CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

October 16, 2003

S. 1132
Veterans' Benefits Enhancements Act of 2003

As ordered reported by the Senate Committee on Veterans' Affairs on September 30, 2003

SUMMARY

S. 1132 would affect several veterans programs, including housing, readjustment benefits, compensation, pensions, burial, and health care. CBO estimates that enacting this legislation would reduce direct spending for veterans programs by $46 million in 2004, increase direct spending by $2 million over the 2004-2008 period, and reduce direct spending by $7 million over the 2004-2013 period. In addition, CBO estimates that implementing S. 1132 would cost $129 million in 2004 and almost $1.4 billion over the 2004-2008 period, assuming appropriation of the necessary amounts.

S. 1132 contains no intergovernmental or private-sector mandates as defined by the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 1132 is shown in Table 1. This estimate assumes that the legislation will be enacted by the end of calendar year 2003. The costs of this legislation fall within budget functions 700 (veterans benefits and services), and 050 (national defense).

TABLE 1. ESTIMATED BUDGETARY IMPACT OF S. 1132 (By fiscal year, in millions of dollars)

	2004	2005	2006	2007	2008
CHANGES IN DIRECT SPENDING[a]					
Estimated Budget Authority	-46	*	18	22	7
Estimated Outlays	-46	*	18	22	7
CHANGES IN SPENDING SUBJECT TO APPROPRIATION[a]					
Estimated Authorization Level	130	300	312	325	334
Estimated Outlays	130	282	303	323	333

NOTE: * = Savings of less than $500,000.

a. Five-year costs in the text differ slightly from a summation of the annual costs listed here because of rounding.

BASIS OF ESTIMATE

S. 1132 would increase direct spending by $2 million over the next five years, and would cost about $1.4 billion in new discretionary spending, assuming appropriation of the necessary amounts.

Direct Spending—Summary

S. 1132 would affect direct spending in veterans' programs for housing, readjustment benefits, compensation, pensions, and burial. Table 2 summarizes those effects, and the individual provisions that would affect direct spending are described below. In total, CBO estimates that enacting this legislation would reduce direct spending for veterans programs by $46 million in 2004, increase direct spending by $2 million over the 2004-2008 period, and reduce direct spending by $7 million over the 2004-2013 period.

Direct Spending—Housing

Three sections of the bill would affect direct spending on veterans' housing programs. Together, CBO estimates that enacting these provisions would lower direct spending by $68 million in 2004, $257 million over the 2004-2008 period, and $480 million over the

2004-2013 period. (Higher savings would occur in 2004 than in later years because of lower interest rate assumptions for that year compared to those projected for the 2005-2013 period.) In preparing this estimate, CBO accounted for the interactions between the individual provisions; savings could be lower if only one or two of these provisions were enacted. Costs or savings for each individual provision, estimated as if they were enacted alone, are described below.

TABLE 2. ESTIMATED CHANGES IN DIRECT SPENDING UNDER S. 1132 (By fiscal year, outlays in millions of dollars)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
HOUSING										
Spending Under Current Law	567	552	535	547	560	572	588	601	917	938
Proposed Changes	-68	-54	-42	-45	-48	-50	-50	-53	-34	-36
Spending Under S. 1132	499	498	493	502	512	522	538	548	883	902
VETERANS' READJUSTMENT BENEFITS										
Spending Under Current Law	2,575	2,749	2,923	3,100	3,259	3,406	3,543	3,696	3,820	3,947
Proposed Changes	10	42	48	49	49	50	50	50	50	51
Spending Under S. 1132	2,585	2,791	2,971	3,149	3,308	3,456	3,593	3,746	3,870	3,998
COMPENSATION, PENSION, AND BURIAL BENEFITS[a]										
Spending Under Current Law	29,796	34,353	32,288	29,992	33,121	33,621	34,170	37,661	33,048	36,743
Proposed Changes	12	12	12	18	6	6	-3	-7	-9	-27
Spending Under S. 1132	29,808	34,365	32,300	30,010	33,127	33,627	34,167	37,654	33,039	36,716
Total Proposed Changes[a]	**-46**	*****	**18**	**22**	**7**	**6**	**-3**	**-10**	**7**	**-12**

NOTE: * = Savings of less than $500,000.

b. Five- and 10-year costs in the text differ slightly from a summation of the annual costs shown here because of rounding.

