CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

July 13, 2004

H.R. 1716
Veterans Earn and Learn Act of 2004

As reported by the House Committee on Veterans' Affairs
on June 25, 2004

SUMMARY

H.R. 1716 would affect several veterans programs, including housing, readjustment benefits, compensation, pensions, and burial. CBO estimates that enacting this legislation would decrease direct spending for veterans programs by $15 million over the 2005-2009 period and by $19 million over the 2005-2014 period. In addition, CBO estimates that discretionary spending resulting from H.R. 1716 would be less than $500,000 a year over the 2005-2009 period, assuming appropriation of the necessary amounts.

H.R. 1716 contains no intergovernmental mandates as defined by the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments. The bill contains a private-sector mandate, but CBO estimates that the annual cost of this mandate would not exceed the threshold established in UMRA ($120 million in 2004, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 1716 over the 2005-2009 period is shown in Table 1. The costs of this legislation fall within budget function 700 (veterans benefits and services).

TABLE 1. ESTIMATED BUDGETARY IMPACT OF H.R. 1716

	By Fiscal Year, in Millions of Dollars				
	2005	2006	2007	2008	2009
CHANGES IN DIRECT SPENDING					
Estimated Budget Authority	-33	1	1	6	9
Estimated Outlays	-33	1	1	6	9

NOTE: Estimated changes in discretionary spending are less than $500,000 a year.

BASIS OF ESTIMATE

This estimate assumes that the bill will be enacted by October 1, 2004. Almost all of the budgetary impact of the bill would be in the form of direct spending. H.R. 1716 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 decrease direct spending by $15 million over the 2005-2009 period and by $19 million over the 2005-2014 period.

Direct Spending—Housing

Section 301 would increase the maximum amount that the Department of Veterans Affairs (VA) can guarantee on home loans by indexing this amount to Freddie Mac's conforming loan limit for single-family homes, which is adjusted annually to reflect home prices. Under current law, the maximum loan guarantee for VA is $60,000, which effectively creates a maximum loan amount of $240,000. (For large loans, VA can guarantee no more than 25 percent of the loan amount.) The bill would raise the maximum loan guarantee amount to 25 percent of Freddie Mac's conforming loan limit ($333,700 in 2004).

The bill would lower direct spending on the veterans' housing program by $208 million over the 2005-2009 period and $288 million over the 2005-2014 period. These estimated savings are the net effect of three individual program effects (two with savings and one with costs), as explained below.

TABLE 2. ESTIMATED CHANGES IN DIRECT SPENDING UNDER H.R. 1716

	Outlays by Fiscal Year, in Millions of Dollars										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
HOUSING [a]											
Spending Under Current Law	-2,036	-144	-140	-144	-149	-153	-152	-155	96	98	165
Proposed Changes	0	-39	-41	-42	-42	-43	-44	-45	*	1	9
Spending Under H.R. 1716	-2,036	-183	-181	-186	-191	-196	-196	-200	96	99	174
VETERANS' READJUSTMENT BENEFITS											
Spending Under Current Law	2,665	2,852	3,008	3,166	3,315	3,458	3,590	3,737	3,853	3,974	4,098
Proposed Changes	0	4	40	42	48	51	56	-7	5	5	5
Spending Under H.R. 1716	2,665	2,856	3,048	3,208	3,363	3,509	3,646	3,730	3,858	3,979	4,103
COMPENSATION, PENSION, AND BURIAL BENEFITS [a]											
Spending Under Current Law	30,585	35,858	33,713	31,472	34,366	34,754	35,180	38,339	33,919	37,254	37,944
Proposed Changes	0	2	1	1	1	2	2	2	2	2	2
Spending Under H.R. 1716	30,585	35,860	33,714	31,473	34,367	34,756	35,182	38,341	33,922	37,256	37,946
Total Proposed Changes [a]	**0**	**-33**	**1**	**1**	**6**	**9**	**14**	**-50**	**8**	**7**	**16**

NOTES: * = less than $500,000.

Numbers may not add up to totals because of rounding.

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

Based on information from VA and previous increases in the loan guarantee amount, CBO estimates that the bill would result in 11,000 new guaranteed loans a year over the 2005-2014 period. In addition, roughly 4,000 guaranteed loans each year would now be made with higher loan amounts; these loans would not be for new borrowers, but for veterans who would no longer need a downpayment (or as large a downpayment) to qualify for the VA loan guarantee. CBO and VA estimate that the VA loan guarantees currently have a negative subsidy rate of about -0.3 percent, reflecting relatively low default rates and up-front fees.

Because of the negative subsidy rate, CBO estimates that the added loans and higher loan amounts would lower direct spending on guaranteed loans by an average of $42 million a year over the 2005-2011 period. Savings would end after 2011 because, under current law, certain loan fees expire in 2012, resulting in higher subsidy rates beginning in that year. Consequently, the increase in the volume of guaranteed loans under H.R. 1716 would raise direct spending by $10 million over the 2012-2014 period.

