# CONGRESSIONAL BUDGET OFFICE
# COST ESTIMATE

July 14, 2003

# H.R. 2297
## Veterans Benefits Act of 2003

*As ordered reported by the House Committee on Veterans' Affairs on June 26, 2003*

## SUMMARY

H.R. 2297 would affect several veterans programs, including housing, compensation, pensions, burial, and education. The bill also would affect retirement programs for the military and the other uniformed services. CBO estimates that enacting this legislation would reduce direct spending for veterans programs and for uniformed services' retirement benefits by $63 million in 2004, about $135 million over the 2004-2008 period, and about $300 million over the 2004-2013 period. In addition, CBO estimates that implementing H.R. 2297 would cost $4 million in 2004 and $137 million over the 2004-2008 period, assuming appropriation of the necessary amounts.

H.R. 2297 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 H.R. 2297 is shown in Table 1. This estimate assumes that the legislation will be enacted by October 1, 2003. The costs of this legislation fall within budget functions 700 (veterans benefits and services), 600 (income security), 300 (natural resources and environment), 400 (transportation), and 550 (health).

TABLE 1. ESTIMATED BUDGETARY IMPACT OF H.R. 2297

| | By Fiscal Year, in Millions of Dollars | | | | |
|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 | 2008 |
| **CHANGES IN DIRECT SPENDING** | | | | | |
| Estimated Budget Authority | -63 | -15 | -18 | -20 | -21 |
| Estimated Outlays | -63 | -15 | -18 | -20 | -21 |
| **CHANGES IN SPENDING SUBJECT TO APPROPRIATION** | | | | | |
| Estimated Authorization Level | 37 | 39 | 40 | 41 | 41 |
| Estimated Outlays | 4 | 21 | 31 | 39 | 40 |

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

## BASIS OF ESTIMATE

### Direct Spending—Summary

H.R. 2297 would affect direct spending in veterans' programs for housing, compensation, pension, burial, and veterans' readjustment benefits. The bill would also affect direct spending for annuities for the survivors of uniformed services' retirees. 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 for veterans' programs and uniformed services retirement benefits by $63 million in 2004, about $135 million over the 2004-2008 period, and about $300 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 $97 million in 2004, $372 million over the 2004-2008 period, and $816 million over the 2004-2013 period (see Table 2). (Higher savings in 2004 result from lower interest rate assumptions for that year compared to those projected for the 2005-2013 period.) In preparing this estimate, CBO accounted for the interactive effects 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 H.R. 2297 (By fiscal year, outlays in millions of dollars)

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 210 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **HOUSING**[a] | | | | | | | | | | | |
| Spending Under Current Law | 452 | 567 | 552 | 535 | 547 | 560 | 572 | 588 | 601 | 917 | 938 |
| Proposed Changes | 0 | -97 | -65 | -67 | -70 | -73 | -76 | -82 | -85 | -99 | -102 |
| Spending Under H.R. 2297 | 452 | 470 | 487 | 468 | 477 | 487 | 496 | 506 | 516 | 818 | 836 |
| **COMPENSATION, PENSION, AND BURIAL BENEFITS**[a] | | | | | | | | | | | |
| Spending Under Current Law | 27,224 | 29,796 | 34,353 | 32,288 | 29,992 | 33,121 | 33,621 | 34,170 | 37,661 | 33,048 | 36,743 |
| Proposed Changes | 0 | 27 | 45 | 47 | 48 | 49 | 50 | 51 | 52 | 52 | 53 |
| Spending Under H.R. 2297 | 27,224 | 29,823 | 34,398 | 32,335 | 30,040 | 33,170 | 33,671 | 34,221 | 37,713 | 33,100 | 36,796 |
| **RETIREMENT BENEFITS** | | | | | | | | | | | |
| Spending Under Current Law | 35,740 | 36,660 | 37,649 | 38,770 | 39,929 | 41,072 | 42,130 | 43,237 | 44,323 | 45,428 | 46,553 |
| Proposed Changes | 0 | 1 | -2 | -5 | -5 | -5 | -5 | -5 | -5 | -6 | -6 |
| Spending Under H.R. 2297 | 35,740 | 36,661 | 37,647 | 38,765 | 39,924 | 41,067 | 42,125 | 43,232 | 44,318 | 45,422 | 46,547 |
| **VETERANS' READJUSTMENT BENEFITS** | | | | | | | | | | | |
| Spending Under Current Law | 2,305 | 2,575 | 2,749 | 2,923 | 3,100 | 3,259 | 3,406 | 3,543 | 3,696 | 3,820 | 3,947 |
| Proposed Changes | 0 | 6 | 7 | 7 | 7 | 8 | 9 | 9 | 9 | 9 | 9 |
| Spending Under H.R. 2297 | 2,305 | 2,581 | 2,756 | 2,930 | 3,107 | 3,267 | 3,415 | 3,552 | 3,705 | 3,829 | 3,956 |
| **Total Proposed Changes** | **0** | **-63** | **-15** | **-18** | **-20** | **-21** | **-22** | **-27** | **-29** | **-44** | **-46** |

