CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

November 8, 1999

H.R. 65
Military Retirement Equity Act of 1999

As introduced on January 6, 1999

SUMMARY

The bill would allow limited concurrent payment of retirement annuities together with veterans' disability compensation to retirees from the military, the Coast Guard, the Public Health Service (PHS), and the National Oceanic and Atmospheric Administration (NOAA) who have service-connected disabilities and have retired based on 20 or more years of service.

CBO estimates that enacting the bill would increase outlays for retirement annuities by about $1.8 billion in 2001, by $4.6 billion over the 2001-2004 period, and by about $10 billion over the 2001-2009 period. In addition, the Department of Defense (DoD) would have to make payments averaging about $350 million a year to the military retirement trust fund to cover the increase in future liabilities for current military personnel. The additional annuity payments would represent direct spending and the increased contributions to the retirement trust fund would come from appropriated funds. Because the bill would affect direct spending, pay-as-you-go procedures would apply. H.R. 65 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 the bill is shown in the following table. The estimate assumes that the bill would be implemented on October 1, 2000. Because the benefits would be retroactive to October 1, 1999, if the bill is enacted before October 1, 2000, some costs currently attributed to 2001 would occur in 2000.

	By Fiscal Year, in Millions of Dollars					
	1999	2000	2001	2002	2003	2004
DIRECT SPENDING						
Retirement Annuities						
Spending Under Current Law						
Estimated Budget Authority	31,992	32,970	33,969	34,959	36,047	37,119
Estimated Outlays	31,935	32,885	33,888	34,873	35,958	37,029
Proposed Changes						
Estimated Budget Authority	0	0	1,775	929	958	985
Estimated Outlays	0	0	1,775	929	958	985
Spending Under the Bill						
Estimated Budget Authority	31,992	32,970	35,744	35,889	37,005	38,105
Estimated Outlays	31,935	32,885	35,663	35,802	36,915	38,015
SPENDING SUBJECT TO APPROPRIATION						
DoD Payments to the Military Retirement Trust Fund for Accrual Costs						
Spending Under Current Law						
Estimated Authorization Level[a]	10,417	11,406	11,734	12,102	12,442	12,807
Estimated Outlays	10,417	11,406	11,734	12,102	12,442	12,807
Proposed Changes						
Estimated Authorization Level	0	0	312	322	331	340
Estimated Outlays	0	0	312	322	331	340
Spending Under the Bill						
Estimated Authorization Level[a]	10,417	11,406	12,046	12,424	12,773	13,147
Estimated Outlays	10,417	11,406	12,046	12,424	12,773	13,147

NOTE: The direct spending costs of this legislation would fall within budget functions 600 (income security), 300 (natural resources), 400 (transportation), and 550 (health). The spending subject to appropriation would fall within budget function 050 (national defense).

a. The 1999 level is the actual payment for that year; the 2000 level is the estimated appropriation for that year.

Under current law, disabled veterans who are retired from the military, the Coast Guard, PHS, or NOAA cannot receive both full retirement annuities and disability compensation from the Department of Veterans Affairs. Such veterans forgo a portion of their retirement annuity equal to the nontaxable veterans' benefit. The bill would allow individuals who retire based on longevity and are also disabled to receive both benefits concurrently, except that only a retiree with a 100 percent disability would receive the full amount of both benefits. Other beneficiaries would receive a benefit calculated by applying the percentage of their disability rating to the benefits they now forgo.

Direct Spending

The potential costs of the bill depend on the number of beneficiaries, their disability levels, and the benefit amounts. Data from DoD indicate that the prohibition on paying both benefits concurrently caused about $1.7 billion to be withheld from annuity payments in 1998. About 428,000 retirees were affected in 1998, and CBO estimates that by 2001 the number would rise to about 437,000 military retirees. In addition, about 5,400 Coast Guard retirees, about 765 PHS retirees, and about 45 NOAA retirees would benefit from the bill. CBO projects this caseload for future years using current rates of net growth in the population of new beneficiaries. To estimate the distribution of those beneficiaries among disability levels, CBO used information contained in a report prepared by the General Accounting Office (GAO) in 1995. That report shows that 90 percent of such retirees had disabilities rated at 50 percent or less and that nearly 40 percent had disabilities rated at 10 percent.

Additional benefits under the bill would depend upon the degree of disability and the amount of retired pay before any reduction under current law. To estimate these payments, CBO used the average benefits forgone under current law according to GAO's study and adjusted them according to formulas in the bill and cost-of-living adjustments since 1994. CBO estimates that under H.R. 65 the cost of retirement annuities would rise by $1.8 billion in 2001, $4.6 billion over the 2001-2004 period, and $10 billion over the 2001-2009 period. Because H.R. 65 specifies an effective date of October 1, 1999, and CBO assumes an enactment date of October 1, 2000, the cost shown in the table for 2001 is the sum of the estimated payments for 2000 and 2001. An earlier enactment date would move $0.9 billion of those costs from 2001 to 2000.

The cost of this bill would be higher if retirees can change the basis of their annuity from a disability retirement to a longevity-based retirement. Approximately 25,000 retirees receive an annuity based on a disability even though they have 20 or more years of service and thus meet the requirements for a longevity retirement. Current DoD practice is to grant a retiree whichever type of retirement is more generous. Since this bill would not benefit those with disability-based retirements, most of those with dual eligibility who are currently receiving disability retirements would find it advantageous to change the basis of their annuity to the longevity retirement. It is not clear, however, whether current law allows them to do so. CBO does not have sufficient information for a precise estimate of the additional cost should disability retirees be deemed eligible for this benefit. However, CBO estimates that the additional increase in direct spending would be a few hundred million dollars annually.

Spending Subject to Appropriation

The military retirement system is financed in part by an annual payment from appropriated funds to the military retirement trust fund, based on an estimate of the system's accruing liabilities. If the bill is enacted, the yearly contribution to the military retirement trust fund (a DoD outlay in budget function 050) would increase to reflect the added liability from the increase in annuities to future retirees. Using information from DoD, CBO estimates that implementing this bill would increase such payments by about $0.3 billion in 2001, $1.3 billion over the 2001-2004 period, and $3.2 billion over the 2001-2009 period, subject to appropriation of the necessary amounts. If individuals who retired based on a disability could switch to a longevity-based retirement, there would be an additional increase in accrual costs of roughly $0.1 billion to $0.2 billion a year.

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 direct spending are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the budget year and the succeeding four years are counted.

	By Fiscal Year, in Millions of Dollars									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Changes in outlays	0	1,775	929	958	985	1,014	1,043	1,072	1,101	1,130
Changes in receipts	Not applicable									

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

The bill contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

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