Reinstatement of Vendee Home Loan Program. Section 308 would reinstate the vendee home loan program which was discontinued by the Department of Veterans Affairs (VA) on January 31, 2003. Before that date, when a veteran defaulted on his mortgage and the home went into foreclosure, VA often acquired the property and issued a new direct loan when the property was sold. These loans are called vendee loans. CBO estimates that reinstating the program would save VA $357 million over the 2004-2013 period, or roughly $35 million a year. The bill also would require VA to finance between 50 percent and 85 percent of such sales through the vendee loan program. Before the program was terminated, VA financed roughly 60 percent of such sales with vendee financing and CBO estimates that it would continue to do so under the bill. The estimated savings for this provision is the net effect of three individual program effects (two with savings and one with costs), as explained below.

Based on historical data, CBO estimates that under the bill roughly 14,000 vendee loans would be made each year with an average loan amount of $98,000. Vendee loans lower the subsidy cost of the VA home loan program in two ways. First, VA receives more money for homes sold with vendee financing than those sold with other financing (16 percent more in 2002). Since the proceeds from these home sales are considered recoveries of losses from the guaranteed loans that were foreclosed, enacting this section would increase recoveries and therefore lower subsidy costs in the guaranteed loan portfolio. CBO estimates that VA would save an average of $68 million a year in guaranteed loan subsidies over the 2004-2013 period. Second, because vendee loans have lower prepayment and default rates than other direct loans made by VA, this provision also would lower subsidy costs for direct loans by an average of $28 million a year over the 2004-2013 period. Finally, before the program was terminated in 2003, VA sold most vendee loans on the secondary mortgage market and guaranteed their timely repayment; CBO estimates that it would continue to do so under the bill. Based on historical data, CBO estimates that VA would sell an average of $1.2 billion in vendee loans annually, at a subsidy cost of roughly $60 million a year.

Increases in Loan Fees. Section 307 would increase the fee charged for repeated use of the home loan benefit (when a veteran uses the benefit more than once) by 50 basis points for the 2005-2011 period. CBO estimates that this provision would reduce direct spending by $20 million in 2005 and $139 million over the 2005-2011 period.

Loans for Manufactured Homes and Lots. Under current law, VA has the authority to guarantee loans for the purchase of manufactured homes or for the purchase of lots for existing or new manufactured homes. Section 306 would terminate this authority on December 31, 2003. In the last five years, VA has guaranteed only one loan for a manufactured home at a subsidy cost of a few hundred dollars. CBO estimates this provision would reduce direct spending by less than $500,000 a year over the 2004-2013 period.

Direct Spending—Veterans' Readjustment Benefits

S. 1132 contains several provisions that would affect direct spending for education benefits for veterans and their survivors and dependents, and for other readjustment benefits (see

Table 3). Together these provisions would increase direct spending by about $10 million in 2004, $200 million over the 2004-2008 period, and $450 million over the 2004-2013 period.

TABLE 3. ESTIMATED CHANGES IN DIRECT SPENDING FOR VETERANS' READJUSTMENT BENEFITS UNDER S. 1132 (By fiscal year, outlays in millions of dollars)

Description of Provisions	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Survivors' and Dependents' Education Assistance	10	43	50	53	55	57	59	61	63	65
Education Cost-of-Living Adjustments	0	-1	-2	-4	-6	-7	-9	-11	-13	-14
Other Provisions	*	*	*	*	*	*	*	*	*	*
Total Changes in Veterans' Readjustment Benefits	10	42	48	49	49	50	50	50	50	51

NOTE: * = Less than $500,000.

Survivors' and Dependents' Education Assistance. Effective July 1, 2004, section 104 would increase the survivors' and dependents' education benefit to $788 a month, an increase of 13 percent over the current rate. Based on our analysis of the effects of previous benefit increases, CBO assumes this hike in the benefit level would increase the number of beneficiaries from an average of 53,000 a year over the 2004-2013 period to 54,000, and would enable more of these students to attend school full time rather than part time. CBO estimates enacting this provision would increase direct spending for readjustment benefits by $10 million in 2004, $211 million over the 2004-2008 period, and $516 million over the 2004-2013 period.

Education Cost-of-Living Adjustments (COLA). Section 304 would reduce outlays for education benefits by changing the method for calculating the monthly stipends paid under the Montgomery GI Bill and Survivors' and Dependents' Education Assistance programs. Under current law, the benefit amounts are rounded to the nearest dollar. Under section 304, after calculating the annual COLA increase, the monthly rates would each be rounded down to the next lower whole dollar. There would be no savings in 2004, as the benefit rates for this year have already been set. Based on our projections of the number of beneficiaries and the number of payments made each year, CBO estimates that enacting this section would result in direct spending savings of $13 million over the 2005-2008 period and $67 million over the 2005-2013 period.