a. 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 15 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.

**Changes in Loan Fees.** Section 14 would make several significant changes to the fees charged for the VA home loan guarantee. First, it would require VA to charge the same fees for loans to veterans of active-duty and selected-reserve service; under current law veterans who served in the selected reserves pay 75 basis points more than veterans with active-duty service. Second, starting in 2004, the bill would increase the fee charged for loans made with no downpayment by 15 basis points. Third, the provision would increase the fee charged for repeated use of the home loan benefit (when a veteran uses the benefit more than once) by 30 basis points for the 2004-2011 period and by 90 basis points in 2012 and 2013. Finally, it would replace the existing range of fees for hybrid adjustable rate mortgages with a flat fee of 1.25 percent. CBO estimates that revising fees in the manner specified above would reduce direct spending by $29 million in 2004 and $492 million over the 2004-2013 period.

**Home Loans for Reservists.** Section 13 would permanently extend the home loan benefits guaranteed by VA to members of the selected reserve. Under current law, reservists are eligible for home loans guaranteed by VA through 2009. CBO estimates that under the bill, VA would guarantee 9,000 additional loans a year over the 2010-2013 period, with an average loan amount of $153,000. CBO further estimates that the subsidy cost associated with these additional loans would total $10 million over the 2010-2013 period.

## 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 3). Together, those provisions would increase spending by $27 million in 2004, $218 million over the 2004-2008 period and by $479 million over the 2004-2013 period, CBO estimates.

TABLE 3. ESTIMATED CHANGES IN DIRECT SPENDING FOR VETERANS' COMPENSATION, PENSIONS, AND BURIAL BENEFITS UNDER H.R. 2297

| | By Fiscal Year, Outlays in Millions of Dollars | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Description of Provisions | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 210 | 2011 | 2012 | 2013 |
| **CHANGES IN DIRECT SPENDING** | | | | | | | | | | |
| Retention of DIC for Remarried Spouses | 23 | 40 | 41 | 42 | 43 | 44 | 46 | 47 | 48 | 49 |
| Disability Benefits for Filipino Veterans | 4 | 4 | 4 | 4 | 4 | 4 | 5 | 5 | 5 | 5 |
| Vocational Training for Pensioners | * | 1 | 2 | 2 | 2 | 2 | 0 | 0 | -1 | -1 |
| Spina Bifida Benefits | * | * | * | * | * | * | * | * | * | * |
| Disability Benefits for Former POWs | * | * | * | * | * | * | * | * | * | * |
| Burial Benefits for New Philippine Scouts | * | * | * | * | * | * | * | * | * | * |
| Forfeiture of Benefits for Subversive Activities | * | * | * | * | * | * | * | * | * | * |
| Total Changes in Compensation, Pensions, and Burial Benefits | 27 | 45 | 47 | 48 | 49 | 50 | 51 | 52 | 52 | 53 |

NOTE: DIC = Death and Indemnity Compensation; POWs = Prisoners of War.