Second, CBO expects some of those 15,000 loans would become delinquent and go to foreclosure. When a guaranteed loan goes into foreclosure, VA often acquires the property and issues a new direct loan (called a vendee loan) when the property is sold. Because the vendee program also has a negative subsidy rate, CBO estimates that the added vendee loans would lower direct spending by less than $500,000 in 2005 and by $3 million in 2014.

Finally, VA sells most vendee loans on the secondary mortgage market and guarantees their timely repayment. Based on information from VA, CBO estimates the subsidy cost of such loan guarantees would be less than $500,000 through 2007 and would eventually reach $4 million in 2014.

Direct Spending—Veterans' Readjustment Benefits

H.R. 1716 contains several provisions that would significantly modify the education benefits available to those reservists, veterans, and survivors and dependents of certain veterans who pursue apprenticeship programs or programs of on-the-job training. Other provisions would increase the number of disabled veterans who would qualify for vocational rehabilitation and for grants to obtain automobiles and adaptive equipment and housing (see Table 3). Taken together, CBO estimates that enacting these sections would increase direct spending for veterans' readjustment benefits by $4 million in 2005, $185 million over the 2005-2009 period, and $249 million over the 2005-2014 period.

Increased Job Training Benefits. Participants in apprenticeship and on-the-job-training programs usually receive wages that increase as the trainees progress through their training program. Consequently, veterans' education programs provide benefits for job training that offer higher payments at the start of a program and reduced payments in the program's later stages. Veterans who are eligible for Montgomery GI Bill (MGIB) benefits, or for benefits under the Post-Vietnam Era Veterans' Educational Assistance Program (VEAP), and reservists who are eligible for benefits under the Selected Reserve MGIB (MGIB-SR), receive 75 percent of their program's full-time benefit during their first six months of job training, 55 percent of the full-time benefit for the second six months, and 35 percent of the full benefit thereafter. Section 104 would increase those percentages to 85 percent, 65 percent, and 45 percent, respectively. In addition, section 104 would increase monthly job training benefits offered under the Survivors' and Dependents' Educational Assistance Program (SDEAP) to $650 for the first six months of a training program, $507 over the second six months, and $366 during the third six months. The benefit offered for any month after that would be $144, which is the current benefit. All of those changes would take effect on October 1, 2005, and would expire after September 30, 2010. CBO estimates that enacting this section would increase direct spending for veterans' education benefits by $173 million over the 2006-2010 period.

TABLE 3. ESTIMATED CHANGES IN DIRECT SPENDING FOR VETERANS' READJUSTMENT BENEFITS UNDER H.R. 1716

Description of Provisions	Outlays by Fiscal Year, in Millions of Dollars									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Increased Job Training Benefits										
Apprenticeships	0	24	26	29	32	35	0	0	0	0
On-the-Job Training	0	5	5	5	5	6	0	0	0	0
Subtotal	0	28	32	34	37	41	0	0	0	0
Competency-Based Apprenticeships	0	6	6	6	6	6	1	1	1	1
Revised Calculation of Months of Entitlement Used	0	0	1	1	2	2	2	2	2	2
Early Completion of Apprenticeship	0	0	0	3	4	5	-12	0	0	0
Readjustment Benefits for Certain Disabled Veterans	1	1	1	1	1	1	1	1	1	1
Housing Grants	1	2	2	1	*	*	*	*	*	*
Pilot Program for Claims Adjudicators	1	1	1	1	*	0	0	0	0	0
Administrative Costs	1	2	0	0	0	0	0	0	0	0
Report on Employment of Recent Veterans	*	*	0	0	0	0	0	0	0	0
Total Changes in Veterans' Readjustment Benefits	4	40	42	48	51	56	-7	5	5	5

NOTE: * = less than $500,000.

Apprenticeships. The proposed increases in education benefits for job training programs would affect spending for veterans' education benefits for apprentices in several ways. First, eligible veterans and reservists would receive a benefit increase of about 24 percent over the course of an average, four-year apprenticeship, and eligible survivors and dependents would receive an increase of 16 percent for a similar apprenticeship. Second, some beneficiaries who are currently receiving veterans' benefits as college students but are actually participating in apprenticeship programs would choose to receive benefits as apprentices instead. Finally, some individuals who would not have used the benefit under current law would find the benefit increase a sufficient incentive to enroll in an apprenticeship training program and to apply for VA benefits.

Although section 104 would increase benefits for apprenticeships under several programs (MGIB, MGIB-SR, VEAP, and SDEAP), VA reports indicate the vast majority of apprentices receiving veterans' education benefits do so under the MGIB or MGIB-SR programs. According to VA, about 9,310 trainees (7,440 veterans and 1,870 reservists) received MGIB and MGIB-SR apprenticeship benefits in 2002, as compared to 115 SDEAP beneficiaries and fewer than 50 VEAP beneficiaries. Taken together, CBO estimates that the added education benefits for apprentices would cost $147 million over the 2006-2010 period.