Other Provisions. The following provisions would have an insignificant budgetary impact on direct spending for readjustment benefits:

- Section 103 would extend the period of eligibility for survivors and dependents education benefits for those members of the National Guard who are ordered involuntarily to full-time National Guard duty under section 502(f) of Title 32 of the U.S. Code. This expanded eligibility would be retroactive to September 11, 2001. Based on information from VA and Department of Defense (DoD), CBO estimates that very few National Guard members would be affected by this change and that the cost would be less than $500,000 over the 2004-2013 period.

- Section 305 would repeal the Education Loan Program and forgive any remaining debts owed to the fund. No loans have been made through this fund in 10 years and the currently outstanding debt is about $100,000. Forgiving the remaining debt would constitute a loan modification, which would increase direct spending by less than $100,000 (in fiscal year 2004, the assumed year of enactment).

Direct Spending—Compensation, Pensions, and Burial Benefits

Several sections of the bill would affect spending for veterans' disability compensation, pensions, and burial benefits (see Table 4). Some provisions affecting burial benefits or disability compensation would increase direct spending while other provisions would reduce such spending. On balance, CBO estimates that enacting those provisions would increase direct spending by $12 million in 2004, $61 million over the 2004-2008 period, and $24 million over the 2004-2013 period.

Extension of Provision to Round-Down COLA. Section 301 would extend through 2013 a provision of law that requires the increased monthly rates due to the COLA to be rounded down to the next lower whole dollar. This provision of law applies to both disability compensation and dependency and indemnity compensation payments. These provisions are currently due to expire at the end of 2011. Based on projections of the number of beneficiaries and number of payments made each year, CBO estimates that this section would result in direct spending savings of $50 million over the 2012-2013 period.

Disability Benefits for Filipino Veterans. Section 321 would expand benefits for Filipino veterans who served in the Philippine Commonwealth Army and the New Philippine Scouts, and their survivors. In sum, CBO estimates that enacting section 321 would cost $4 million in 2004, $20 million over the 2004-2008 period, and $44 million over the 2004-2013 period.

Dependency and Indemnity Compensation (DIC). Under current law, surviving spouses and dependents of Filipino veterans who served in the Philippine Commonwealth Army or the New Philippine Scouts during World War II and live in the United States are eligible to receive half the amount of the DIC payment that survivors of veterans of the U.S. armed forces receive. Section 321 of the bill would require that these survivors be paid at the full DIC rate.

TABLE 4. ESTIMATED CHANGES IN DIRECT SPENDING FOR VETERANS' COMPENSATION, PENSIONS, AND BURIAL BENEFITS UNDER S. 1132 (By fiscal year, outlays in millions of dollars)

Description of Provisions	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Extension of Provision to Round Down Cost-of-Living Adjustments	0	0	0	0	0	0	0	0	-16	-34
Disability Benefits for Filipino Veterans	4	4	4	4	4	4	5	5	5	5
Extension of Income Verification	0	0	0	0	0	-5	-10	-14	0	0
Alternate Beneficiaries	0	0	0	11	1	6	1	1	1	1
Markers for Privately Marked Graves	7	7	7	2	0	0	0	0	0	0
Repeal of Limitation on Payments of Accrued Benefits	1	1	1	1	1	1	1	1	1	1
Burial Plot Allowance	*	*	*	*	*	*	*	*	*	*
Spina Bifida Benefits	*	*	*	*	*	*	*	*	*	*
Disability Benefits for Former Prisoners of War	*	*	*	*	*	*	*	*	*	*
Total Changes in Compensation, Pensions, and Burial Benefits[a]	12	12	12	18	6	6	-3	-7	-9	-27

NOTE: * = Less than $500,000.

a. Five- and 10-year costs in the text differ slightly from a summation of the annual costs shown here because of rounding.

Based on information provided by VA, CBO estimates that about 420 survivors of Filipino veterans who served in the Philippine Commonwealth Army or the New Philippine Scouts currently receive DIC payments at the 50 percent rate and that about 120 additional survivors would become eligible for these payments over the 2004-2013 period. CBO assumes that the survivors of these Filipino veterans received about half of the average DIC payment in fiscal year 2002. (The average DIC payment in fiscal year 2002 was $12,244.) After adjusting for cost-of-living increases, CBO estimates that, under the bill, the average DIC payment to these survivors would be $15,157 for 2004, an increase of $7,578. After accounting for the expected mortality of these veterans and their eligible survivors, CBO estimates that enacting this provision would raise direct spending for DIC by about $3 million in 2004, $18 million over the 2004-2008 period, and about $40 million over the 2004-2013 period.

