



**CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE**

August 9, 2005

**S. 1235
Veterans Benefits Improvement Act of 2005**

*As ordered reported by the Senate Committee on Veterans' Affairs
on July 28, 2005*

SUMMARY

S. 1235 would make changes to several veterans programs, primarily to the servicemembers' group life insurance and housing programs. CBO estimates that implementing this bill would cost \$95 million in 2006 and about \$200 million over the 2006-2010 period, assuming appropriation of the necessary amounts. In addition, CBO estimates that enacting this legislation would increase direct spending for veterans programs by less than \$500,000 in 2006, but decrease such spending by less than \$500,000 over the 2006-2010 period and by \$2 million over the 2006-2015 period.

S. 1235 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 S. 1235 is shown in the following table. The costs of this legislation fall within budget functions 050 (national defense) and 700 (veterans benefits and services).

	By Fiscal Year, in Millions of Dollars				
	2006	2007	2008	2009	2010

CHANGES IN SPENDING SUBJECT TO APPROPRIATION

Estimated Authorization Level	95	64	34	7	1
Estimated Outlays	95	64	34	7	1

CHANGES IN DIRECT SPENDING

Estimated Budget Authority	*	*	*	*	*
Estimated Outlays	*	*	*	*	*

Note: * = less than \$500,000.

BASIS OF ESTIMATE

For this estimate, CBO assumes that the bill will be enacted early in fiscal year 2006 and that the necessary amounts will be appropriated for each year. Most of the legislation's budgetary effects would fall within the discretionary spending category, but there are also a few provisions that would affect direct spending.

CBO estimates that discretionary spending resulting from S. 1235 would total about \$200 million over the 2006-2010 period, assuming appropriation of the necessary amounts. In addition, CBO estimates that enacting this legislation would increase direct spending for veterans programs by less than \$500,000 in 2006, but lower such spending by less than \$500,000 over the 2006-2010 period and by \$2 million over the 2006-2015 period.

Spending Subject to Appropriation

Servicemembers' Group Life Insurance (SGLI) Coverage. Section 101 would make permanent the current authority that increased the maximum coverage under SGLI from \$250,000 to \$400,000 for all servicemembers, effective September 1, 2004. That authority is currently in place only through fiscal year 2005.

Under current law, the Department of Defense (DoD) is required to reimburse the Department of Veterans Affairs (VA) for the costs of benefit claims for deaths that exceed levels set by VA each year. VA calculates these levels based on mortality rates expected

under peacetime conditions and refers to these costs as hazard costs. In 2004, DoD reimbursed VA \$105 million to cover these costs.

For this estimate, CBO assumes that force levels in theater for Operation Enduring Freedom and Operation Iraqi Freedom for 2006 will remain at levels expected for 2005 (about 200,000 servicemembers) and then decline gradually over several years to about 50,000 by 2010. Based on that assumption regarding force levels, current death rates observed in those two operations, and information provided by DoD regarding the death rates for the remainder of the force, CBO estimates that DoD would need to reimburse VA for 640 claims in 2006. CBO also estimates that the number of claims exceeding VA levels would decline to about 40 by 2009 and that the number of claims for benefits would not exceed levels set by VA after 2009. Based on information from VA, CBO assumes that DoD would be responsible for reimbursing VA for the maximum benefit amount of \$400,000 per claim under this provision. Thus, CBO estimates that DoD would reimburse VA \$95 million for hazard costs in 2006 and \$199 million over the 2006-2009 period, subject to the availability of appropriated funds.

Native American Home Loan Program. Section 203 would permanently extend the Native American Veteran Housing Loan Pilot Program, which is scheduled to expire at the end of calendar year 2008. CBO estimates that VA's administrative expenses, a discretionary cost, would continue after 2008 under the bill. We estimate that those costs would average \$650,000 a year over the 2009-2010 period, assuming the availability of appropriated funds. CBO estimates that enacting this provision also would decrease direct spending for veterans' housing programs by less than \$500,000 a year over the 2009-2015 period, as discussed below under "Direct Spending."

Other Provisions. The following provisions would have an insignificant impact on spending subject to appropriation:

- Section 102 would add stillborn children to the list of insurable dependents under the SGLI program. Under current law, only servicemembers' spouses and dependent children are eligible to be insured. Based on information from VA, CBO estimates that implementing this provision would not affect federal costs since the SGLI program would absorb all costs associated with this provision by adjusting insurance premiums as necessary.

