CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

September 23, 1997

H.R. 1687

A bill to amend title 38, United States Code, to provide that special pay paid to certain physicians and dentists of the Veterans' Health Administration who retire before October 1, 1999, shall be considered to be basic pay for retirement purposes

As ordered reported by the House Committee on Veterans' Affairs on May 21, 1997

SUMMARY

H.R. 1687 would allow certain physicians and dentists to retire earlier and with a higher annuity than under current law, provided that the Department of Veterans' Affairs (VA) eliminates their positions. The department would contribute to the retirement trust funds from its appropriation for medical care an amount equal to the payments in 1998 and 1999 for these annuities. CBO estimates that enacting the bill would result in an increase in spending subject to appropriations of about $14 million in 1998 and about $33 million in 1999, assuming appropriation of the necessary amounts. CBO estimates that direct spending under the bill would decrease by about $6 million over the 1998-1999 period, but would increase by $49 million over the following three years. The bill contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act of 1995 (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.

From the date of enactment of the bill to September 30, 1999, H.R. 1687 would allow certain physicians and dentists employed by VA to retire earlier than under current law and to count all of their special pay in computing a retirement annuity. Under current law, physicians and dentists must serve eight years in the special pay program and have worked at the Veterans' Health Administration (VHA) for at least 15 years before 100 percent of their special pay would count toward a retirement annuity. The bill would allow physicians and dentists who

TABLE 1. BUDGETARY IMPACT OF H.R. 1687, AS ORDERED REPORTED BY THE HOUSE COMMITTEE ON VETERANS' AFFAIRS ON MAY 21, 1997
(By fiscal year, in millions of dollars)

	1998	1999	2000	2001	2002
DIRECT SPENDING					
Spending Under Current Law for Federal Civilian Retirement					
Estimates Budget Authority	43,851	45,994	48,246	50,590	53,092
Estimated Outlays	43,764	45,903	48,151	50,490	52,989
Proposed Changes					
New Retirement Benefits					
Estimated Budget Authority	12	29	22	15	12
Estimated Outlays	12	29	22	15	12
Agency Payments					
Estimated Budget Authority	-14	-33	0	0	0
Estimated Outlays	-14	-33	0	0	0
Total Change in Direct Spending					
Estimated Budget Authority	-2	-4	22	15	12
Estimated Outlays	-2	-4	22	15	12
Spending Under H.R. 1687 for Federal Civilian Retirement					
Estimated Budget Authority	43,849	45,990	48,268	50,605	53,104
Estimated Outlays	43,762	45,899	48,173	50,505	53,001
SPENDING SUBJECT TO APPROPRIATION					
Proposed Changes to Veterans' Medical Care					
Estimated Authorization Level	14	33	0	0	0
Estimated Outlays	14	33	0	0	0

NOTE: The costs of this legislation would fall within budget function 600 (income security) and budget function 700 (veterans' affairs).

have at least 13 years of service with VHA and six years in the special pay program to retire early and have all of their special pay count but only if VA determines that their positions are no longer required and that their skills are inappropriate for other positions in the facility where they now work. The bill would also require that VA pay the costs through 1999 of the early retirement annuities out of discretionary appropriations for veterans medical care.

About 2,000 individuals will have enough service to be eligible for the benefit during the period specified in the bill. CBO estimates that the full-time equivalent of about 450 eligible employees in 1998 and about 150 such employees in 1999 would receive and accept an offer for early retirement under the conditions specified in H.R. 1687. We also estimate that 10 percent of these employees would retire during this period even if the bill were not enacted.

According to VA, physicians and dentists with special pay earned an average of about $130,000 in 1997. To calculate retirement costs, CBO assumes that beneficiaries would average 26 years of service. This represents the average service of individuals who are eligible for early retirement under the bill. CBO estimates that per capita benefit payments would be about $63,000 in 1998 and that those retiring under this bill would, under current law, retire by 2003. As a result, we estimate that additional annuity costs would total $12 million in fiscal year 1998 and $90 million over the 1998-2002 period.

CBO estimates that VA would pay $14 million in 1998 and $33 million in 1999 to cover the annuity costs of all employees who retire with the benefit of the bill. VA's payments in 1998 and 1999 would exceed the additional costs to the retirement accounts in those years because some of the physicians and dentists who would benefit from the bill would retire under current law. Thus, direct spending would decrease by an estimated $2 million in 1998 and $4 million in 1999. In 2000, however, direct spending would increase because VA would no longer make payments to the federal retirement accounts for retirees covered by this bill. Consequently, CBO estimates that direct spending would increase by $22 million in 2000 and $49 million over the 2000-2002 period. The effect on direct spending would get smaller each year after 2000 as retirees reach the time when they would retire under current law. After 2005, direct spending would decline by about $1 million annually because individuals affected by the bill would retire with fewer years of service and thus receive lower annuities than under current law.

Under some buyout programs, an agency achieves savings in costs for salaries, benefits, and related expenses because it is given authority or a mandate to reduce the number or change the mix of employees. Even though this bill would require VA to deem a position unnecessary before a special pay offer could be made to an individual in that position, it does not require the number or mix of VA employees to change from current law. Thus, there is no assurance that savings in appropriated spending for salaries and employment benefits would result from enacting this bill. If VA eliminates every position affected by an early retirement and makes a comparable reduction in the total number of employees, then it could save about $30 million in 1998 and $70 million in 1999 under CBO's assumptions for this estimate. Savings would decline in later years when the positions would become vacant in any event.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act of 1985 sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. Because the bill would affect direct spending, pay-as-you-go procedures would apply. The projected changes in direct spending are summarized in the following table for fiscal years 1998-2007. For 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

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Change in Outlays	-2	-4	22	15	12	8	4	0	-1	-1
Change 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.

ESTIMATE PREPARED BY:

Federal Cost: Shawn Bishop
Impact on State, Local, and Tribal Governments: Marc Nicole
Impact on the Private Sector: Rachel Schmidt

ESTIMATE APPROVED BY:

Robert A. Sunshine
Deputy Assistant Director for Budget Analysis