Disability Compensation Benefits. Under current law, former New Philippine Scouts residing in the United States are eligible to receive half the amount of disability compensation currently available to veterans of the U.S. armed forces. Section 321 would increase disability compensation for these veterans to the full rate. Based on information provided by VA, CBO estimates that there are currently about 100 former New Philippine Scouts residing in the United States today. In fiscal year 2002, the average disability compensation payment was $7,334. CBO assumes that eligible former New Philippine Scouts received about half that amount. After adjusting for cost-of-living increases, CBO estimates that the average disability compensation payment to these veterans would total $8,531 for fiscal year 2004, an increase of $4,265 from what they would receive under current law. After accounting for expected mortality rates, CBO estimates that enacting this provision would increase direct spending for veterans' disability compensation by less than $500,000 in 2004, about $2 million over the 2004-2008 period, and about $3 million over the 2004-2013 period.

Extension of Income Verification. Section 312 would extend authorities under current law that allow VA to acquire information on income reported to the Internal Revenue Service (IRS) to verify income reported by recipients of VA pension benefits. The authorization allowing the IRS to provide income information to VA is scheduled to expire on September 30, 2008, and the authorization allowing VA to acquire the information is also scheduled to expire on that date. Section 312 would extend these authorities through September 30, 2011, for both the IRS and VA.

According to VA, the department saved approximately $4 million in pension benefit overpayments from verifying veterans' incomes in 2002 and an average of $5 million over the 1997-2002 period. Using that information, CBO estimates that enacting section 312 would result in direct spending savings of $29 million over the 2009-2011 period.

Alternate Beneficiaries. Section 102 would allow payments of proceeds to alternate beneficiaries of certain VA life insurance policies. U.S. Government Life Insurance (USGLI) and National Service Life Insurance (NSLI) are programs that were established during World War I and World War II to provide life insurance coverage to servicemembers, many of whom could not afford the high premiums associated with commercial policies. Under current law, there is no time limitation within which a named beneficiary is required to file a claim. Because these policies are old, VA sometimes has great difficulty finding the individuals to whom the proceeds should be paid. Moreover, an alternate beneficiary cannot be paid unless VA determines that the principal beneficiary died before the policyholder. VA is required to hold the unclaimed funds indefinitely as a liability to honor any possible future claims.

Section 102 would allow VA to pay USGLI or NSLI proceeds to a named alternate beneficiary if the principal beneficiary has not made a claim within two years after the death of the policyholder or October 1, 2004, whichever is later. If no claim has been made by any named beneficiary within four years of the policyholder's death or bill enactment, the Secretary may pay the proceeds to any person deemed entitled to the funds.

VA estimates there are currently about 4,000 policies with no locatable primary beneficiary. VA also predicts that an additional 200 policies will require settlement each year where the primary beneficiaries cannot be found. According to VA, the current policies have an average face value of $5,750 and new policies would have an average face value of $9,600. CBO assumes that VA will be able to find another beneficiary for two-thirds of the policies and that two-thirds of these will be paid after two years with the other third paid after four years. CBO estimates the cost of section 102 would be $11 million in 2007, $12 million over the 2007-2008 period, and $22 million over the 2007-2013 period. (CBO also estimates that implementing this section would increase spending subject to appropriation by less than $100,000 a year over the 2004-2008 period, assuming appropriation of the estimated amounts. CBO's estimate of those costs is discussed below under the heading of "Spending Subject to Appropriation.")

Markers for Privately Marked Graves. Under current law, veterans buried in a private cemetery may receive a second commemorative headstone or marker from VA if the veteran died on or after September 11, 2001. Veterans buried in national or state veterans' cemeteries automatically receive a commemorative headstone or marker. Under current law, this provision would expire on December 31, 2006. Section 204 would allow veterans who died on or after November 1, 1990, and are buried in a private cemetery, to receive a second commemorative headstone or marker from VA.

Based on data from VA regarding the number of veterans who died between November 1, 1990, and September 11, 2001 (about 6.4 million veterans), and the estimated number of veterans who receive casket burials (almost 67 percent), CBO estimates that about 230,000 requests for markers would be made over the next five years. The estimate reflects information from a VA study that showed only 27 percent of private cemeteries allow second markers and an assumption that only 20 percent of those eligible would request a marker. With an average cost of about $100 for each marker, CBO estimates that this provision would increase direct spending for burial benefits by $7 million in 2004 and $23 million over the 2004-2007 period.

