CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

July 20, 2001

H.R. 2540
Veterans Benefits Act of 2001

As ordered reported by the House Committee on Veterans' Affairs on July 19, 2001

SUMMARY

The Veterans Benefits Act of 2001 would affect several veterans' programs, including compensation, insurance, medical care, and housing. CBO estimates that enacting this legislation would reduce direct spending by $801 million over the 2002-2006 period and $702 million over the 2002-2011 period. Because the bill would affect direct spending, pay-as-you-go procedures would apply. In addition, CBO estimates that implementing H.R. 2540 would increase spending subject to appropriation by $1 million in 2001, $47 million in 2002, and $781 million over the 2001-2006 period, assuming appropriation of the necessary amounts.

The bill also would increase the amounts paid to veterans for disability compensation and to their survivors for dependency and indemnity compensation by the same cost-of-living adjustment (COLA) payable to Social Security recipients. Because the COLA authorized by this bill is assumed in the budget resolution baseline, the bill would have no budgetary effect relative to the baseline. Relative to current law, CBO estimates that enacting this bill would increase spending for these programs by about $407 million in 2002. (The increase would take effect on December 1, 2001, and would amount to $543 million on an annualized basis.)

H.R. 2540 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 2540 is shown in Table 1. This estimate assumes the legislation will be enacted by September 2001. The costs of this legislation fall within budget function 700 (veterans benefits and services).

TABLE 1. ESTIMATED BUDGETARY IMPACT OF H.R. 2540

	By Fiscal Year, in Millions of Dollars					
	2001	2002	2003	2004	2005	2006
CHANGES IN DIRECT SPENDING						
Estimated Budget Authority	0	a	-181	-201	-202	-222
Estimated Outlays	0	a	-169	-208	-202	-222
SPENDING SUBJECT TO APPROPRIATION						
Estimated Authorization Level	50	3	219	226	237	245
Estimated Outlays	1	47	104	191	215	223

a. Savings of less than $500,000.

BASIS OF ESTIMATE

Direct Spending

The legislation would affect direct spending in veterans' programs for compensation, insurance, and housing, as well as offsetting receipts related to veterans' medical care (see Table 2).

Health Services Improvement Fund. Section 402 would extend the authority to collect copayments for outpatient prescriptions through September 30, 2006. Under current law, this authority expires on September 30, 2002. The Department of Veterans Affairs (VA) currently collects a $2 copayment for each outpatient prescription it fills; using statutory authority, it is planning to increase the copayment to $7 per prescription. The $2 copayment is currently deposited into the Medical Care Collections Fund (MCCF). Under current law, amounts deposited to the MCCF are considered to be offsets to discretionary appropriations and spending from the MCCF is subject to annual appropriations. The $5 increase in the prescription copayment and other receipts will be deposited into the Health Services Improvement Fund (HSIF). Under current law, amounts deposited to the HSIF are considered offsets to direct spending, and VA may spend amounts in the HSIF without appropriations action. CBO estimates that extending the authority to collect prescription copayments would result in receipts of $300 million to $340 million a year, totaling about $1.3 billion over the 2003-2006 period. Of that amount, $0.9 billion would be an offset to direct spending (from the $5 increase in copayments) and $0.4 billion would be an offset to discretionary spending (from the $2 copayments).

Section 403 of the bill would remove the automatic spending authority for funds in the HSIF and make spending from the HSIF subject to appropriation, beginning on October 1, 2002. Consequently, extension of the copayment requirement would not result in additional direct spending. Rather, about $11 million in direct spending currently projected over the 2003-2011 period would be eliminated.

TABLE 2. ESTIMATED CHANGES IN DIRECT SPENDING UNDER H.R. 2540

	By Fiscal Year, Outlays in Millions of Dollars					
	2001	2002	2003	2004	2005	2006
DIRECT SPENDING						
Health Services Improvement Fund						
Estimated Budget Authority	0	0	-217	-225	-236	-245
Estimated Outlays	0	0	-205	-232	-236	-245
Compensation Related to Undiagnosed Illnesses						
Estimated Budget Authority	0	0	36	24	23	22
Estimated Outlays	0	0	36	24	23	22
Veterans Insurance						
Estimated Budget Authority	0	0	0	0	11	1
Estimated Outlays	0	0	0	0	11	1
Home Loans for Native American Veterans						
Estimated Budget Authority	0	a	a	a	a	a
Estimated Outlays	0	a	a	a	a	a
SUMMARY OF CHANGES IN DIRECT SPENDING						
Estimated Budget Authority	0	a	-181	-201	-202	-222
Estimated Outlays	0	a	-169	-208	-202	-222

a. Less than $500,000.