* = Less than $500,000.

**Retention of Death and Indemnity Compensation (DIC) for Remarried Spouses**. Under current law, VA provides DIC payments to the surviving spouse of certain deceased veterans. If a surviving spouse remarries, DIC payments cease. Should the subsequent marriage end, either due to divorce or death of the new spouse, DIC payments can resume. Section 6 would allow a surviving spouse who remarries after age 55 to continue receiving DIC payments. The provision would apply retroactively, allowing surviving spouses who have already remarried after age 55 to resume receiving DIC payments but only if they apply for the benefit within one year after this bill is enacted. CBO estimates that the total cost to provide DIC payments to surviving spouses who remarry after age 55 would be $23 million in 2004, $189 million over the 2004-2008 period, and $423 million over the 2004-2013 period. Some of these costs would be offset by direct spending savings in retirement programs for the uniformed services. Those savings are discussed in the section titled “Military Retirement” below.

In fiscal year 2002, about 300,000 surviving spouses received DIC payments. CBO estimates that in that year, about 330 surviving spouses over age 55 (or about 0.1 percent of all surviving spouses receiving DIC) remarried and stopped receiving DIC payments as a result. CBO projects that, under current law, the number of remarriages would gradually increase each year as the overall population of DIC recipients increases and exceed 400 a year by the end of the decade.

CBO estimated the costs for three groups of surviving spouses—those over age 55 who would remarry under current law, those over age 55 who would choose not to remarry under current law but would remarry if section 6 were enacted, and those who remarried after age 55 before enactment of this bill.

*Surviving Spouses Over Age 55 Who Would Remarry Under Current Law.* CBO estimates that over the 2004-2013 period, about 380 surviving spouses over age 55 would remarry each year on average under current law. Under this bill, federal spending for DIC would increase because those surviving spouses would now receive DIC payments that would have stopped under current law. The average DIC payment in fiscal year 2002 was $12,244. Such payments are adjusted annually for increases in the cost of living. After accounting for expected mortality of the remarried surviving spouses as well as their new spouses, CBO estimates that the additional cost to provide DIC payments to surviving spouses over age 55 who would remarry under current law would be $7 million in 2004, $69 million over the 2004-2008 period, and $227 million over the 2003-2012 period.

*Surviving Spouses Over Age 55 Who Would Choose Not to Remarry Under Current Law.* Under this bill, some surviving spouses over age 55 might choose to remarry who would not have done so under current law. CBO estimates there would be no additional cost to provide

DIC payments to those individuals. Because those surviving spouses would choose to remain unmarried and receive DIC payments continuously under current law, providing DIC payments if they remarry would result in no additional costs to the program.

*Surviving Spouses Who Remarried After Age 55 Before Enactment of the Bill.* Section 6 also would apply retroactively, allowing surviving spouses who remarried after age 55 before enactment of this legislation to resume receiving DIC once this legislation was enacted. The bill would impose a deadline, however, that would require all those eligible to apply for resumption this benefit within one year after the bill's enactment date. After accounting for expected mortality of the remarried surviving spouses as well as their new spouses, CBO estimates that about 2,500 surviving spouses who remarried after age 55 would apply within the time limit and resume receiving DIC payments. That number represents about 30 percent of the total number of retroactive cases that CBO estimates would be eligible to reapply for DIC payments. CBO estimates that the additional cost to provide DIC payments to this population would be $16 million in 2004, $120 million over the 2004-2008 period, and $196 million over the 2004-2013 period. Such costs could obviously be much higher or lower, depending on the portion of eligible people that apply for this retroactive benefit. (CBO also estimates that implementing this section would increase spending subject to appropriation by about less than $100,000 a year over the 2004-2006 period, assuming appropriation of the estimates amounts. CBO's estimate of those costs is discussed below under the heading of "Spending Subject to Appropriation.")

