CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

March 1, 2000

H.R. 1764
Veterans' Compensation Equity Act of 1999

As introduced on May 12, 1999

SUMMARY

The bill would allow concurrent payment of retirement annuities and veterans' disability compensation to certain 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 with 20 or more years of service.

CBO estimates that enacting the bill would increase outlays for retirement annuities by $2.3 billion in 2001, by $6.3 billion over the 2001-2005 period, and by $12.4 billion over the 2001-2010 period. Because the bill would affect direct spending, pay-as-you-go procedures would apply. The legislation 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 enacted and implemented by October 1, 2001.

	By Fiscal Year, in Millions of Dollars					
	2000	2001	2002	2003	2004	2005
			DIRECT SPENDING			
Spending Under Current Law for Retirement Annuities						
Estimated Budget Authority	32,859	33,738	34,601	35,539	36,550	37,716
Estimated Outlays	32,795	33,676	34,518	35,446	36,458	37,620
Proposed Changes						
Estimated Budget Authority	0	2,314	891	961	1,011	1,077
Estimated Outlays	0	2,314	891	961	1,011	1,077
Spending Under H.R. 1764 for Retirement Annuities						
Estimated Budget Authority	32,859	36,052	35,492	36,501	37,560	38,793
Estimated Outlays	32,795	35,990	35,409	36,407	37,469	38,697

NOTE: The costs of this legislation would fall mostly within budget function 050 (national defense), but the bill would also affect functions 300 (natural resources), 400 (transportation), and 550 (health). The bill would require that the increase in benefits for military retirees be paid from appropriations to the Department of Defense. This table shows the cost of retirement annuities in total, irrespective of the source of funding.

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 over 70 years of age, who retire with at least 20 years of service and have a service-connected disability, to receive both benefits concurrently. Individuals between 65 and 69 years old with those characteristics would have their annuity increased by half the amount of the disability payment. The bill specifies an effective date of October 1, 1998.

The potential costs of the bill depend on the number of beneficiaries and the benefit amounts. CBO estimates that in 2001 about 171,000 military retirees would benefit from the bill, as well as about 2,100 Coast Guard, PHS and NOAA retirees. By 2010, those populations are projected to increase to 222,000 and 2,700, respectively. CBO projects the number of retirees aged 65 and greater over the 2001-2010 period by applying mortality rates to the current population of retirees aged 55 and greater. The average annual increase in retirement annuity payments under the bill would be $4,800 in 2001 and $6,000 in 2010. The average benefit increases by a cost-of-living allowance and because the number of retirees who would receive the full benefit is projected to grow more quickly than the number who would receive the partial benefit.

CBO estimates that H.R. 1764 would raise the cost of retirement annuities by about $2.3 billion in 2001, $6.3 billion over the 2001-2005 period, and $12.4 billion over the 2001-2010 period. The 2001 figure includes $1.5 billion in retroactive payments for fiscal years 1999 and 2000 because the bill specifies an effective date of October 1, 1998. If the bill were effective on October 1, 2000, retirement annuities would rise by about $840 million in 2001, $4.8 billion over the 2001-2005 period, and $11.0 billion over the 2001-2010 period.

The bill specifies that retirement annuities for military retirees paid in accordance with its provisions shall be paid from funds appropriated to the Department of Defense. Although these costs may ultimately be charged to a discretionary appropriation, the bill would add to an entitlement benefit, and its costs, therefore, are shown as mandatory.

PAY-AS-YOU-GO CONSIDERATIONS

Section 252 of 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 current year, the budget year, and the succeeding four years are counted.

Estimated Effects on Direct Spending and Receipts

	By Fiscal Year, in Millions of Dollars										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Change in outlays	0	2,314	891	961	1,011	1,077	1,124	1,188	1,233	1,295	1,340
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: Sarah T. Jennings
Impact on State, Local, and Tribal Governments: Lisa Cash Driscoll
Impact on the Private Sector: Rachel Schmidt

ESTIMATE APPROVED BY:

Robert A. Sunshine
Assistant Director for Budget Analysis