Compensation Related to Undiagnosed Illnesses. Section 202 would expand the definition of undiagnosed illness for the purpose of granting service-connected disability compensation to more Persian Gulf War veterans. Under current law, veterans who served in the Persian

Gulf from August 2, 1990, to the present can be presumed to have a compensable disability if they exhibit symptoms that cannot be attributed to any diagnosable illness before December 31, 2001. Such symptoms include joint pain, headaches, sleep disorders, and respiratory problems. This section would expand eligibility to those Gulf War veterans who are diagnosed with any illness that cannot be clearly defined, including chronic fatigue syndrome (CFS), fibromyalgia, and chronic multisymptom illness. In addition to the diseases listed in the bill, CBO assumes that other diseases for which veterans could receive service-connected disability include irritable bowel syndrome, multiple chemical sensitivity (MCS), and autoimmune disorder.

CBO obtained data from the VA on the number of Gulf War veterans who have been diagnosed with ill-defined illnesses like CFS and fibromyalgia and have had their claims for compensation denied. VA was unable to provide similar data for MCS or chronic multisymptom illness because it does not have diagnostic codes for these illnesses. CBO used data from a comprehensive study of Gulf War veterans' health to estimate the incidence of MCS within that population. Because chronic multisymptom illness often exhibits similar symptoms as CFS or fibromyalgia, CBO assumed that most veterans with this illness are likely to have already been diagnosed as having these other diseases.

From the data provided by VA, CBO could not estimate the prevalence of autoimmune disorders that might be attributed to service in the Gulf War. VA does not have a single diagnostic code for this illness but, instead, classifies over a dozen widely varying diseases as autoimmune disorders.

Assuming that some of the diagnoses are overlapping and that some previously denied cases would likely be resubmitted, CBO estimates that enactment of this bill would result in about 3,000 additional veterans being granted compensation for a service-connected disability. Under current law, a veteran must have exhibited and documented signs and symptoms of an illness before December 31, 2001, to receive benefits for a service-connected disability relating to Persian Gulf service, so most claims would probably be submitted in 2002. Because this section of the bill would take effect on April 1, 2002, and since VA takes an average of six months to adjudicate reopened claims, CBO expects that no payments would be made in 2002. Based on payment data from VA for approved claims for CFS, fibromyalgia, and similar illnesses, CBO estimates the average annual benefit for such illnesses would be about $8,000 in 2003. As a result, CBO estimates that enacting section 202 would increase direct spending by $36 million in 2003, $105 million from 2002 through 2006, and $204 million over the 2002-2011 period. (Under current law, we estimate that disability compensation payments to veterans will total $254 billion over the 10-year period.)

Veterans Insurance. Section 401 of the bill would allow for the payment of certain insurance proceeds to an alternate beneficiary when the primary beneficiary cannot be identified. Under current law, there is no time limitation for when a named primary beneficiary of a National Service Life Insurance or United States Government Life Insurance policy must file a claim for the insurance proceeds. VA is currently required to hold the unclaimed proceeds indefinitely. According to the VA, there are about 4,000 existing policies in these two programs for which payments have not been made because the primary beneficiary cannot be located. The bill would authorize VA to pay an alternate beneficiary if no claim has been made by the primary beneficiary within three years of the policyholder's death. If no designated beneficiary makes a claim within five years of the policyholder's death, VA would be allowed to make a payment to any such person who may be judged to be entitled to the proceeds. If the policyholder died before the enactment of this bill, the above time requirements would begin on the date of the bill's enactment.

Based on information provided by VA, CBO assumes an eventual payment of proceeds would be made on about two-thirds of the policies when the primary beneficiary cannot be located. As a result, CBO estimates that enacting this section would increase direct spending by $11 million in 2005, $12 million over the 2002-2006 period, and $22 million over the 2002-2011 period. VA indicates that two additional employees would need to be hired to process these claims. CBO estimates that the resulting increase in discretionary spending for salaries and benefits would be less than $500,000 per year, assuming appropriation of necessary amounts.

Home Loans for Native American Veterans. Section 404 would extend the Native American Veteran Housing Loan Pilot Program through December 31, 2005. Under the program, VA makes direct loans to veterans living on trust lands for the purchase, construction, or improvement of a home. In 1993, Public Law 102-389 provided appropriations of $4.5 million for the subsidy cost of these loans. Since the program's inception, VA has made about 200 loans at a subsidy cost of $2 million.

