CONGRESSIONAL BUDGET OFFICE
PAY-AS-YOU-GO ESTIMATE

December 29, 1999

H.R. 2116
Veterans Millennium Health Care and Benefits Act

As cleared by the Congress on November 19, 1999

SUMMARY

H.R. 2116, enacted as Public Law 106-117, contains provisions that will affect direct spending for nursing home care, buyout authority related to certain federal employees, dependency and indemnity compensation, memorial affairs, education, housing, veterans exposed to radiation, and the United States Court of Appeals for Veterans Claims. In total, CBO estimates that these provisions will increase outlays by $1.2 billion over the 2000-2004 period and $1.3 billion over the 2000-2009 period. The law will also affect federal revenues, but CBO estimates that effect will be insignificant.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

CBO's estimate of the impact of H.R. 2116 on direct spending and revenues is shown in the following table. Only the estimated changes in the budget year and the succeeding four years are counted for pay-as-you-go purposes. The costs of this legislation fall within budget functions 550 (health), 600 (income security), 700 (veterans benefits and services), and 950 (undistributed offsetting receipts).

Extended Care. Section 101 of H.R. 2116 requires the Department of Veterans Affairs (VA) to provide nursing home care to veterans whose service-connected disabilities are rated 70 percent or greater, or who require long-term care because of a service-connected disability. CBO believes the bill provides direct spending authority for VA to implement this section and has therefore categorized the costs as direct spending. However, there is some doubt as to whether the Congress intended this result because all other components of medical care for veterans are subject to appropriation. It is possible, therefore, that annual appropriations will continue to be the source of funding for long-term care. The provision will raise costs to VA, but will also have an impact on the Medicaid program. The combined impact will raise outlays by about $1.1 billion over the 2000-2004 period and about $1.2 billion over the 2000-2009 period.

	By Fiscal Year, in Millions of Dollars									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
DIRECT SPENDING (OUTLAYS)										
Extended Care										
Costs to VA	15	270	340	440	130	0	0	0	0	0
Impact on Medicaid	-2	-10	-20	-33	0	16	16	17	18	19
Subtotal	13	260	320	407	130	16	16	17	18	19
Employee Buyout Authority	-21	23	4	-3	-4	-4	-4	-4	-4	-4
Veterans Exposed to Radiation	1	2	4	4	4	5	5	5	5	5
Spouses of Former Prisoners of War	a	1	2	3	3	4	5	6	7	8
American Battle Monuments Commission	0	0	10	0	0	0	0	0	0	0
MGIB Eligibility of Certain Officers	2	2	2	2	2	2	2	2	2	2
Preparatory Courses	1	1	1	1	1	1	1	1	1	1
Home Loans for Reservists	0	0	0	0	1	1	1	1	0	0
Other	a	a	a	a	a	a	a	a	a	a
Total	-4	289	343	414	137	26	26	28	29	31
REVENUES										
Court of Appeals for Veterans Claims	a	a	a	a	a	a	a	a	a	a

a. Outlay increase or revenue decrease of less than $500,000.

Costs to VA. CBO estimates that VA's costs will total about $15 million in 2000, reflecting the normal lags in starting a new program. CBO expects that this program will take three to four years to implement fully and will eventually cost VA about $440 million in 2003. That amount covers the costs of veterans who will receive care from VA under this law, including the costs of veterans who, under prior law, would have received care from VA funded through discretionary appropriations. The estimate assumes that, starting in 2001, about $200 million of care provided each year with discretionary funds under the prior law will be funded through direct spending. This provision will expire three months into 2004; thus, CBO estimates that VA's direct spending costs will fall to about $130 million for that year.

CBO's estimate is based on data from VA, the 1992 National Survey of Veterans, and the National Long-Term Care Survey (NLTCS). CBO determined the probability of a person being institutionalized as a function of age, marital status, and number of limitations in activities of daily living—one indicator of an individual's need for long-term care. Applying those probabilities to a distribution of veterans with service-connected disability ratings of 70 percent or higher, CBO estimates that by 2003 about 16,000 veterans will receive care in nursing homes at an annual cost to VA of $440 million. This method of estimation takes into account that spouses often act as caregivers within the home to veterans who might otherwise require a nursing home stay. In the near term, demand for nursing home care through the VA will be lower because some veterans currently rely on Medicaid, private insurance, relatives, and certain Medicare-funded services to provide or finance their care. Initially, those veterans might not want to change their arrangements with providers. CBO assumes that eventually veterans with ratings of 70 percent or higher who enter nursing homes will turn to the VA for their care because, unlike other private or public insurance programs, it will be free to them. CBO expects that most nursing home patients will be placed in community nursing homes for an average stay of 179 days and at a cost of about $152 a day per patient. (Nursing homes owned and operated by VA are almost twice as expensive as privately operated homes.)