Apprenticeships—MGIB. VA reports that 7,440 apprentices received an average annual MGIB benefit of $3,925 in 2002. After considering the increases in the MGIB benefit enacted since then and accounting for future cost-of-living increases, CBO estimates that, under current law, the average apprentice benefit will total $5,200 in 2006 and $5,665 by 2010. Similarly, CBO estimates that, under section 104, the average annual benefit would increase to about $6,425 in 2006 and $6,995 by 2010. CBO estimates that raising the benefit to those levels for about 7,400 apprentices each year would increase direct spending for apprenticeships under MGIB by $48 million over the 2006-2010 period.

It appears that a significant number of apprentices are currently receiving MGIB benefits as half-time college students rather than as apprentices. The Department of Labor (DOL) reports 107,000 veterans were enrolled in apprenticeships in 2002. Based on DOL data about the age distribution of apprentices, CBO estimates that about 45,000 apprentices were eligible to receive veterans education benefits—about 36,000 eligible for MGIB and 9,000 eligible for MGIB-SR. After considering the relative value of apprenticeship benefits and half-time student benefits (an average annual benefit of $3,925 for apprenticeships versus $3,455 for half-time college attendance in 2002), CBO estimates that about 18,600 apprentices received MGIB benefits as half-time college students in 2002. Assuming those veterans receive benefits at the half-time rate for about nine months a year, CBO estimates their annual benefit will total $4,580 in 2006 and increase to $4,990 by 2010.

After comparing the relative MGIB benefits for apprenticeships, as improved by section 104, and for half-time college attendance, CBO estimates that enacting this provision would cause about 5,600 apprentices, or 30 percent of those who might currently receive benefits as half-time students, to apply for education benefits as apprentices. Assuming that this number would remain relatively constant over the 2006-2010 period, CBO estimates that the proposed benefit changes would result in an increase in direct spending totaling $54 million over the 2006-2010 period for those veterans who switch to receiving benefits as apprentices instead of as half-time college students.

Based on DOL data, CBO also estimates that an additional 5,400 apprentices who are eligible for MGIB benefits are currently receiving MGIB benefits as college students because they are participating in competency-based apprenticeships, which do not qualify for apprenticeship benefits under current law. The effects of implementing section 104 on these competency-based apprenticeships are discussed in a separate section below.

CBO believes that the remainder of the 36,000 apprentices eligible for MGIB (about 4,700 individuals) are not currently receiving MGIB benefits. Based on an analysis of changes in participation rates following previous MGIB benefit increases, CBO estimates that enacting section 104 would, over time, cause an additional 1,500 apprentices a year to apply for and receive benefits under the MGIB program. Assuming that half receive apprenticeship benefits and the other half opt for benefits as half-time college students, CBO estimates that these new recipients would receive an average annual benefit of $5,505 in 2006 and $5,990 by 2010. CBO estimates the benefits for these new recipients would total $32 million over the 2006-2010 period.

Apprenticeships—MGIB-SR. Of the roughly 9,000 apprentices that CBO estimates to be eligible for the MGIB-SR program in 2002, VA reports that 1,865 apprentices received an average annual benefit of $1,657. After considering the increases in the MGIB benefit enacted by the Congress since then and accounting for future cost-of-living increases, CBO estimates that, under current law, the average apprentice benefit for reservists will total $1,775 in 2006 and $1,935 by 2010. CBO estimates that, under section 104, the average annual benefit would increase to about $2,195 in 2006 and $2,390 by 2010. Raising the benefit to those levels for about 1,900 apprentices each year would increase direct spending for apprenticeships under MGIB-SR by $4 million over the 2006-2010 period.

Using the information and assumptions outlined above, CBO estimates an additional 4,665 reservists are participating in apprenticeship programs, but receiving benefits as half-time college students. CBO estimates that these individuals would receive an average annual benefit of $1,310 in 2006 under current law. After comparing the relative benefits under MGIB for apprenticeships and half-time college attendance under H.R. 1716, CBO anticipates that about 20 percent of these part-time students would convert to apprentice status if section 104 were enacted and receive an average benefit in 2006 of $2,195. That switch would increase spending for veterans' education under MGIB-SR by $7 million over the 2006-2010 period.

Based on DOL data, CBO also estimates that an additional 1,360 apprentices who are eligible for MGIB-SR benefits are currently receiving MGIB benefits as college students because they are participating in competency-based apprenticeships, which do not qualify for apprenticeship benefits under current law. The effects of implementing section 104 on these competency-based apprenticeships are discussed in a separate section below.

CBO also expects an additional 450 reservists who are not currently receiving benefits would apply for and receive benefits as apprentices because of the benefit improvements proposed in section 104. As with the MGIB benefit described above, CBO assumes that roughly half would receive apprenticeship benefits and the remainder would opt for benefits as half-time college students. CBO estimates that these new recipients would receive the average annual benefit of $1,750 in 2006 and $1,910 by 2010. The benefits for these new recipients would total $3 million over the 2006-2010 period.