**Disability Benefits for Filipino Veterans**. Section 16 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 16 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*. 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 16 of the bill would require that these survivors be paid at the full DIC rate.

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 ($12,244, as noted above). 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 16 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. 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.

**Vocational Training for Pensioners.** Low-income veterans who served in the armed forces during a period of war and who are age 65 or older or are determined by VA to be permanently and totally disabled are eligible for monetary support to bring their total income up to a level set by the Congress. Under current law, veterans whose income subsequently exceeds this level are no longer eligible for this pension or the related health care benefits. Section 9 would reinstate a pilot program that offered vocational training and job placement services to certain pension recipients. That program expired in 1995. Under that program, trainees who subsequently became employed were allowed to maintain eligibility for the pension program through their first year of employment and to receive health care benefits for three years after that. Payments for education, training, and other services were made from the pension account. Section 9 would reinstate this program for five years from the bill's date of enactment.

The temporary program of Vocational Training For Certain Pension Recipients operated from February 1, 1985, to December 31, 1995. VA reports that individuals trained under that program from 1985 through 2000. Based on our analysis of that program's history, CBO expects about 50 pensioners to begin training in 2004, increasing to about 250 trainees a year when the program is fully implemented. The number of trainees would decline after 2008, when the program would stop taking new entrants.

The vocational training and job placement services would be offered under the VA program of Training and Rehabilitation for Veterans with Service-Connected Disabilities. The average benefit under this program was about $7,300 in 2002 and CBO estimates the average benefit will increase to almost $8,100 in 2004. Trainees under the pilot program for pension recipients would generally be eligible for 24 months of vocational training, but would not receive the subsistence allowance and related loans usually available to those in the Training and Rehabilitation program, nor would they be eligible for automobile adaptive equipment.

During the earlier pilot program, the average cost for evaluating and training pension recipients was about 60 percent of the average training and allowance benefit under the Training and Rehabilitation Program, and for this estimate, CBO assumes that will continue to be the case. Thus, CBO estimates that reinstating the pilot program would result in training costs for pension recipients of less than $500,000 in 2004, $7 million over the 2004-2008 period and $12 million over the 2004-2013 period.

To the extent that the trainees are successful in obtaining employment, their pensions would be reduced or eliminated, thereby reducing pension outlays. Assuming similar rates of employment to those reported under the previous pilot, CBO estimates that about 130 pensioners would have their pensions reduced or eliminated for a savings of $5 million over the 2006-2013 period. In total, the pilot program would increase pension costs by less than $500,000 in 2004, $7 million over the 2004-2008 period, and $7 million over the 2004-2013 period.

**Spina Bifida Benefits.** Exposure to certain herbicides used by the Department of Defense (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 12 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 October 1967 and May 1975.

According to DoD, herbicides were used in the DMZ in Korea in 1968 and 1969. 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 30 children with spina bifida born to veterans who served in the DMZ between October 1967 and May 1975 would begin to receive benefits under section 12. CBO estimates that the increase in direct spending resulting from enacting section 12 would be less than $500,000 in 2004, about $2 million over the 2004-2008 period, and about $4 million over the 2004-2013 period. (CBO estimates that implementing this section also would increase spending subject to appropriation by about $2 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. For former POWs who were held captive for 30 days or more, current law specifies a list of 15 diseases and disabilities that VA assumes are service-connected because, according to VA, military medical records do not cover periods of captivity and may not provide adequate documentation for eligibility for disability compensation benefits.

