



**CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE**

August 20, 2004

S. 2484

**Department of Veterans Affairs Health Care
Personnel Enhancement Act of 2004**

*As ordered reported by the Senate Committee on Veterans' Affairs
on July 20, 1004*

SUMMARY

S. 2484 would change the compensation schedule that the Department of Veterans Affairs (VA) uses to pay its doctors and dentists. Those changes would increase salaries for many doctors and dentists. In addition, it would allow VA nurses to work alternate work schedules that would be treated as the equivalent of full-time work, even though the total hours worked by the nurses would be less than 40 hours per week. Finally, the bill would allow VA to pay nurse executives a bonus ranging from \$10,000 to \$25,000.

CBO estimates that implementing S. 2484 would cost \$182 million in 2006 and \$763 million over the 2006-2009 period, assuming appropriation of the necessary amounts. Enacting the bill would not affect direct spending or receipts.

S. 2484 contains no intergovernmental or private-sector mandates as defined in 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 S. 2484 is shown in the following table. The costs of this legislation fall within budget function 700 (veterans benefits and services).

	By Fiscal Year, in Millions of Dollars					
	2004	2005	2006	2007	2008	2009

SPENDING SUBJECT TO APPROPRIATION

Spending Under Current Law for Veterans'

Medical Care

Estimated Authorization Level ^a	27,957	28,888	29,706	30,608	31,117	32,104
Estimated Outlays	27,141	28,334	29,293	30,210	30,846	31,756

Proposed Changes:

Base Pay and Market Pay

Estimated Authorization Level	0	0	164	170	176	183
Estimated Outlays	0	0	148	168	174	181

Incentive Pay

Estimated Authorization Level	0	0	11	11	11	11
Estimated Outlays	0	0	10	11	11	11

Contract Care Savings

Estimated Authorization Level	0	0	-10	-22	-34	-35
Estimated Outlays	0	0	-9	-21	-33	-35

Subtotal, Pay for Doctors and Dentists

Estimated Authorization Level	0	0	165	159	153	159
Estimated Outlays	0	0	149	158	152	157

Alternative Work Schedules for Nurses

Estimated Authorization Level	0	0	33	34	35	36
Estimated Outlays	0	0	30	34	35	36

Nurse Executive Bonus

Estimated Authorization Level	0	0	3	3	3	3
Estimated Outlays	0	0	3	3	3	3

Total Changes

Estimated Authorization Level	0	0	201	196	191	198
Estimated Outlays	0	0	182	195	190	196

Spending for Veterans' Medical Care

Under H.R. 4248

Estimated Authorization Level	27,957	28,888	29,907	30,804	31,308	32,302
Estimated Outlays	27,141	28,334	29,475	30,405	31,036	31,952

a. The 2004 level is the amount appropriated for that year. No full-year appropriation has yet been provided for fiscal year 2005. The current-law amounts for the 2005-2009 period assume appropriations remain at the 2004 level with adjustments for anticipated inflation.

BASIS OF ESTIMATE

This estimate assumes that the bill will be enacted near the start of fiscal year 2005 and that the necessary amounts for implementing the bill will be appropriated for each year. Changes under the bill would not take effect for one year after the bill's enactment date. Thus, we do not estimate any costs for fiscal year 2005.

Doctor and Dentist Pay Schedule

Section 3 would change the compensation schedule for doctors and dentists employed by VA. It would mandate a schedule for base pay that would be determined by the length of time each doctor or dentist has worked for VA. This schedule would start at \$90,000 a year for someone with two years of service or less and increase to \$133,000 for those with more than 28 years of service. In addition to base pay, each doctor and dentist would be eligible for additional compensation called market pay that would be determined by VA in a manner to account for each doctor's or dentist's relevant work experience, VA's needs for each particular medical specialty, the underlying market demand, and other factors that VA would determine to be relevant. Finally, the bill also would allow VA to pay each doctor and dentist incentive pay that would reflect outstanding performance. Incentive pay would be paid on a case-by-case basis and would be limited to not more than \$10,000 per year.