Other Apprenticeships. According to DoD, about 80 survivors and dependents received an average annual apprentice benefit of about $2,340 in 2002 under the SDEAP program. After considering the increases in the SDEAP benefit enacted since then and accounting for future cost-of-living increases, CBO estimates that, under current law, the average apprentice benefit for SDEAP beneficiaries would total $3,690 in 2006 and $4,020 by 2010. In addition, VA reported 30 veterans received VEAP benefits as apprentices in 2002. Based on current benefit levels for all VEAP trainees, CBO estimates those apprentices will receive an average annual benefit of $660 in 2006 and about the same in 2010. Using the assumptions and methods described above for MGIB beneficiaries, CBO estimates that enacting section 104 would increase direct spending for apprentices in these programs by less than $500,000 over the 2006-2010 period.

On-the-Job Training. Veterans' education benefits for on-the-job-training programs are limited to two years. Under H.R. 1716, eligible veterans and reservists would receive a benefit increase of about 20 percent over the two years of a program of on-the-job-training, and eligible survivors and dependents would receive an increase of 12 percent for the same training. As with apprentices described above, while section 104 would increase benefits for on-the-job training under several programs (MGIB, MGIB-SR, VEAP, and SDEAP), VA reports indicate the vast majority of trainees receiving veterans education benefits for such training qualify under the MGIB or MGIB-SR programs. According to VA, about 4,040 trainees (3,230 veterans and 810 reservists) received MGIB and MGIB-SR benefits for on-the-job training in 2002, as compared to about 35 survivors and dependents, and very few VEAP beneficiaries.

Based on information from VA, CBO estimates the average on-the-job training benefits received under the MGIB and MGIB-SR programs in 2002 totaled $4,655 and $1,660, respectively. After considering the increases in the MGIB benefit enacted since then and accounting for future cost-of-living increases, CBO projects that, under current law, these benefits will increase to $6,165 and $1,775, respectively, in 2006 and $6,715 and $1,935, respectively, by 2010. Under section 104, those benefits would increase by 20 percent to $7,400 for MGIB and to $2,130 for MGIB-SR. Similarly, we expect that the on-the-job training benefit for survivors and dependents will total $3,690 in 2006 under current law, and increase to $4,295 under section 104. Assuming cost-of-living increases and a modest increase in usage from the temporary improvement in these benefits, CBO estimates that enacting section 104 would increase direct spending for veterans benefits for on-the-job training by $26 million over the 2006-2010 period.

Competency-Based Apprenticeships. CBO estimates that about 15 percent of apprentices who are eligible for MGIB and MGIB-SR (about 5,400 and 1,360, respectively) are participating in apprenticeships that are competency-based rather than time-based. In a competency-based apprenticeship, the requirements of the program are satisfied when the trainee has demonstrated mastery of the required skills. Since VA does not generally pay benefits for these programs, CBO assumes those apprentices are receiving education benefits as half-time students. Section 105 of the bill would allow apprentices in competency-based programs to receive VA apprenticeship benefits. Assuming the benefit increases provided under section 104 are enacted and that these apprentices would make the same benefit choices as those in currently approved apprenticeships (that is, half of these students would apply for benefits as apprentices), CBO estimates that the average annual MGIB benefits received by apprentices in competency-based programs would increase from $4,435 to $4,945 under section 105—a 9 percent benefit increase. Similarly, CBO expects that half of those eligible under MGIB-SR would convert to apprentice benefits and that the average benefit in 2006 for competency-based apprentices would therefore increase from $1,310 to $1,695. Thus, under sections 104 and 105 combined, CBO estimates that direct spending for education benefits for apprentices in competency-based programs would increase by $35 million over the 2006-2014 period.

Revised Calculation of Months of Entitlement Used. Veterans' education benefits for apprenticeships and on-the-job training are paid as a percent of the full education benefit, and that percent declines over the course of training. Those benefit amounts, as they would be adjusted by section 104, would be 85 percent of the full-time benefit for the first 6 months of training, 65 percent of the full-time benefit for the second six months, and 45 percent of the full-time benefit thereafter, except for survivors and dependents, whose benefits decrease to about 18 percent of the full-time benefit after the third six months of training. Under current law, the number of months of benefit entitlement under the Vietnam-Era Veterans' Education Assistance Program and the Survivors' and Dependents' Education Assistance Program is reduced by a full month for each month the beneficiary receives a job training benefit. Section 102 would change the manner of computing the months of entitlement used for these two job-training programs by counting a fraction of each month proportional to the benefit received. For example, in a month where a beneficiary received a benefit of 65 percent of the full-time benefit, that individual's entitlement to education benefits would be reduced by 65 percent of a month, rather that by one month, as is currently the case. This proportional reduction is already used for those who qualify for education benefits under the MGIB or MGIB-SR programs.