CBO estimates that under the bill, VA would subsidize about 30 loans a year at an annual cost of about $250,000. Because these outlays would be from funds already appropriated and would not depend on future appropriation action, they would be considered direct spending. In addition, CBO estimates that VA's administrative expenses, a discretionary cost, would be roughly $500,000 in 2002 and $2 million over the 2002-2006 period, assuming appropriation of the necessary amounts.

Other Provisions. CBO estimates that the following provisions would have no net effect on direct spending.

Compensation Related to Diabetes Mellitus. Section 201 would codify diabetes mellitus (type 2) as a disability with presumed service connection based on exposure to Agent Orange and other herbicides during the Vietnam War. Under current law, VA may add to the regulations establishing service-connected disability any disease that scientific study has determined to have a positive association with herbicide agents. Specifically, the Institute of Medicine (IOM) produces a report every two years that evaluates current research findings and categorizes diseases according to the amount of evidence suggesting an association with herbicides. In October 2000, the IOM concluded there was evidence suggesting an association for diabetes mellitus. VA began the appropriate procedures to establish this condition as one of the diseases for which there is a presumption of service connection for Vietnam War veterans. On July 9, 2001, this regulation went into effect. Because this bill would codify a regulation already in existence, no costs would be associated with this section.

Cost-of-Living Adjustment. Section 101 would increase the amounts paid to veterans for disability compensation and to their survivors for dependency and indemnity compensation by the same COLA payable to Social Security recipients. The increase would take effect on December 1, 2001, and the results of the adjustment would be rounded to the next lower dollar.

The COLA that would be authorized by this bill is assumed in the budget resolution baseline, pursuant to section 257 of the Balanced Budget and Emergency Deficit Control Act, and savings from rounding it down were achieved by the Balanced Budget Act of 1997 (Public Law 105-33). As a result, the bill would have no budgetary effect relative to the baseline. Relative to current law, CBO estimates that enacting this bill would increase spending for these programs by about $407 million in 2002. This estimate assumes that the COLA effective on December 1, 2001, would be 2.7 percent. (The 2002 cost on an annualized basis would be $543 million, which would be the approximate cost in subsequent years.)

Spending Subject to Appropriation

Table 3 shows the estimated effects of H.R. 2540 on discretionary spending for veterans' programs, assuming that appropriations are provided and receipts are collected in the amount of the estimated authorizations.

Discretionary Offsetting Receipts. Section 402 would extend the authority to collect prescription copayments through September 30, 2006. As discussed above under "Health Services Improvement Fund," a portion of those receipts are deposited to the MCCF and recorded as an offset to discretionary appropriations. CBO estimates that under H.R. 2540, discretionary offsetting receipts would be $86 million in 2003 and would total $366 million through the end of 2006.

TABLE 3. ESTIMATED CHANGES IN SPENDING SUBJECT TO APPROPRIATION FOR H.R. 2540

	By Fiscal Year, in Millions of Dollars					
	2001	2002	2003	2004	2005	2006
SPENDING SUBJECT TO APPROPRIATION						
Spending Under Current Law for VA Medical Care						
Estimated Authorization Level [a]	20,863	21,767	22,150	33,888	23,603	24,344
Estimated Outlays	20,418	21,447	22,021	22,654	23,353	24,085
Proposed Changes						
Offsetting Receipts						
Estimated Authorization Level	0	0	-86	-90	-93	-97
Estimated Outlays	0	0	-86	-90	-93	-97
Spending of Receipts						
Estimated Authorization Level	0	0	303	315	329	342
Estimated Outlays	0	0	183	280	307	320
Homeless Veterans Programs						
Authorization Level	50	0	0	0	0	0
Estimated Outlays	1	44	5	0	0	0
Subtotal-Proposed Changes						
Estimated Authorization Level	50	0	217	225	236	245
Estimated Outlays	1	44	102	190	214	223
Spending Under H.R. 2540 for VA Medical Care						
Authorization Level	20,913	21,767	22,367	23,113	23,839	24,589
Estimated Outlays	20,419	21,491	22,123	22,844	23,567	24,308
Spending Under Current Law for General Operating Expenses						
Estimated Authorization Level [a]	1,080	1,129	1,168	1,209	1,249	1,290
Estimated Outlays	1,066	1,124	1,164	1,205	1,245	1,286
Proposed Changes:						
Toll-Free Number Pilot Program						
Estimated Authorization Level	0	2	1	0	0	0
Estimated Outlays	0	2	1	0	0	0
Spending Under H.R. 2540 for General Operating Expenses						
Estimated Authorization Level	1,080	1,131	1,169	1,209	1,249	1,290
Estimated Outlays	1,066	1,126	1,165	1,205	1,245	1,286

