CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

May 17, 2000

H.R. 4268
Veterans and Dependents Millennium Education Act

As ordered reported by the House Committee on Veterans' Affairs on May 11, 2000

SUMMARY

H.R. 4268 contains provisions that would raise direct spending for veterans' readjustment benefits, specifically Montgomery GI Bill (MGIB) benefits and educational assistance for surviving spouses and dependents of certain veterans. The bill would also extend through 2008 certain provisions of law related to veterans' housing and pensions that are scheduled to expire in 2002. CBO estimates that enacting the bill would save about $88 million over the 2001-2005 period but cost about $660 million over the 2001-2010 period. (Costs would amount to about $450 million a year after 2008.)

H.R. 4268 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA). A provision of the bill that would extend the limitation on pensions for certain veterans receiving nursing home care under Medicaid would increase costs to states by $1.3 billion over the next six years. Because states possess flexibility to alter programmatic responsibilities to continue to provide required services under the Medicaid program, these additional costs are not considered mandates under UMRA.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 4268 is shown in the following table. The costs of this legislation fall within budget functions 700 (veterans benefits and services) and 550 (health).

	By Fiscal Year, Outlays in Millions of Dollars					
	2000	2001	2002	2003	2004	2005
DIRECT SPENDING						
Veterans' Readjustment Benefits						
Spending Under Current Law	1,459	1,473	1,489	1,512	1,545	1,587
Proposed Changes						
Basic Benefit	0	99	109	227	245	266
Survivors' and Dependents' Education	0	34	36	72	79	87
Tests for Licensing	0	5	5	5	5	5
Semester Break Benefit	0	3	4	4	4	4
Retroactive Dependents' Assistance	0	1	1	1	1	1
VEAP Conversion	0	-1	-3	0	2	3
Subtotal-Proposed Changes	0	141	152	309	336	366
Spending Under H.R. 4268	1,459	1,614	1,641	1,821	1,881	1,953
Veterans' Housing						
Spending Under Current Law	506	187	154	395	393	390
Proposed Changes	0	0	0	-266	-272	-278
Spending Under H.R. 4268	506	187	154	129	121	112
Veterans' Pensions						
Spending Under Current Law	3,090	3,099	3,060	3,512	3,521	3,851
Proposed Changes						
Nursing Home	0	0	0	-459	-463	-513
Income Verification	0	0	0	-3	-3	-2
Subtotal-Proposed Changes	0	0	0	-462	-466	-515
Spending Under H.R. 4268	3,090	3,099	3,060	3,050	3,055	3,336
Medicaid						
Spending Under Current Law	115,145	124,264	134,118	145,081	158,181	172,418
Proposed Changes	0	0	0	285	288	294
Spending Under H.R. 4268	115,145	124,164	134,118	145,366	158,469	172,712
Summary of Changes in Direct Spending						
Estimated Outlays	0	141	152	-134	-114	-133

NOTE: VEAP refers to the Post-Vietnam Era Veterans' Education Assistance Program.

Veterans' Readjustment Benefits

The bill would change several provisions related to MGIB and survivors' and dependents' education benefits.

Basic Benefit. Under current law, participants in MGIB who serve at least three years on active duty are entitled to receive up to $553 a month in fiscal year 2001. Those who serve two years are entitled to a maximum monthly benefit of $450. Section 2 would mandate successive increases in these rates of educational assistance. Participating veterans who served at least three years on active duty would receive as much as $600 a month beginning in fiscal year 2001 and up to $720 a month beginning in fiscal year 2003. Similar veterans with at least two years of active duty would be eligible for a maximum benefit of $487 a month in fiscal year 2001 and $569 a month in fiscal year 2003. The annual cost-of-living allowances scheduled for 2001 and 2003 would not occur. Based on current rates of participation in this program, CBO estimates that this section would increase direct spending by about $100 million in 2001, about $950 million over the 2001-2005 period, and about $2.5 billion over the 2001-2010 period.