- Section 301 would require VA to prepare an annual plan for the outreach activities to identify veterans who are not registered with VA as well as inform veterans and their dependents of the available services and benefits through VA. Based on information from VA, CBO estimates that implementing this provision would cost less than \$500,000 a year, subject to appropriation of the necessary amounts.

Direct Spending

CBO estimates that S. 1235 would increase direct spending for veterans programs by less than \$500,000 in 2006, but lower direct spending for veterans programs by less than \$500,000 over the 2006-2010 period and by \$2 million over the 2006-2015 period.

Native American Home Loan Program. Section 203 would permanently extend the Native American Veteran Housing Loan Pilot Program. Under the program, which is scheduled to expire at the end of calendar year 2008, 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 almost 500 loans at an estimated subsidy cost of \$2.2 million. Although the program initially incurred subsidy costs, it currently has a negative subsidy rate of 13.8 percent and an estimated annual loan level of about \$2.5 million. Based on information from VA, CBO estimates that enacting S. 1235 would lower direct spending by less than \$500,000 a year over the 2009-2015 period.

Specially Adapted Housing (SAH) Grants. VA currently administers two grant programs to assist severely disabled veterans in acquiring housing that is adapted to their disabilities, or in modifying their existing housing. Section 202 would allow members of the armed forces who become severely disabled to receive these grants while still on active duty.

Based on information from VA and DoD, CBO estimates that each year about 20 servicemembers separate from the armed forces and qualify to receive an SAH grant. Under section 202, these members could receive SAH grants averaging \$45,000, as much as six months earlier than under current law. Thus, about half of the recently separated veterans who would have received SAH grants in 2007 could receive those grants in 2006, increasing 2006 outlays by \$450,000. Since the additional grants paid in 2007 and in subsequent years would be offset by an equivalent number of grants shifted back one year earlier, CBO estimates that enacting this proposal would not increase outlays after 2006.

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

- Section 201 would remove a requirement in current law that restricts the annual adjustments to interest rates on adjustable-rate mortgages to 1 percentage point, and give VA discretion in setting such requirements. Based on information from VA, CBO estimates that enacting this provision would not significantly affect default rates or direct spending for veterans' housing programs.
- Section 303 would add heart disease and stroke to the list of diseases currently presumed to be service-connected for certain veterans' who were prisoners-of-war (POWs). On October 7, 2004, VA issued a regulation amending Part 3 of title 38 of the Code of Federal Regulations to add these two diseases to the list for which entitlement to service-connection is presumed for former POWs. The regulation became permanent on June 28, 2005. Since the regulation has already taken effect, the provision would have no cost.
- Section 304 would direct the Secretary of Veterans Affairs to develop and implement policy and training initiatives to standardize the assessment of disability claims for post traumatic stress disorder (PTSD). On May 19, 2005, the VA's Office of the Inspector General (IG) issued a report assessing the variance in veterans' disability compensation payments among states. In that report, the IG concluded that PTSD claims were being inconsistently rated. According to VA, the department is currently drafting regulations to standardize procedures for assessing compensation claims for PTSD. Since the department is already taking steps to standardize procedures for rating these claims, CBO estimates that enacting this provision would have no significant impact on direct spending for veterans' disability compensation.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

S. 1235 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

PREVIOUS CBO ESTIMATES

On May 5, 2005, CBO transmitted a cost estimate for H.R. 1773, the Native American Veteran Home Loan Act, as introduced on April 21, 2005. Section 203 of S. 1235 is similar to H.R. 1773, and the estimated costs and savings are identical.

On June 2, 2005, CBO transmitted a cost estimate for S. 1042, the National Defense Authorization Act for Fiscal Year 2006, as reported by the Senate Committee on Armed Services on May 17, 2004. Section 101 of S. 1235 is similar to section 641 of S. 1042 as both provisions would make permanent the authority to increase the maximum amount of SGLI coverage from \$250,000 to \$400,000. Section 641 of S. 1042 would also direct DoD to pay the cost of premium payments for up to \$150,000 of SGLI coverage for servicemembers serving in an operation or area that DoD designates as a combat operation or a zone of combat, whereas S. 1235 would not. Differences in the estimated costs reflect differences in the two bills.

On July 15, 2005, CBO transmitted a cost estimate for H.R. 3200, the Servicemembers' Group Life Insurance Enhancement Act of 2005, as ordered reported by the House Committee on Veterans' Affairs on July 14, 2005. Section 101 of S. 1235 is similar to section 3 of H.R. 3200, and the estimated costs are identical.

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