Repeal of Limitation on Payment of Accrued Benefits. Under current law, when an individual applies for benefits administered by VA, any benefits that are awarded are paid retroactive to the date of application. If the applicant dies before receiving his or her retroactive benefits, certain survivors can apply to receive up to two years' worth of the unpaid benefits. VA refers to these benefits that are due but unpaid to deceased applicants as "accrued benefits."

Before December 2002, VA applied the two-year limit on accrued benefits to all cases in which the applicant died before receiving payment. On December 10, 2002, the United States Court of Appeals for Veterans Claims (CAVC) decided in *Bonny v. Principi* that the two-year limit applies differently to the following two groups:

- Applicants who die before VA makes the final decision on the application, and

- Applicants who die after VA makes the final decision on the application but before receiving payment.

CAVC ruled that if the applicant dies before receiving payment but after VA approves the claim, eligible survivors should receive the entire amount of the award due to the applicant. Survivors of applicants who die during the processing of the claim but before VA makes a final decision, however, are eligible for only two years of accrued benefits.

Section 105 would add surviving parents of children with spina bifida who claimed benefits according to definitions set forth in chapter 18 of Title 38, to the list of eligible survivors and would eliminate the two-year limit on accrued benefits for all eligible survivors, regardless of whether VA has made a final decision on the claim. Based on information provided by VA, CBO estimates that VA awards accrued benefits payments to about 3,700 survivors a year and that, under current law (reflecting the *Bonny* decision), about 18 percent or 670 of these cases would be paid the full amount. Based on information provided by VA, CBO estimates that no more than 10 percent of the roughly 3,000 remaining accrued benefits payments would reflect more than two years of unpaid benefits.

VA only tracks data on the number of claims processed for accrued benefits payments and is unable to identify the number of claims it approves, the type of benefit approved, or the amount of the average payment. Absent this information, CBO assumes that all accrued benefits payments would be for veterans disability compensation because the majority of applications for VA benefits are for such payments. We also assume that all accrued benefits would be paid at an average disability rating of 30 percent, consistent with average benefit payments for new compensation cases, and that, on average, each of these 300 cases would receive an extra six months worth of payments.

According to data provided by VA, in 2002 the average annual compensation payment for a disability rating of 30 percent was $4,092. Such payments are adjusted annually for increases in the cost of living. Thus, CBO estimates that enacting section 105 would increase direct spending by about $1 million in 2004, $3 million over the 2004-2008 period, and $7 million over the 2004-2013 period.

Burial Plot Allowance. Section 201 would extend eligibility for up to a $300 dollar burial plot allowance to veterans who are buried in state-owned cemeteries and served in the military during peacetime and veterans who were discharged from active military, naval, or air service for a service-connected disability. Under current law, veterans are eligible for this benefit if the veteran:

- dies in a VA facility,
- is eligible for compensation or pension payments when he or she dies,
- was discharged from active duty for an injury incurred or aggravated on duty,
- has no reachable next of kin or resources to provide for burial, or
- is a veteran of any war.

According to VA, the department paid a burial plot allowance for about 11,000 veterans who were buried in state-owned cemeteries in 2002. Using information from VA on the projected number of veteran deaths over the 2004-2013 period and the number of veterans buried in state-owned cemeteries who did not qualify of this benefit under current law, CBO estimates that an additional 1, 400 veterans on average would qualify for the benefit under section 201. Thus, CBO estimates that enacting this section would increase in direct spending by less than $500,000 in 2004, about $2 million over the 2004-2008 period, and about $4 million over the 2004-2013 period.

Spina Bifida Benefits. Exposure to certain herbicides used by DoD during the Vietnam War from 1962 to 1971 has been associated with a range of diseases from cancer to birth defects. Under current law, children with spina bifida who were born to veterans of the Vietnam War are entitled to monetary allowances, vocational rehabilitation benefits, and medical benefits administered by VA. Section 101 would expand eligibility for these benefits to children with spina bifida who were born to veterans who served in the demilitarized zone (DMZ) in the Republic of Korea between January 1, 1967, and December 31, 1969.

According to DoD, herbicides were used in the DMZ in Korea in those years. DoD estimates that up to 78,000 veterans may have served in the demilitarized zone during that time period, but that the number of veterans exposed could be much lower.

According to VA, under current law the department provides benefits to about 1,100 children born to Vietnam veterans out of a total of about 3.1 million veterans who served within the borders of Vietnam. In 2002, the costs of benefits provided by VA to children with spina bifida born to Vietnam veterans ranged, depending on the severity of the disease, from $2,736 to $16,248 a year per child for disability compensation and, on average, about $11,300 a year per child for medical benefits.