Impact on Medicaid. Implementing section 101 will also lead to some initial savings in Medicaid during the 2000-2004 period and added costs after the provision expires. Today, Medicaid finances about 42 percent of all nursing home expenditures; over half of Medicaid's cost is paid by the federal government and the remainder is paid by the states. However, to become eligible for Medicaid nursing home benefits, individuals must either be poor or deplete most of their personal assets and turn over any income beyond a small monthly allowance for personal needs. Under this law, eligible veterans will prefer care financed by VA rather than by Medicaid because they will not be required to make any copayments or liquidate their assets. CBO expects that about 3,600 veterans will choose VA-financed nursing home care instead of Medicaid by 2003 and that the resulting savings in the federal share of Medicaid costs will reach $33 million in 2003.

H.R. 2116 will not displace Medicare spending for nursing home care. Although Medicare offers a skilled nursing facility benefit, it is targeted toward patients who need care after an acute hospitalization rather than the long-term custodial care that will be provided under H.R. 2116.

After the provision expires, some veterans who would not have chosen to deplete resources to become eligible for Medicaid nursing home care under prior law will now do so. Those veterans may have altered family and personal circumstances under this law's nursing home benefit and may be more dependent on a nursing home setting. Based on an analysis of studies relating to the length of stay in nursing homes and the probability of spending down resources to qualify for Medicaid, CBO anticipates that about 8 percent of the 12,400 veterans who would not otherwise have become eligible for Medicaid nursing home care will deplete their assets in 2004 for that purpose. In succeeding years, some additional veterans will become eligible for Medicaid nursing home benefits, leading to annual Medicaid costs of $19 million by 2009.

Employee Buyout Authority. Title XI of H.R. 2116 provides the VA with authority to offer incentive payments (or "buyouts") to certain employees who separate voluntarily before December 31, 2000. Under the law, incentive payments cannot exceed $25,000 per person and the number of employees who may receive them is limited to 4,700. The VA will also be required to make a deposit to the Civil Service Retirement and Disability Fund (CSRDF) equal to 26 percent of final pay for each employee who receives a buyout. CBO estimates that this title will decrease direct spending by $21 million in 2000, $1 million over the 2000-2004 period, and $21 million over the 2000-2009 period.

Based upon data supplied by the VA, CBO estimates that 4,700 employees—the maximum number allowed—will accept buyouts under this law, with the vast majority separating in fiscal year 2000. CBO estimates that 45 percent of these employees will be induced to retire a year or two earlier than they would have otherwise, and that the remaining 55 percent would have retired or resigned by December 31, 2000, without a buyout.

Relative to prior law, H.R. 2116 will initially increase spending on federal retirement benefits because it will induce some employees to retire early. However, spending will decrease in later years because the employees who retire early will receive smaller annuities. CBO estimates that outlays of the CSRDF will increase by $52 million through 2002 and then be $3 million to $4 million lower annually after that. Consequently, benefit payments will be $45 million higher than under prior law for the 2000-2004 period, but only $25 million more for the 2000-2009 period. Assuming a final average salary for the separating employees of $37,000, CBO also estimates that VA will make payments to the CSRDF of $44 million in 2000 and $1 million in 2001.

Veterans Exposed to Radiation. Section 503 will add bronchial-alveolar carcinoma to the list of diseases presumed to be service-connected for certain veterans who were exposed to radiation. The section will thereby add to the number of veterans who are eligible for disability compensation or whose spouses are eligible for Dependency and Indemnity Compensation (DIC). CBO estimates that this provision will increase direct spending by about $1 million in 2000 and by about $40 million over the 2000-2009 period.

Data from the Defense Special Weapons Agency (DSWA), formerly the Defense Nuclear Agency, indicate that approximately 210,000 military, civilian, and contract personnel employed by the Department of Defense (DoD) participated in atmospheric nuclear tests. In addition, approximately 200,000 DoD personnel participated in the post-war occupation of Hiroshima and Nagasaki, Japan. CBO estimates that about 200,000 of these veterans are alive today.

Because specific information on bronchial-alveolar carcinoma, a relatively uncommon form of lung cancer, is not available, CBO estimates its incidence as a fraction of the incidence of lung cancer. To estimate the number of potentially eligible veterans, CBO used age-specific incidence and mortality rates from the National Cancer Institute (NCI). Based on this analysis, CBO estimates that nearly 3,500 veterans and about 8,000 deceased veterans with surviving spouses were exposed to radiation and were stricken with lung cancer. The estimate assumes that approximately 21,000 of these veterans died from lung cancer during the 1945-1999 period, that two-thirds of the deceased veterans had spouses, and that 20 percent of those spouses remarried, making them ineligible for DIC.