Section 11 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. Based on information provided by VA, CBO estimates that there are currently about 39,000 living former POWs. Applying prevalence rates for this disease obtained from the National Institutes of Health and assuming that between 50 percent and 60 percent of eligible former POWs would apply, CBO estimates that less than 10 former POWs would receive compensation under this provision each year. In 2002, the average disability compensation payment to veterans with diseases of the liver was about $5,900 for the year. CBO estimates that adding cirrhosis of the liver to the list of presumed service-connected disabilities for former POWs would increase direct spending for veterans' compensation by less than $100,000 a year over the 2004-2013 period.

VA is in the process of issuing a regulation that would have the same effect as this provision and expects the regulation to take effect by the end of fiscal year 2003. If this regulation were to take effect before H.R. 2297 became law, this provision would have no cost.

Section 11 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 15 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.

In sum, CBO estimates that enacting section 11 would cost less than $100,000 in 2004, less than $500,000 over the 2004-2008 period, and, at most, $1 million over the 2004-2013 period.

**Burial Benefits for New Philippine Scouts**. 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 17, 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 17 would have no significant effect on direct spending over the 2004-2013 period.

**Forfeiture of Benefits for Subversive Activities.** Under current law, a veteran who commits certain criminal acts loses eligibility for veterans' benefits that he would otherwise be due. Section 20 would include additional criminal acts 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.

**Direct Spending—Retirement Benefits**

Many retirees of the uniformed services have a Survivor Benefit Plan (SBP) premium payment deducted from their retirement annuity. The SBP was established in Public Law 92-425 to create an opportunity for military retirees to provide annuities for their survivors. Under current law, survivors of disabled veterans who are retired from the military, the Coast Guard, Public Health Service, or the National Oceanic and Atmospheric Administration cannot receive both full SBP and DIC from VA. Because of this prohibition on concurrent receipt of these benefits, such survivors forgo a portion of their SBP annuity equal to the nontaxable DIC benefit. These survivors also receive a refund in premiums for the portion of the SBP annuity they chose to forgo to receive the nontaxable DIC benefit. If a survivor loses eligibility for DIC payments, he or she has the option to repay the refunded premiums to once again receive their full SBP annuity.

Section 6 would allow surviving spouses who remarry after age 55 to continue receiving DIC payments that they would otherwise be ineligible for (see "Retention of DIC for Remarried Spouses" above). Surviving spouses who would gain eligibility for DIC under section 6 and who would as a result be eligible for both SBP and DIC would forgo that portion of their SBP annuity equal to the nontaxable DIC benefit. Thus, the enactment of section 6 would result in a savings in SBP payments for surviving spouses who under current law receive the full amount of their SBP payments.

In comparison to current law, the full amount of these savings would be reduced because of changes in the amount of premium refunds and repayments. For the survivors whose remarriage occurred prior to enactment of this bill, these savings would be partially offset by the refunding of the premium payments for the portion of SBP that these survivors would forgo to receive DIC. CBO expects that their refund payments would occur in either 2004 or 2005, depending on how soon VA restarts their DIC benefit.

Survivors who remarry after enactment of this legislation would continue receiving the same DIC and SBP payments as before their remarriage. If they remarry under current law, these survivors would become ineligible for DIC and would have to buy back their full SBP eligibility by repaying that portion of their premiums that had previously been refunded. Under section 6, these survivors would not repay the premiums because they would continue receiving SBP at the reduced rate. Thus, if section 6 were enacted, total SBP costs would increase by the amount that these survivors would not repay, and decrease by the amount of the DIC offset.

Based on information provided by DoD and VA, CBO estimates that about 500 survivors would receive both DIC and a SBP annuity each year over the 2004-2013 period and that the average annual SBP offset would be $9,218 in 2004 which would increase over the 2005-2013 period for cost-of-living adjustments. After accounting for changes in SBP premium refunds and repayments, CBO estimates that enacting section 6 would increase spending for retirement from the uniformed services by $1 million in 2004, but reduce spending for these benefits by $16 million over the 2004-2008 period and $43 million over the 2004-2013 period (see table 2).