Based on VA's experience with benefits for children with spina bifida born to Vietnam veterans, CBO estimates that less than 15 children with spina bifida born to veterans who served in the DMZ between January 1, 1967, and December 31, 1969, would begin to receive benefits under section 101. CBO estimates that the increase in direct spending resulting from enacting section 101 would be less than $200,000 in 2004, about $1 million over the 2004-2008 period, and about $2 million over the 2004-2013 period. (CBO estimates that implementing this section also would increase spending subject to appropriation by about $1 million over the 2004-2008 period, assuming appropriation of the estimated amounts. CBO's estimate of those costs is discussed below under the heading of "Spending Subject to Appropriation.")

Disability Benefits for Former Prisoners of War (POWs). Under current law, VA generally deems a disability or disease to be service-connected for the purposes of disability compensation based on military medical records and physical examinations. Prior to July 18, 2003, for former POWs who were held captive for 30 days or more, VA followed a list of 15 diseases and disabilities that the department assumed were service-connected. Military medical records do not cover periods of captivity and may not provide adequate documentation for eligibility for disability compensation benefits. On July 18, 2003, VA issued a regulation amending Part 3 of Title 38 of the Code of Federal Regulations to include cirrhosis of the liver to the list of diseases for which entitlement to service-connection is presumed for former POWs.

Section 302 also would add cirrhosis of the liver to the list of presumed service-connected disabilities for former POWs who were held captive for 30 days or more. Since the regulation has already taken effect, this portion of the provision would have no cost.

Section 302 also would eliminate the requirement that a POW be held prisoner for 30 days or more to qualify for presumed service-connection for five of the 16 presumed service-connected disabilities included under current law—specifically, psychosis, any of the anxiety states, dysthymic disorder (or depressive neurosis), organic residuals of frostbite, and post-traumatic osteoarthritis. Based on information provided by VA, CBO estimates that of the 39,000 living former POWs, no more than 400 were held captive for less than 30 days. About 70 percent, or around 280, of these former POWs are already receiving disability compensation based on their eligibility as a veteran. Due to the small number of former POWs who would become eligible for the new benefit and the fact that many are already receiving disability compensation, CBO estimates that the increase in direct spending from eliminating the 30-day requirement for these five disabilities would be less than $100,000 a year over the 2004-2013 period.

Clarification of Notice of Disagreement. Section 314 would clarify that a notice of disagreement for appellate review of VA activities must be filed within one year of when VA mailed the notification of the results of its initial review or determination to the veteran and must satisfy two requirements—the notice must be in writing and filed with the agency of original jurisdiction; and the notice must be filed by the claimant, the claimant's legal guardian, or legal representative. CBO cannot estimate the savings associated with enacting this provision because we have no basis on which to predict the number of veterans that might become ineligible to file for appellate review under this provision.

Other Provisions Affecting Spending for Compensation, Pension, and Burial Benefits. The following provisions would have an insignificant budgetary impact on direct spending for compensation, pension, and burial benefits:

- Section 310 would allow VA to close claims after a year if the veteran had not cooperated in providing needed information to continue a claim after being given notification by VA of incomplete or missing information. This provision would be effective as if enacted on November 9, 2000. CBO estimates that any savings in direct spending that would result from closing claims early would be insignificant.

- Under current law, a veteran who commits certain criminal acts loses eligibility for veterans' benefits that he or she would otherwise be due. Section 313 would include additional criminal acts to the list of crimes that would cause a veteran to lose eligibility for veterans' benefits—specifically, criminal acts involving chemical, biological, or nuclear weapons, genocide, and the murder of U.S. citizens outside of the United States. CBO estimates that any savings in direct spending that would result from not paying veterans who commit these crimes would be insignificant.

- Under current law, veterans who die of service-connected disabilities are eligible for a $2,000 burial benefit. Veterans who receive compensation or pension benefits but die of a nonservice-connected condition are eligible for a $300 burial and funeral expenses benefit and another $300 allowance if the veteran is not interred in a cemetery that is under U.S. government jurisdiction. Veterans of the New Philippine Scouts are currently eligible for half of the burial benefit amounts provided to veterans of the U. S. armed forces. Under section 322, veterans of the New Philippine Scouts would receive burial and plot allowances at the full rate if they are naturalized U.S. citizens living in the United States. Based on information provided by VA, CBO estimates that only a handful of these veterans would become eligible for the increase in burial benefits each year. Thus, CBO estimates that enacting section 322 would have no significant effect on direct spending over the 2004-2013 period.