(Continued)

TABLE 3. CONTINUED

	By Fiscal Year, in Millions of Dollars					
	2001	2002	2003	2004	2005	2006
Spending Under Current Law for Housing Loans						
Estimated Authorization Level [a,c]	1	1	1	1	1	1
Estimated Outlays	1	1	1	1	1	1
Proposed Changes						
Estimated Authorization Level	0	1	1	1	1	b
Estimated Outlays	0	1	1	1	1	b
Spending Under H.R. 2540 for Housing Loans						
Estimated Authorization Level [c]	1	1	1	1	1	1
Estimated Outlays	1	1	1	1	1	1
SUMMARY OF CHANGES IN SPENDING SUBJECT TO APPROPRIATION						
Estimated Authorization Level	50	3	219	226	237	245
Estimated Outlays	1	47	104	191	215	223

a. The 2001 level is the estimated amount appropriated for that year including the spending of MCCF receipts. The current-law amounts for the 2002-2006 period assume that appropriations continue at the 2001 level with adjustments for anticipated inflation, and that the current appropriation to spend MCCF receipts continues.

b. Less than $500,000.

c. Both the current program and the proposed change are more than $500,000 but less than $1 million.

As under current law, any spending from the MCCF would need to be provided through annual appropriation. In addition, spending from the HSIF also would be subject to annual appropriation under H.R. 2540. If the full amount of the receipts is appropriated each year, CBO estimates that outlays from these appropriations would total $183 million in 2003 and more than $1 billion over the period ending in 2006.

Toll-Free Number Pilot Program. Section 406 would require the VA to conduct a pilot program to test the benefits and cost-effectiveness of expanding access to veterans service representatives through a toll-free telephone number. Under the pilot program, veterans benefits counselors would be available to take the calls from veterans for not less than 12 hours on regular business days and not less than six hours on Saturday. In addition, the counselors would have to be able to provide information on veterans benefits provided by state governments and other federal departments and agencies. The pilot program would begin within six months after enactment of the bill and run for two years.

Today, veterans who call the primary toll-free number for VA (1-800-827-1000) are routed to the nearest regional office that specializes in the benefits for which the veteran has indicated he or she has most interest. These offices answer the telephones about 7 hours per business day. The VA has recently modified its computer system to enable veterans benefits counselors to provide information on state benefits to callers, and the department is working to expand its data system to include those programs offered to veterans by other federal agencies. Based on information provided by VA, CBO assumes that additional staff would have to be hired to handle the increased work load. CBO estimates that implementing this section will increase discretionary spending by $2 million in 2002 and $3 million over the 2002-2006 period, assuming appropriation of the necessary amounts.

Homeless Veterans Programs. Section 408 would amend the Homeless Veterans Comprehensive Service Programs Act of 1992 and would authorize $50 million for fiscal year 2001 for programs under that act. Assuming appropriation of the authorized amount by early in September 2001, CBO estimates that outlays would increase by $1 million in 2001 and by $50 million over the 2001-2006 period.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays and governmental receipts that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

TABLE 4. ESTIMATED IMPACT OF H.R. 2540 ON DIRECT SPENDING AND RECEIPTS

	By Fiscal Year, in Millions of Dollars										
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Changes in outlays	0	0	-169	-208	-202	-222	25	20	19	18	17
Changes in receipts	Not applicable										

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 2540 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments. The bill would amend an existing home loan program for Native American veterans to simplify the role of tribal governments. Under current law, a veteran living on tribal trust land may participate in this program only if his or her tribal government has entered into a memorandum of understanding with the Department of Veterans Affairs. The proposed change would allow similar memorandums of understanding with *other* federal agencies to fulfill this requirement.

PREVIOUS CBO ESTIMATE

On July 5, 2001, CBO prepared a cost estimate for H.R. 1929, the Native American Veterans Home Loan Act of 2001, as introduced in the House on May 21, 2001. Section 402 of H.R. 2540 is similar to H.R. 1929, and its costs are identical.

ESTIMATE PREPARED BY:

Compensation and Insurance: Michelle Patterson
Health Care: Sam Papenfuss
Housing: Sunita D'Monte
Impact on State, Local, and Tribal Governments: Elyse Goldman
Impact on the Private Sector: Allison Percy

ESTIMATE APPROVED BY:

Robert A. Sunshine
Assistant Director for Budget Analysis