## Direct Spending—Veterans' Readjustment Benefits

H.R. 2297 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 4). Together, these provisions would increase spending by $6 million in 2004, $35 million over the 2004-2008 period, and by $80 million over the 2004-2013 period.

TABLE 4. ESTIMATED CHANGES IN DIRECT SPENDING FOR VETERANS' READJUSTMENT BENEFITS UNDER H.R. 2297

| | By Fiscal Year, Outlays in Millions of Dollars | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Description of Provisions | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 210 | 2011 | 2012 | 2013 |
| Automobile and Adaptive Equipment Grants | 4 | 4 | 4 | 4 | 5 | 5 | 5 | 5 | 5 | 5 |
| Adaptive Housing Grants | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| MGIB for Self-Employment | 1 | 2 | 2 | 2 | 2 | 3 | 3 | 3 | 3 | 3 |
| Extend Chapter 35 for National Guard | * | * | * | * | * | * | * | * | * | * |
| Repeal of Education Loan Program | * | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Changes in Veterans' Readjustment Benefits | 6 | 7 | 7 | 7 | 8 | 9 | 9 | 9 | 9 | 9 |

NOTE: MGIB = Montgomery GI Bill.

* = Less than $500,000.

**Automobile and Adaptive Equipment Grants.** Section 10 would increase a benefit that helps eligible disabled veterans obtain suitable transportation. CBO estimates enacting this provision would increase direct spending for automobile grants and adaptive equipment by about $4 million in 2004, $21 million over the 2004-2008 period, and $46 million over the 2004-2013 period.

*Automobile Grants.* Section 10 would increase, from $9,000 to $11,000, the maximum amount of a grant available to eligible veterans for the purchase of an automobile or other vehicle. Veterans are eligible to receive this grant if, as a result of a service-connected injury or disease, they have lost the use of one or both hands (or feet), or have a severe vision impairment.

Based on data provided by VA, CBO estimates that about 1,100 veterans purchased automobiles in 2002 with the help of VA grants that averaged almost $9,000. Based on our analysis of the results of previous increases in this grant amount, CBO estimates that increasing the maximum grant amount to $11,000 would raise the number of grants awarded to about 1,220, an increase of about 120 grants a year. Thus, CBO estimates that enacting this provision would increase outlays for automobile grants by about $3 million in 2004, $16 million over the 2004-2008 period, and $36 million over the 2004-2013 period.

*Adaptive Equipment.* Veterans who receive automobile grants under the VA program 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 levels of expenditure, we estimate that providing adaptive equipment for about 120 extra vehicles a year would increase annual outlays by about $700,000, and that outlays would increase by close to $1 million a year in later years as these additional vehicles begin to return for repair or replacement of equipment. Thus, CBO estimates that providing and maintaining adaptive equipment for the extra vehicles purchased as a result of the benefit increase under section 10 would increase outlays by about $1 million in 2004, $5 million over the 2004-2008 period, and $10 million over the 2004-2013 period.

**Adaptive 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. Under current law, veterans who are classified by VA as totally disabled and who have certain mobility limitations are entitled to receive housing grants of up to $48,000. Totally disabled veterans who are blind or have lost the use of their hands are entitled to receive grants of up to $9,250. Section 10 also would increase those grants to maximums of $50,000 and $10,000, respectively.

According to VA, 678 veterans received housing grants averaging $36,586 in fiscal year 2002. Because the benefit increase is relatively small, and the criteria to receive these grants are highly restrictive, CBO expects that enacting section 10 would not result in a significant increase in the number of grants that would be awarded each year. CBO estimates that, under this provision, the grants would average about $39,000, increasing outlays by about $1 million annually.