Information from NCI indicates that bronchial-alveolar carcinoma accounts for about 2 percent to 10 percent of lung cancer cases. It is more common in women and is the most frequent type seen in nonsmokers, although it appears in smokers as well. Because few veterans who were exposed to radiation are women, it is unlikely that bronchial-alveolar carcinoma accounts for 10 percent of all lung cancer cases in this population. CBO assumes that approximately 4 percent of estimated lung cancer cases and deaths among veterans exposed to radiation can be attributed to bronchial-alveolar carcinoma. Based on this analysis, CBO estimates that about 35 veterans and 55 survivors will receive benefits for bronchial-alveolar carcinoma in 2000. By 2004 these numbers will grow to about 110 veterans and 200 survivors.

CBO estimates benefit payments based on the incidence of the disease, expected mortality rates among veterans and survivors, the number of potential beneficiaries at the start of 2000, and assumptions about annual participation. Recognizing that a small number of affected veterans and survivors may draw benefits under previous statutes and that not all potential new beneficiaries will participate, this estimate assumes that 50 percent of all eligible survivors at the end of 1999 and 75 percent of all veterans and post-1999 survivors will participate in the program. The estimate also assumes that it will take about three years to reach the full estimated participation rate.

CBO used data from VA that were specific to lung cancer cases to calculate the average compensation payment to veterans. The average annual benefit for a veteran with lung cancer is about $15,000. However, this benefit level also includes payments to veterans for additional disabilities. CBO assumes that the incremental compensation benefits will be $2,000 less than this average. For DIC recipients, the estimated benefit is approximately $11,000 annually for all survivors. This estimate also assumes that beneficiaries will receive annual cost-of-living adjustments.

Spouses of Former Prisoners of War. Section 501 will authorize the payment of DIC to the surviving spouses of certain former prisoners of war (POW) who, prior to their death, had a service-connected disability rated totally disabling. CBO estimates this section will raise direct spending by less than $500,000 in 2000 and by about $39 million over the 2000-2009 period.

Previously, DIC payments could be authorized for survivors of servicemembers or veterans who died from a disease or injury incurred or aggravated while on active duty or from a disability compensable by VA. DIC payments could also be made if the veteran's death was not the result of a service-connected disability if the veteran was continuously rated totally disabled for a period of 10 or more years immediately preceding death or the veteran was so rated for a period of at least five years from the date of military discharge.

This provision will change the prior law by allowing surviving spouses of former POWs to qualify for DIC benefits if the veteran had been rated as totally disabled and been diagnosed as having one of the specific presumptive diseases associated with prisoners of war. These presumptive conditions include certain nutritional deficiencies and digestive disorders, residuals of frostbite, and a number of depressive disorders. Under section 501, the surviving spouse of a former POW who was totally disabled at the time of death and had been diagnosed with at least one of these presumptive conditions will be eligible for DIC payments regardless of how long the veteran had been totally disabled.

Information from the VA indicates that approximately 1,800 former POWs receive disability compensation, have been diagnosed with one of these presumptive conditions, are totally disabled, and have a spouse. CBO uses age-specific mortality rates to estimate that about 80 of these veterans will die each year. Based on data from VA, the estimate recognizes that some of the spouses will remarry, making them ineligible for DIC benefits, that some of the spouses will already be eligible for benefits under the prior law, and that an increasing percentage of spouses will be eligible for benefits under the prior law. In addition to veterans who are already totally disabled, CBO expects that a few former POWs who now have a rating lower than 100 percent will become totally disabled in future years. Some of the spouses of those veterans will also gain eligibility to DIC as a result of this law. Based on this analysis, CBO expects that about 30 spouses will receive benefits in 2000. By 2004 the total number of spouses receiving benefits under this proposal will increase to about 250.

American Battle Monuments Commission. Section 601 grants borrowing authority and expands the fund-raising authorities of the American Battle Monuments Commission (ABMC) to expedite the establishment of the World War II memorial in the District of Columbia. CBO estimates that this section will increase spending by about $10 million in 2002.

The ABMC is responsible for maintaining and constructing U.S. monuments and memorials commemorating the achievements in battle of the armed forces. In 1993, the Congress authorized the ABMC to establish a memorial in the District of Columbia to honor members of the armed forces who served in World War II. The ABMC was granted the authority to solicit and accept private contributions for this memorial.

