board valuation.

APPENDIX H – GLOSSARY

Actuarial Liability

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

Amortization Payment

An annual payment of principal and interest on unfunded liability.

Basic Benefit

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

Benefit Usage Rates

The likelihood that a member will use an offered benefit.

Board

The Department of Defense Board of Actuaries.

Book Value

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

Closed Group

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

Component

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

Decrement

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

DoD

Department of Defense

DMDC

Defense Manpower Data Center

DFAS

Defense Finance and Accounting Service

APPENDIX H – GLOSSARY (cont.)

Fund

The Education Benefits Fund

Fund Balance

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

IADT

Initial active duty.

Inflation Rate

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

Interest Rate

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

Interest (or Investment Earnings)

The amount of money the Fund earns from securities.

Kicker Benefit

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

Member

A person eligible to participate in a Fund program.

MGIB-AD

Montgomery GI Bill benefits for Active Duty under Chapter 30 of Title 38, United States Code.

MGIB-SR

Montgomery GI Bill benefits for Selected Reserve under Chapter 1606 of Title 10, United States Code.

Normal Cost

The expected present value of liabilities for a new entrant.

OACT

The Department of Defense Office of the Actuary

Offset

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

APPENDIX H – GLOSSARY (cont.)

Pay-as-you-go

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

Per Capita Cost

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

Present Value of Benefits

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

REAP

Reserve Education Assistance Program benefits under Chapter 1607 of Title 10, United States Code.

Surplus

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

Time Value of Money

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

Transferability

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

Unfunded Liability

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

VEAP

Veteran's Educational Assistance Program

Withdrawal Rate

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