**Montgomery GI Bill (MGIB) for Self-Employment Training.** Section 2 would allow veterans to use their education benefits to receive on-the-job training for periods of less than six months, when that training is needed to obtain a license to engage in a self-employment occupation or is required for ownership and operation of a franchise. This provision would take effect six months after the bill's enactment. Under current law, these benefits are usually approved only for those on-the-job training programs that last a minimum of six months. Based on information from VA, CBO believes this expansion of education benefits would be used primarily by those seeking to own and operate a franchise. Franchise companies typically require prospective owners to undergo a four-to-six week program of on-the-job training.

Based on information from the Department of Labor (DOL), CBO estimates that about 6,500 eligible veterans took self-employment classes through Small Business Development Centers in 2002, and we assume that about 1,600 of these also completed five weeks of on-the-job training that is associated with the purchase of a franchise. Because the population eligible for and using MGIB is growing, we estimate this number will increase to about 2,000 by 2013. In 2004, the MGIB benefit will be $985 a month, or about $1,200 for a five-week period. Under current law, such payments are annually adjusted for increases in the cost of living. Thus, CBO estimates that enacting section 2 would increase direct spending for veterans' education benefits by about $1 million in 2004, $9 million over the 2004-2008 period, and $24 million over the 2004-2013 period.

**Other Provisions Affecting Spending for Readjustment Benefits.** The following provisions would have an insignificant budgetary impact on direct spending for readjustment benefits:

- Section 3 would extend the period of eligibility for survivors and dependents education benefits for those members of the National Guard who are involuntarily ordered to full-time National Guard duty under section 502(f) of Title 32 of the United States Code. This expanded eligibility would be retroactive to September 11, 2001. Based on information from VA and 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 5 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 $120,000. Forgiving the remaining debt would constitute a loan modification, which would increase direct spending by less than $100,000.

**Spending Subject to Appropriation**

Table 5 shows the estimated effects of H.R. 2297 on discretionary spending for veterans' programs. CBO estimates that implementing H.R. 2297 would increase discretionary spending for veterans benefits by $4 million in 2004 and $137 million over the 2004-2008 period, assuming that the necessary amounts are appropriated.

**State Cemetery Grants.** Current law authorizes VA to make grants to build and improve state veterans' cemeteries through fiscal year 2004, assuming appropriation of the necessary amounts. Section 8 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.

**Transition Assistance Program (TAP).** Servicemembers who are preparing to separate from the military are eligible to attend transition assistance workshops offered by the Department of Labor at military facilities in the United States and Puerto Rico. Section 19 would require TAP personnel or contractors to provide transition assistance, in person, at overseas bases. DoD projects about 20,000 separations a year at overseas bases. Based on information from DoD and DOL, CBO expects that, under section 19, DOL would offer about 600 overseas workshops a year at an average cost per workshop of about $2,500. CBO estimates that implementing section 19 would cost $1 million in 2004 and about $2 million a year thereafter, assuming that the necessary amounts are appropriated.

**Regional Office in Manila, Philippines.** Section 18 would authorize VA to maintain the regional office located in Manila, Philippines, through December 31, 2009. 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 18 would cost $3 million in 2004 and $19 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 the Department of Veterans Affairs. Section 12 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 October 1967 and May 1975. Based on VA's experience with benefits for children with spina bifida born to Vietnam veterans, CBO estimates that less than 30 children with spina bifida would begin to receive benefits under section 12. 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 12 would cost less than $500,000 in 2004 and about $2 million over the 2004-2008 period.

TABLE 5. ESTIMATED CHANGES IN SPENDING SUBJECT TO APPROPRIATION UNDER H.R. 2297 [a]