Section 601 authorizes the ABMC to borrow up to $65 million from the Treasury to ensure that the groundbreaking, construction, and dedication of the memorial are completed in a timely manner. Since the initial authorization in 1993, a fund-raising campaign has raised over $25 million in private contributions, and the location and design concept of the memorial have been approved. The Commemorative Works Act of 1986 requires the ABMC to show that it has sufficient funds before obtaining a construction permit from the Department of the Interior to complete construction of the memorial. Data from the ABMC indicates that it will not have sufficient funds available in 2000 to meet this requirement. The borrowing authority in this law will enable the ABMC to satisfy this requirement and to break ground in 2000. The total costs of the memorial are estimated to be about $145 million through 2005.

The budgetary impact of this provision will depend on the amount of borrowing authority the ABMC will use and when it will be repaid. Based on information from the ABMC, CBO estimates that it will borrow and spend $10 million in 2002. The ABMC expects that contributions and other income will allow it to repay the loan plus interest in 2003 and 2004. However, there is a chance that the ABMC will be unable to raise sufficient funds from private donors, especially if the borrowing authority discourages such donations. Also, construction costs could exceed the ABMC's estimates. Thus, CBO estimates that section 601 is likely to raise direct spending by $10 million, although the actual amount could be more or less than that.

MGIB Eligibility of Certain Officers. Section 702 extends Montgomery GI Bill (MGIB) eligibility to those veterans who lost it because they ended their initial enlistment to attend an officer training school. To maintain eligibility under this provision, the member will have to either complete the resulting obligated period of duty as an officer or serve the remaining time on the initial enlistment. Based on information from the Department of Defense, CBO expects the number of potential MGIB participants to increase by 300 annually. In addition, about 950 current veterans will gain MGIB eligibility under this section. CBO estimates this provision will cost $2 million a year over the 2000-2009 period.

Preparatory Courses. Section 701 extends MGIB benefits to cover preparatory courses for college or graduate school entrance exams. Veterans who would otherwise consume their entire entitlement will forgo a payment at the end of their training if they use the benefit under this section, but for all other veterans, section 701 will add to spending. CBO estimates that this provision will increase direct spending by about $1 million a year. The estimate assumes that about 2,000 participants will receive an average benefit of about $400 for these courses.

Home Loans for Reservists. Section 711 extends home loan benefits for reservists through 2007. Under previous statutes, these benefits would have expired on September 30, 2003. In recent years, the VA has guaranteed between 8,000 and 10,000 loans a year for reservists, and the average loan amount has been roughly $100,000. Based on this experience, CBO estimates that the VA will issue about 9,000 loan guarantees each year. At an estimated subsidy rate of 0.1 percent, these guarantees will result in additional outlays of about $1 million annually over the 2004-2007 period.

Other Provisions. The following provisions will have a budgetary impact of less than $500,000 annually:

- Section 101 establishes a new revolving fund, the Department of Veterans Affairs Extended Care Fund, and allows VA to charge copayments to veterans who meet certain income levels and are not receiving extended care for a service-connected disability. The copayments will be deposited into the fund and remain available for spending on extended care services. CBO estimates that the collections and spending will offset each other.

- Section 202 establishes a new revolving fund, the Department of Veterans Affairs Health Services Improvement Fund, and allows VA to spend amounts deposited in the fund on medical care and services. This fund will receive collections from three separate sources: reimbursements from the Department of Defense or TRICARE managed care support contractors for any medical care provided to eligible military retirees; an increase in copayments for prescription drugs; and receipts from VA's enhanced use lease program (cash and other items of value provided in exchange for the right to use assets of the department). CBO estimates that the collections and spending will offset each other.

- Section 205 extends through December 31, 2003, the availability of funds for a program to perform diagnostic testing and health examinations for dependents of Gulf War veterans.

- Section 302 allows VA canteens to sell visitors and employees merchandise that would be consumed off the premises of the VA facility. The receipts from the canteen operation are used to finance current operations. CBO estimates that receipts and expenditures will offset each other.

- Section 502 restores eligibility for education and home loan benefits to certain surviving spouses whose prior eligibility had been terminated. This provision will slightly increase direct spending for readjustment and housing benefits.

- Section 612 authorizes the use of flat headstone markers in the Sante Fe National Cemetery. Based on information from VA about the costs of headstone markers and the number of interments that occurred in Sante Fe in 1998, CBO expects that this provision will result in a small savings.

- Section 1011 will allow two judges at the United States Court of Appeals for Veterans Claims (CAVC) to retire early in an effort to stagger judges' terms. These early retirements will increase spending on retired pay by a small amount.

- Section 1023 will allow surviving spouses of judges at the CAVC to receive a survivor annuity if they had been married to the judge for one year; previously the required period of marriage was two years. This provision will also lower the retirement contributions that active judges must pay for survivors' annuities from 3.5 percent to 2.2 percent. These payments are considered revenues.

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