Spending Subject to Appropriation

Table 5 shows the estimated effects of S. 1132 on discretionary spending for veterans' programs. CBO estimates that implementing S. 1132 would increase discretionary spending for veterans benefits by $130 million in 2004 and almost $1.4 billion over the 2004-2008 period, assuming appropriation of the necessary amounts.

TABLE 5. ESTIMATED CHANGES IN SPENDING SUBJECT TO APPROPRIATION UNDER S. 1132
(By fiscal year, in millions of dollars)

Description of Provisions	2004	2005	2006	2007	2008
Examinations by Contract Physicians					
Estimated Authorization Level	125	261	272	284	296
Estimated Outlays	125	261	272	284	296
State Cemetery Grants					
Estimated Authorization Level	0	33	34	35	35
Estimated Outlays	0	15	25	33	34
Regional Office in Manila, Philippines					
Estimated Authorization Level	3	4	4	4	1
Estimated Outlays	3	4	4	4	1
Spina Bifida Benefits					
Estimated Authorization Level	*	*	*	*	*
Estimated Outlays	*	*	*	*	*
Other Provisions					
Estimated Authorization Level	1	1	1	1	1
Estimated Outlays	1	1	1	1	1
Total Changes [a]					
Estimated Authorization Level	130	300	312	325	334
Estimated Outlays	130	282	303	323	333

a. Five-year costs in the text differ slightly from a summation of the annual costs shown here because of rounding.

Note: * = Less than $500,000.

Examinations by Contract Physicians. Section 342 would temporarily allow VA to contract with non-VA physicians to conduct examinations to determine the medical disabilities of veterans applying for compensation benefits. The authority would expire on December 31, 2009. Under current law, VA has the authority to contract with non-VA physicians to conduct these examinations at 10 benefit centers and VA expects to spend about $50 million in 2003 for these examinations. The spending under current law for those examinations is considered direct spending.

Under the bill, VA would be allowed to contract with non-VA physicians for these exams at all of the 47 remaining centers, but all spending for these new contracts would be subject to appropriation. CBO assumes that the average cost for the new centers would be similar to the average cost for the 10 centers that currently contract with non-VA physicians. Assuming that the new contracts take effect in April 2004, CBO estimates that implementing this proposal would cost about $125 million in 2004 and $1.2 billion over the 2004-2008 period, assuming appropriation of the estimated amounts. If VA were to use non-VA physicians to conduct exams to determine the degree of disability in veterans seeking compensation benefits, VA physicians would be able to treat more veterans seeking medical care at VA facilities. Thus, CBO does not expect that using non-VA physicians to conduct those exams would result in any discretionary savings.

State Cemetery Grants. Current law authorizes VA to make grants to build and improve state veterans' cemeteries through fiscal year 2004. Section 203 would extend this authority indefinitely. CBO estimates that implementing this section would cost $107 million over the 2005-2008 period, assuming appropriation of the necessary amounts.

Regional Office in Manila, Philippines. Section 323 would authorize VA to maintain the regional office located in Manila, through December 31, 2008. Under current law, the authorization for this regional office will expire on December 31, 2003. Based on information provided by VA, CBO estimates that implementing section 323 would cost $3 million in 2004 and $16 million over the 2004-2008, assuming appropriation of the necessary amounts.

Spina Bifida Benefits. Under current law, children with spina bifida who were born to veterans of the Vietnam War are entitled to medical benefits administered by VA. Section 101 would expand eligibility for these benefits to children with spina bifida who were born to veterans who served in the demilitarized zone in the Republic of Korea between January 1, 1967, and December 31, 1969. Based on VA's experience with benefits for children with spina bifida born to Vietnam veterans, CBO estimates that less than 15 children with spina bifida would begin to receive benefits under section 101. According to VA, the average annual cost for providing medical benefits to these children was about $11,300 per child in 2002. Assuming appropriation of the estimated amounts, CBO estimates that implementing section 101 would cost less than $200,000 in 2004 and about $1 million over the 2004-2008 period.

Other Provisions. Other provisions in the bill would have an insignificant impact on discretionary spending. Taken together, CBO estimates that implementing all of them would cost about $1 million a year over the 2004-2008 period, subject to the availability of appropriated funds.

- Section 102 would allow payments of proceeds to alternate beneficiaries of certain VA life insurance policies. Under current law, there is no time limitation within which a named beneficiary is required to file a claim. Because these policies are old, VA sometimes has great difficulty finding the individuals to whom the proceeds should be paid. Moreover, an alternate beneficiary cannot be paid unless VA determines that the principal beneficiary died before the policyholder. VA is required to hold the unclaimed funds indefinitely as a liability to honor any possible future claims. Based on data provided by VA, CBO estimates that VA would need to hire two additional employees to handle the larger caseload associated with paying claims to alternate beneficiaries of these insurance policy proceeds. Since the surplus from the insurance trust funds would cover almost all of the costs of new hires, CBO estimates this provision would cost less than $10,000 a year.