Beneficiaries are entitled to 45 months of benefits under both the Veterans' Education Assistance Program and the SDEAP. CBO calculates that, under this section, trainees in these two programs who would have run short of benefits before the completing a 48-month apprenticeship would now have 28 or 31 months, respectively, of entitlement remaining at the completion of their program. Those engaged in a two-year, on-the-job training program, who would currently have 21 months remaining at the end of their program, would have an additional 12 or 11 months, respectively, at the completion of their program of training.

Based on current usage patterns for these programs, CBO estimates that 35 percent of those who complete an apprenticeship program would go on to use an additional nine months of benefits if this provision were implemented. Similarly, CBO estimates that 25 percent of those who complete a program of on-the-job training would go on to use an additional six months of benefits. Based on current benefit amounts and allowing for cost-of-living increases, CBO estimates that implementing of section 102 would increase direct spending for these programs by $14 million over the 2006-2014 period.

Early Completion of Apprenticeship. Section 103 would offer an incentive to eligible veterans, reservists, survivors, and dependents who can complete their apprenticeships early. Such individuals would receive lump-sum payments equal to the amount of education benefit they would have been entitled to receive had they completed the program in the prescribed amount of time, minus the amount of benefit already received. This incentive would be available only to individuals who begin an apprenticeship after enactment of the bill and who complete their apprenticeship by September 30, 2010. CBO expects that only individuals in competency-based apprenticeships would have the opportunity to complete apprenticeship programs early. Based on information from DOL, CBO expects that about 6,400 eligible apprentices will be participating in competency-based programs in 2006, and that the number would gradually increase to about 10,500 apprenticeships by 2010 under this bill.

Considering only those apprentices whose training programs would begin after enactment of the bill and assuming that this incentive would cause 50 percent of these apprentices to complete their programs six months early, CBO estimates that, between 2008 and 2010, a total of about 9,600 apprentices would receive lump-sum payments from VA averaging

$2,550. Under normal circumstances, these lump-sum payments would be completely offset in subsequent years by savings that equal the six months of benefits that would no longer have to be paid. However, the benefit increase authorized under section 104 would expire in 2010. Thus, lump-sum payments made in 2010 would not be fully offset by savings from training benefits forgone in 2011. On net, CBO estimates that implementing section 103 would increase direct spending for VA education benefits by $8 million over the 2006-2009 period and by $1 million over the 2006-2014 period.

Readjustment Benefits for Certain Disabled Veterans. Under current law, veterans with a service-connected disability are eligible for certain readjustment benefits. Under section 205, these same benefits would be extended to veterans who become disabled, or who are rated at a higher level of disability, as a result of careless or negligent care while in a VA hospital or if injured while participating in a VA-sponsored rehabilitation or training program. Such veterans are already eligible for veterans' disability compensation, and VA reports that, in 2003, over 2,400 veterans received compensation for just these reasons. CBO estimates that, under section 205, direct spending for readjustment benefits would increase about $1 million in 2005, $6 million over the 2005-2009 period, and $12 million over the 2005-2014 period.

Vocational Rehabilitation. Disabled veterans with an employment handicap are entitled to participate in a rehabilitation program that includes counseling, placement services, college education or other training, and other services necessary to prepare a veteran for employment. In the case of a veteran for whom employment is not feasible, VA offers a program of independent-living services and assistance. Based on current usage rates provided by VA, CBO estimates that enacting section 205 would increase the number of disabled veterans receiving vocational rehabilitation services by an average of 85 veterans a year over the 2005-2014 period. Over this same period, we expect the average cost of providing these services to increase with inflation, from $8,250 in 2005 to $11,875 in 2014. Thus, CBO estimates the cost of extending vocational rehabilitation to an additional 85 beneficiaries each year would total about $1 million in 2005 $4 million over the 2005-2014 period, and $8 million over the 2005-2014 period.

Automobile and Adaptive Equipment Grants. Seriously disabled veterans who, as the result of a service-connected injury or disease, have lost the use of one or both hands (or feet), or have suffered a severe vision impairment, are eligible to receive a grant of $11,000 to purchase an automobile or other vehicle. Veterans who receive automobile grants are also entitled to receive the necessary adaptive equipment to enable them to safely operate their vehicles, and to have that equipment repaired or replaced as necessary.

Based on current usage rates, CBO estimates that enacting section 205 would result in VA awarding an additional 20 automobile grants a year at an annual cost of about $200,000. Based on current levels of expenditure, we estimate that providing adaptive equipment for those extra vehicles would increase annual outlays by about $120,000 in 2005, and that outlays would increase by close to $400,000 a year in later years as these additional vehicles begin to return for repair or replacement of equipment. Thus, under section 205, CBO estimates direct spending for providing automobile grants and adaptive equipment would increase by less than $500,000 in 2004, about $2 million over the 2005-2009 period, and $4 million over the 2005-2014 period.