Under the bill, this new compensation approach would replace the current compensation practices that VA uses to pay doctors and dentists. By offering higher pay to doctors and dentists, CBO expects VA would likely be able to hire more physicians and dentists and thus save some money that it currently pays for veterans to receive health care outside of VA facilities. Considering all these factors, CBO estimates that implementing this proposal would cost \$149 million in 2006 and \$616 million over the 2006-2009 period, assuming appropriation of the necessary amounts.

Base Pay and Market Pay. Based on information from VA, CBO estimates that this proposal would increase spending by VA on salaries for doctors and dentists. Under the first two components of the new pay system—base pay and market pay—doctors in fields such as anesthesiology and neurosurgery could see significant increases, though doctors in other specialties would be less likely to receive a pay increase. Using information from VA, CBO estimates that under these two proposals, the average salary for VA's roughly 11,000 doctors and dentists would increase by about \$14,500 in 2006. Thus, CBO estimates that implementing these two proposals would cost \$148 million in 2006 and \$671 million over the 2006-2009 period, assuming appropriation of the required amounts.

Incentive Pay. CBO assumes that 20 percent of VA's doctors and dentists would receive, on average, about \$5,000 in incentive pay each year for this estimate. Accordingly, CBO estimates that implementing this provision would cost about \$10 million in 2006 and \$43 million over the 2006-2009 period, assuming appropriation of the estimated amounts.

Contract Care Savings. Under current practice, VA spends about \$650 million a year to pay for health care for veterans furnished outside of VA health care facilities. By increasing its compensation for certain doctors, CBO expects that VA would be able to treat more veterans in its own facilities. Based on information from VA, CBO estimates that VA would be able to save about 5 percent of the total amount it spends on contracts for health care outside of VA facilities. Assuming it would take about three years to fully realize these savings, CBO estimates that implementing section 3 would save VA about \$9 million in 2006 and \$98 million for providing contract care over the 2006-2009 period, assuming appropriations are reduced by the estimated amounts.

Alternative Work Schedules for Nurses

Under section 4, VA would have the authority to treat nurses who work three regularly scheduled 12-hour shifts within one workweek as having worked a full 40 hours during that week. Under the bill, nurses would still be paid as if they had worked 40 hours, despite working less than 40 hours while on this alternative schedule. Under current law, VA cannot allow nurses who work these schedules to be treated as if they are working 40 hours a week.

Based on information from VA, CBO expects that VA would allow more than 4,000 nurses to use this alternative work schedule. Because these nurses would be working fewer hours each week, CBO expects that VA would probably hire additional personnel to cover the remaining work load. Based on the estimated decrease in total hours worked, CBO estimates that VA would need to hire about 400 additional nurses at an estimated annual cost of about \$78,000 per nurse in 2005. Assuming it takes about six months for VA to begin using this authority and that annual salaries increase with inflation, CBO estimates that implementing section 3 would cost \$30 million in 2006 and \$135 million over the 2006-2009 period, assuming appropriation of the necessary amounts.

Nurse Executive Bonus

Section 6 would allow VA to pay the nurse executive in each of the department's 165 medical care facilities and its central office an annual bonus ranging from \$10,000 to \$25,000. According to VA, this provision would affect about 185 people. Assuming that the average bonus is \$17,500, CBO estimates that implementing this bonus system would cost \$3 million in 2006 and \$12 million over the 2006-2009 period, assuming appropriation of the necessary amounts.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

S. 2484 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

PREVIOUS CBO ESTIMATE

On June 9, 2004, CBO transmitted an estimate for H.R. 4231, the Department of Veterans Affairs Nurse Recruitment and Retention Act of 2004, as ordered reported by the House Committee on Veterans' Affairs on May 19, 2004. The differences in the estimated costs reflect differences in the bills. In particular, section 3 of H.R. 4231 is similar to section 4 of S. 2484 in that both would allow VA to treat nurses who work three regularly scheduled 12-hour work shifts within one workweek as having worked a full 40 hours during that week. H.R. 4231 also would allow VA to treat nurses who work seven 10-hour shifts within a two-week pay period as having worked 80 hours during that period, but S. 2484 would not allow such schedules. In addition, S. 2484 would allow VA to pay nurse executives an annual bonus ranging from \$10,000 to \$25,000 while H.R. 4231 would not. Finally, S. 2484 would change the compensation schedule for doctors and dentists while H.R. 4231 would make no changes in their compensation.

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