| Description of Provisions | By Fiscal Year, in Millions of Dollars 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|
| State Cemetery Grants | | | | | |
| Estimated Budget Authority | 33 | 33 | 34 | 35 | 35 |
| Estimated Outlays | 0 | 15 | 25 | 33 | 34 |
| Transition Assistance Program | | | | | |
| Estimated Budget Authority | 1 | 2 | 2 | 2 | 2 |
| Estimated Outlays | 1 | 2 | 2 | 2 | 2 |
| Regional Office in Manila, Philippines | | | | | |
| Estimated Budget Authority | 3 | 4 | 4 | 4 | 4 |
| Estimated Outlays | 3 | 4 | 4 | 4 | 4 |
| Spina Bifida Benefits | | | | | |
| Estimated Budget Authority | * | * | * | * | * |
| Estimated Outlays | * | * | * | * | * |
| Other Provisions | | | | | |
| Estimated Budget Authority | * | * | * | * | * |
| Estimated Outlays | * | * | * | * | * |
| Total Changes | | | | | |
| Estimated Budget Authority | 37 | 39 | 40 | 41 | 41 |
| Estimated Outlays | 4 | 21 | 31 | 39 | 40 |

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

* = Less than $500,000.

**Other Provisions.** The following provisions would have an insignificant impact on discretionary spending:

- Section 4 would modify the charter of the Veterans' Advisory Committee on Education so that the committee would continue to operate until December 31, 2009. 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 2004-2010 period, assuming appropriation of the necessary amounts.

- Under current law, the VA provides DIC payments to the surviving spouse of certain deceased veterans. If a surviving spouse remarries, DIC payments cease. Should the subsequent marriage end, either due to divorce or death of the new spouse, DIC payments can resume. Section 6 would allow a surviving spouse who remarries after age 55 to continue receiving DIC payments. CBO estimates that enacting section 6 would result in about 3,000 cases where a surviving spouses would apply to reinstate their DIC payments retroactively. CBO estimates that the costs for VA to process those additional applications would be less than $100,000 a year over the 2004-2006 period, assuming appropriation of the necessary amounts.

- 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 7 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 January 1, 2000. CBO estimates that the potential increase in costs resulting from an increased number of burials in national cemeteries would be insignificant.

- 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 17 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.

## INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 2297 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 March 28, 2003, CBO transmitted a cost estimate for H.R. 36, a bill to provide that remarriage of the surviving spouse of a deceased veteran after age 55 shall not result in termination of DIC otherwise payable to that surviving spouse, as introduced on January 7, 2003. Section 6 of H.R. 2297 would provide a one-year limit for VA to accept applications for reinstated DIC benefits. In contrast, H.R. 36 had no time limit for application for benefits. CBO's cost estimate for H.R. 36 did not account for savings in military retirement programs that would occur as a result of both bills. These differences are reflected in the cost estimates for H.R. 36 and H.R. 2297.

On April 3, 2003, CBO transmitted a cost estimate for H.R. 533, the Agent Orange Veterans' Children's Benefits Act of 2003, as introduced on February 5, 2003. Section 12 of H.R. 2297 is similar to H.R. 533; however, CBO could not provide a specific estimate of costs for H.R. 533 because we were uncertain how VA would implement the bill. Because section 12 is more specific regarding the expanded eligibility for benefits for children with spina bifida, CBO has provided an estimate of those costs for H.R. 2297.

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 15 of H.R. 2297 is similar to section 5 of H.R. 1460, as are the estimated savings.

On May 19, 2003, CBO transmitted a cost estimate for H.R. 1257, the Selected Reserve Home Loan Equity Act, as ordered reported by the House Committee on Veterans' Affairs on May 15, 2003. Sections 13 and 14 of H.R. 2297 are similar to H.R. 1257, and the estimates of savings are also similar. Section 14 of H.R. 2297 would make further changes to loan fees, which would yield greater savings than estimated for H.R. 1257.

On May 23, 2003, CBO transmitted a cost estimate for H.R. 1838, a bill to revise the presumptions of service-connection relating to diseases and disabilities of former prisoners of war, as introduced on April 29, 2003. Section 11 of the bill is identical to H.R. 1838, as are the two estimates.

**ESTIMATE PREPARED BY:**

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

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

Impact on the Private Sector: Frances Lussier

**ESTIMATE APPROVED BY:**

Peter H. Fontaine
Deputy Assistant Director for Budget Analysis