Housing Grants. VA currently administers two grant programs to assist severely disabled veterans in acquiring housing that is adapted to their disabilities, or in modifying their existing housing. Section 302 would expand eligibility for one of those adaptive housing grants. Under current law, veterans who are classified by VA as totally disabled and who have certain mobility limitations are entitled to receive grants of up to $50,000 toward the acquisition of suitable housing. Totally disabled veterans who are blind or have lost the use of their hands are entitled to receive grants of up to $10,000 to adapt their residences to accommodate their disabilities. Section 302 would allow totally disabled veterans who have lost, or lost the use of, both arms at or above the elbow to be eligible for the $50,000 housing acquisition grant. Currently, such veterans are eligible to receive the $10,000 adaptation grant based on their loss of the use of both hands.

Based on information from VA, CBO estimates that approximately 100 veterans received a housing adaptation grant in 2003, and, of those, fewer than 10 veterans would have met the proposed requirements for the acquisition grant specified in section 302. Assuming this rate of eligibility remains relatively constant, CBO estimates that each year, under section 302, about 8 veterans would receive a housing grant that would be $40,000 larger than under current law.

Veterans who have received the adaptation grant are not barred from receiving the acquisition grant at a later date, should they meet the eligibility requirements. Based on the number of grants awarded each year, and the average death rate for totally disabled veterans, CBO estimates that, of surviving, previous recipients of the housing adaptation grant, about 160 would qualify under section 302 for the acquisition grant. CBO estimates that, should they become eligible, about half, or 80, of the surviving former recipients of adaptation grants would apply for and receive the $50,000 grant over the next five years.

Section 205 specifies that veterans whose injuries stemmed from VA negligence or participation in a VA-sponsored rehabilitation or training program would be eligible for these housing grants. However, in a 2003 decision, Kilpatrick v. Principi, the Court of Appeals for the Federal Circuit held that veterans whose disability resulted from their VA care, or from participation in a VA-sponsored rehabilitation or training program, are eligible for adaptive housing grants. Since, in this respect, section 205 would codify existing law, it would not increase direct spending for housing grants.

In total, CBO estimates that enacting these provisions would increase direct spending for housing grants by about $7 million over the 2005-2014 period.

Pilot Program for Claims Adjudicators. Eligible veterans, reservists, survivors, and dependents may receive veterans' education benefits for programs of on-the-job training lasting up to two years. Section 106 would authorize a pilot program under which the VA would be required to operate a three-year program of on-the-job training to qualify VA employees to become adjudicators for disability compensation, dependency and indemnity compensation, and pension claims. The pilot program would end five years after the first three-year training class began.

Based on information from VA, CBO expects that, beginning in 2006, the department would use this program to train about three classes of 250 adjudicators each, and that about 25 percent of those trainees, or a total of 190 people, would be eligible for MGIB benefits. Applying the current MGIB benefit levels and allowing for cost-of-living increases, CBO estimates that each trainee would receive about $21,000 in education benefits over a three-year program of on-the-job training. Thus, CBO estimates the pilot program would increase direct spending for veterans' education benefits by $4 million over the 2006-2009 period and less than $500,000 in 2010.

Administrative Costs. Section 105 would authorize the expenditure of $3 million from the readjustment benefits account to modify computer systems and develop procedures as necessary to implement the programmatic changes in sections 102, 103, 104, and 105. CBO estimates that those activities would increase outlays by $1 million in 2005 and $2 million in 2006.

Report on Employment of Recent Veterans. Section 206 would require the Secretary of Veterans Affairs to contract for a study and report on the employment histories of veterans who separated from the armed forces since January 1, 1990. The study would also examine the extent to which those veterans received VA-provided training and rehabilitation. Section 206 directs no more than $490,000 in funds from the readjustment benefits account be used pay for the study. CBO estimates half that amount would be expended in 2005 and the other half in 2006.

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). CBO estimates that enacting those provisions would increase direct spending by $2 million in 2005, about $8 million over the 2005-2009 period, and $20 million over the 2005-2014 period.

TABLE 4. ESTIMATED CHANGES IN DIRECT SPENDING FOR VETERANS' COMPENSATION, PENSIONS, AND BURIAL BENEFITS UNDER H.R. 1716

	Outlays by Fiscal Year, in Millions of Dollars									
Description of Provisions	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Exclusion of Life Insurance Proceeds from Income for Death Pension	2	1	1	1	1	1	1	1	1	1
Veterans Exposed to Radiation	0	0	0	0	1	1	1	1	1	1
Total Changes in Compensation, Pensions, and Burial Benefits	2	1	1	1	2	2	2	2	2	2

Exclusion of Life Insurance Proceeds from Income for Death Pension. Two provisions in the bill would affect direct spending for pensions. Under current law, when a surviving spouse files a claim for a death pension, all of that spouse's income received after the date of the veteran's death is considered in determining pension eligibility, including any lump-sum proceeds from life insurance policies on the veteran. In some instances, considering these lump-sum proceeds results in VA denying a surviving spouse's claim for the death pension, requiring the spouse to wait one year from the date of veteran's death before she or he can reapply for a pension. According to VA, these denials happen most often when a surviving spouse files a claim within 45 days of the death of the veteran since most lump-sum life insurance payments are made soon after the veteran's death. These lump-sum payments often cause a claimant's income to exceed the threshold for pension qualification.