- Under current law, surviving spouses of veterans lose eligibility for burial in a national cemetery if they remarry. Surviving spouses can only regain eligibility if the subsequent remarriage ends in death of the subsequent spouse or divorce. Section 202 would change the eligibility requirements for surviving spouses so that remarriage would not affect their eligibility for burial in a national cemetery. This provision would apply to deaths occurring on or after the date of enactment of this act. CBO estimates that the potential increase in costs resulting from an increased number of burials in national cemeteries would be insignificant.

- Section 303 would allow all former prisoners of war to receive free dental care from VA regardless of the length of their internment. Under current law, only those prisoners of war who were interned or detained for 90 days or more are eligible for free dental care from VA. Using data from VA and DoD, CBO estimates that in 2004 there will be about 36,000 former prisoners of war and of those about 5,000 were interned for less than 90 days. Many of those former prisoners of war are already eligible for dental care because of their service-connected disabilities. Accounting for those veterans, and based on the number of former prisoners of war who currently receive dental care from VA, CBO estimates that about 1,000 former prisoners of war would receive dental care from VA under this provision. Based on information from VA about the cost of providing dental care, CBO estimates that implementing this provision would cost less than $500,000 in 2004 and would total about $1 million over the 2004-2008 period, assuming appropriation of the estimated amounts.

- U.S. veterans are eligible for burial in a national cemetery if they were discharged or separated from active duty under conditions other than dishonorable. Members of the armed forces who die on active duty and spouses and minor children of veterans are also eligible. Section 322 would extend this eligibility to veterans of the New Philippine Scouts and their dependents. Based on information provided by VA, CBO estimates that only a handful of these veterans and their dependents would request burial in a national cemetery each year. Thus, CBO estimates that this new eligibility would not lead to a significant increase in the number of burials in national cemeteries.

- Section 333 would require both VA and DoD to make available $250,000 in each fiscal year through 2013 to the National Academy of Sciences for the purposes of epidemiological research on members of the Armed Forces and veterans. CBO estimates that implementing this provision would cost $500,000 in 2004 and $2.5 million over the 2004-2008 period, assuming appropriation of the authorized amounts.

- Section 341 would modify the charter of the Advisory Committee on Minority Veterans so that the committee would continue to operate until December 31, 2007. Under current law, the committee would cease to exist after December 31, 2003. Based on information from the General Services Administration's Federal Advisory Committee Database, CBO estimates that implementing this provision would cost about $120,000 a year over the 2004-2008 period, assuming the availability of appropriated funds.

- Section 342 would modify the charter of the Veterans' Advisory Committee on Education so that the committee would continue to operate until December 31, 2013. Based on information from the General Services Administration's Federal Advisory Committee Database, CBO estimates that implementing this provision would cost less than $100,000 a year over the 2004-2013 period, assuming the availability of appropriated funds.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

S. 1132 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

PREVIOUS CBO ESTIMATES

On July 14, 2003, CBO transmitted a cost estimate for H.R. 2297, the Veterans Benefits Act of 2003, as ordered reported by the House Committee on Veterans' Affairs on June 26, 2003.

Several sections of S. 1132 are similar or identical to sections of H.R. 2297 and would have similar costs.

On May 19, 2003, CBO transmitted a cost estimate for H.R. 1460, the Veterans Entrepreneurship and Benefits Improvement Act of 2003, as ordered reported by the House Committee on Veterans' Affairs on May 15, 2003. Section 308 of S. 1132 is similar to section 5 of H.R. 1460, and the estimated savings are identical.

On March 20, 2003, CBO transmitted a cost estimate for H.R. 241, the Veterans' Beneficiary Fairness Act of 2003, as introduced on January 8, 2003. Section 105 of S. 1132 is similar to H.R. 241, and the estimated savings are identical.

ESTIMATE PREPARED BY:

Federal Costs:
Compensation: Melissa E. Zimmerman and Dwayne M. Wright
Health Care: Sam Papenfuss
Housing: Sunita D'Monte
Readjustment Benefits: Sarah T. Jennings

Impact on State, Local, and Tribal Governments: Melissa Merrell

Impact on the Private Sector: Allison Percy

ESTIMATE APPROVED BY:

Peter H. Fontaine
Deputy Assistant Director for Budget Analysis