A surviving spouse can avoid this situation by waiting at least 45 days after the death of the veteran to file a claim because, according to VA, only income from the date of the claim is considered after that point under current law. In fact, veterans' advocacy groups often instruct surviving spouses to wait until the 45-day period has elapsed before filing a claim with VA for pension benefits to avoid this situation. Thus, a surviving spouse effectively forgoes receiving two months of death pension by waiting the 45 days to file a claim but has a greater chance of having his or her claim approved.

Section 203 would exclude lump-sum proceeds from a life insurance policy on a veteran from the annual income used to determine eligibility for death pensions. Section 204 would repeal a provision of law that specifies the effective date for an award of a death pension to be the date of death of the veteran when the application is received within 45 days of that date.

According to VA, it denies about 50 percent of pension claims it receives each year, and about 5 percent of those denials are made after considering life insurance proceeds. Based on information from VA and on CBO projections of the number of new death pensioners expected each year of the 2005-2014 period, CBO estimates that 500 surviving spouses would be eligible for an additional year's worth of death pension benefits in 2005 if section 203 were enacted; that number would decrease to about 300 by 2014. After adjusting for cost-of-living increases, CBO anticipates that the average additional payment for a surviving spouse would total about $1,850 in 2005 and would grow to $2,200 by 2014, assuming that claimants apply uniformly over the year. Thus, enacting section 203 would increase direct spending for death pensions by about $6 million over the 2005-2014 period.

Additionally, under the bill, some surviving spouses would be eligible to receive an additional two months of death pension payments because they would no longer wait the 45 days after the veteran's death to file a claim. VA, however, does not track the number of death pension claims filed within 45 days of the veteran's death. Absent that information, CBO assumes that 50 percent of claims for death pensions are filed at least 45 days after the death of the veteran, and that 25 percent of those people would now file their claims sooner than that, gaining approximately two additional months of benefits. Based on estimates of the number of new death pensioners expected each year over the 2005-2014 period, CBO estimates that 1,300 surviving spouses would receive an additional two months of death pension benefits in 2005 under section 204 and that number would decrease to about 800 survivors by 2014. After adjusting for cost-of-living increases, CBO estimates that additional two months of payments would total $610, on average, in 2005 and grow to $740 by 2014. Thus, CBO estimates that enacting section 204 would increase direct spending for death pensions by about $7 million over the 2005-2014 period.

Together, CBO estimates that enacting sections 203 and 204 would raise direct spending for pension benefits by about $14 million over the 2005-2014 period.

Veterans Exposed to Radiation. Section 202 would allow a veteran or a surviving spouse who receives a payment under the Radiation Exposure Compensation Act of 1990 (RECA) to begin receiving disability compensation or dependency and indemnity compensation (DIC) from VA—once the RECA payment is deducted from that compensation—if the veteran or surviving spouse is also eligible for veterans' compensation or DIC as a result of a presumed service connection between certain diseases and military service during which the veteran was exposed to ionizing radiation. If enacted, this provision would become effective as of March 26, 2002.

Under current law, a radiation-exposed veteran has two options to receive compensation if he or she was a participant in atmospheric testing of nuclear weapons. The veteran or survivor can either take a lump-sum RECA payment from the Department of Justice (DOJ) and forfeit VA compensation benefits, or opt to receive VA compensation benefits. If the veteran or survivor opts to receive the RECA payment, that payment is reduced by the amount of VA compensation benefits that he or she has received.

Based on information from both DOJ and VA, CBO estimates that about 650 claims from eligible claimants have been approved under RECA between 1990 and 2003, and that another 200 claims are likely to be approved over the 2004-2014 period. According to DOJ, the RECA payment for these claims averaged $72,000 per claim, and the maximum benefit was $75,000. An analysis of DOJ reports indicates that about 35 percent of those claims were from eligible veterans or their survivors; that about two-thirds of that number could qualify for VA compensation benefits; and that 80 percent of the claims were paid to living veterans or surviving spouses. After accounting for mortality and assuming that about 80 percent of those veterans or surviving spouses apply and are approved for veterans disability compensation or DIC, CBO estimates that about 50 veterans and 60 survivors would become eligible for veterans' compensation benefits in 2005 under section 302; such benefits would be reduced until any payments made under RECA were fully offset. After accounting for mortality and new claimants, CBO also estimates that the number of qualifying surviving spouses would increase to about 90 over the 2005-2008 period before declining to about 75 spouses by 2014.

According to VA, a veteran is usually rated 100 percent disabled during treatment for cancer and, depending on the type of cancer, for up to as much as two years after treatment is completed. After that, the veteran's disability rating is usually reduced. Absent information from VA about the average length of treatment for cancer, or the average disability rating given to veterans who have ceased cancer treatment, CBO assumes that qualifying veterans would be rated 100 percent disabled for about a year and a half while undergoing treatment for cancer and that their disability rating would then be reduced to 60 percent. Veterans rated with 100 percent disability received $28,392 annually in veterans' disability compensation in 2004; veterans rated 60 percent disabled received $10,716. Similarly, the average DIC payment to surviving spouses was $12,530 in 2003. (Such payments are adjusted annually for increases in the cost of living.) After accounting for the reductions in benefits that would offset payments made under RECA, CBO estimates that qualifying veterans and surviving spouses would begin receiving disability compensation payments or DIC benefits in 2009.

Thus, CBO estimates that enacting this provision would raise direct spending for veterans' compensation benefits by about $1 million in 2009 and $6 million over the 2009-2014 period.

Additional Eligibility for Veterans Exposed to Radiation. Section 201 would add bone, colon, brain, lung, and ovarian cancer to the list of diseases currently presumed to be connected to military service for certain veterans who were exposed to ionizing radiation. That section also would amend the definition of "radiation-risk activity" to include service performed as an employee of the Department of Energy (DOE) that would qualify the individual for benefits under the Energy Employees Occupational Illness Compensation Program Act of 2000. On March 26, 2002, VA issued a regulation amending Part 3 of title 38 of the Code of Federal Regulations to add these five cancers to the list of diseases for which entitlement to service-connection is presumed for radiation-exposed veterans. VA also amended the definition of "radiation-risk activity" to add service as a DOE employee that qualifies under the Energy Employees Occupational Illness Compensation Program Act of 2000 in that same regulation. Since the regulation has already taken effect, this provision would have no cost.

Spending Subject to Appropriation

CBO estimates that implementing H.R. 1716 would increase discretionary spending for veterans benefits by less than $500,000 a year over the 2005-2009 period, assuming appropriation of the necessary amounts.

Extension of Burial Eligibility in Arlington National Cemetery. Section 401 would amend the eligibility requirements for burial in Arlington National Cemetery to allow more reservists and their spouses to be buried there. Under current law, only reservists who are eligible for retirement pay and have reached the age of 60 or who were killed while on active duty may be buried in Arlington National Cemetery. This section would eliminate the requirement that current and retired reservists be at least 60 years old. It also would allow those killed while on active duty for training or inactive-duty training to be eligible for burial in Arlington National Cemetery. Dependents of the reservists would also be eligible.

Based on data from the Department of Defense, CBO estimates that about 900 reservists die each year who would be eligible for burial in Arlington National Cemetery under this section. Because that cemetery is not centrally located in the United States and many families would likely choose to have their loved one buried close to home, CBO assumes that less than 10 percent of those eligible would actually be buried in Arlington National Cemetery. This percentage is consistent with information from VA indicating that about 11 percent of veterans are buried in state or national cemeteries. Of those surveyed who expressed no desire to be buried in a veterans cemetery, almost half cited distance or an existing family plot as the reason. With burial costs of about $800 per grave, CBO estimates that implementing section 401 would cost less than $500,000 a year, assuming appropriation of the necessary amounts.

Designation of Prisoner of War/Missing in Action Memorial. Section 402 would designate a memorial to former prisoners of war and members of the Armed Forces listed as missing in action that is under construction at Riverside National Cemetery in Riverside, California, as a Prisoner of War/Missing in Action National Memorial. Under this provision, the memorial would not become a unit of the National Park Service, nor would the national memorial designation be construed to require federal funds to be expended for any purpose related to the memorial.

According to VA, construction of the memorial is being funded entirely by private groups and organizations. Thus, CBO estimates that implementing section 402 would not have any significant effect on federal spending.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 1716 contains no intergovernmental mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

Section 108 would impose a private-sector mandate as defined in UMRA by requiring providers of entrepreneurship courses to maintain records of enrolled veterans, including information on when they complete, interrupt, or terminate their education. CBO estimates that 2,000 veterans would enroll in entrepreneurship courses per year, and that maintaining records for each enrollee would cost providers of courses no more than $100 per enrollee. Thus, the resulting private-sector mandate would cost approximately $200,000 per year.

PREVIOUS CBO ESTIMATES

On June 3, 2004, CBO transmitted a brief cost estimate for H.R. 1716, as ordered reported by the House Committee on Veterans' Affairs on May 19, 2004. This estimate details the basis of that earlier estimate and is otherwise identical to it.

On May 25, 2004, CBO transmitted a cost estimate for H.R. 4345, a bill to amend title 38, United States Code, to increase the maximum amount of home loan guarantee available under the home loan guarantee program of the Department of Veterans Affairs, and for other purposes, as ordered reported by the House Committee on Veterans' Affairs on May 19, 2004. On May 18, 2004, CBO transmitted a cost estimate for H.R. 4345, as introduced on May 12, 2004. Both versions of H.R. 4345 are identical to section 301 of H.R. 1716, as are the estimated savings.

On April 20, 2004, CBO transmitted a cost estimate for H.R. 2206, the Prisoner of War/Missing in Action National Memorial Act, as introduced on May 22, 2003. H.R. 2206 is similar to section 402 of H.R. 1716 and the estimate is identical.

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