Survivors' and Dependents' Education. Section 4 would increase educational assistance to survivors and dependents to $600 a month in 2001 and $720 a month in 2003. That would represent an increase over current rates of 24 percent and 48 percent, respectively. The benefit would grow more in subsequent years because section 4 would authorize a cost-of-living increase for fiscal years after 2003. Based on current rates of participation in this program, CBO estimates this provision would increase direct spending by $34 million in fiscal year 2001, about $310 million during the 2001-2005 period, and about $830 million in the 2001-2010 period.

Tests for Licensing or Certification. Section 7 would extend MGIB benefits to cover the cost of tests required for occupational licensing or certification. Based on a study prepared for the Congressional Commission on Servicemembers and Veterans Transition Assistance, approximately 38 percent of servicemembers separating each year have training in areas that are subject to testing and licensure. CBO expects that less than half of them would remain in that occupation, be tested, and apply for reimbursement from the Department of Veterans Affairs (VA). Based on an average cost of $175, CBO estimates this provision would increase direct spending by about $5 million a year.

Semester Break Benefit. Under current law, monthly veterans' education benefits are paid between terms only if the break does not exceed one calendar month. Section 6 would allow benefits to be paid during a break of up to eight weeks. Based on information from the VA, this would affect the benefits of approximately 3,000 students annually and would cost about $4 million a year.

Retroactive Dependents' Assistance. Current law requires that a veteran be found to have a service-connected disability rated at 100 percent or a spouse be found eligible for Dependency and Indemnity Compensation (DIC), before a dependent can submit a claim for education benefits. Section 5 would allow retroactive payment of dependents' education benefits for education undertaken after an ultimately successful claim for disability or DIC benefits has been made, but before it has been approved. Based on information from the Veterans Board of Appeals, CBO expects about 75 dependents would seek reimbursement under this provision each year. We estimate section 5 would increase direct spending by about $1 million annually.

VEAP Conversion. Section 3 would give certain individuals on active duty a second opportunity to enroll in MGIB. That opportunity would be extended over a one-year period to individuals who were enrolled in the Post-Vietnam Era Veterans' Education Assistance Program (VEAP) on October 9, 1996. In a similar open season in fiscal year 1997, about 55 percent of eligible members chose to pay $1,200 each to convert from VEAP to MGIB.

CBO estimates 15 percent of those currently eligible, about 2,600 servicemembers, would pay contributions of $2,700 to convert to MGIB during this open season. Because the contributions would have to be made before benefits would be paid out, this section would not incur significant costs until fiscal year 2004. CBO estimates that section 4 would increase direct spending by $2 million over the 2001-2005 period and $12 million over the 2001-2010 period.

Extension of Certain Provisions

The bill would extend through 2008 the sunset dates on several provisions that will otherwise expire in 2002.

Veterans' Housing. Section 8 would extend through 2008 three provisions in current law that affect housing programs for veterans. The first two provisions reduce the VA loan subsidy by charging veterans a fee at the time the loan is made. Under subsection (b)(1), VA would charge certain veterans a fee of 0.75 percent of the total loan amount. CBO estimates this provision would affect roughly 219,000 new loans a year and would raise collections by an average of $205 million a year beginning in 2003.

Under current law, veterans can reuse their home loan guarantee benefit if their previous debt has been paid in full. Subsection (b)(2) would require VA to collect a fee of 3 percent of the total loan amount from veterans who reuse their benefit. CBO estimates this provision would affect roughly 28,500 new loans a year and would raise collections by an average of $60 million a year.

Section 8 would also extend a provision of law that requires VA to consider losses it might incur when selling a property acquired through foreclosure. Under current law, VA follows a formula defined in statute to decide whether to acquire the property or pay off the loan guarantee instead. The formula requires appraisals that may be valid at the time they are made, but do not account for changes in market conditions that might occur while VA prepares to dispose of the property. Subsection 8(c) would require VA to take account of losses from changes in housing prices that the appraisal does not capture. Losses of this type might be prevalent when housing prices are particularly volatile or if appraisals are biased for other reasons. Based on information from VA, CBO estimates this provision would save an average of $10 million a year.

Veterans' Pensions. Veterans' pensions would be affected by two provisions. One of these provisions would reduce direct spending for veterans' pensions and increase spending for Medicaid, resulting in a net spending reduction of $1.1 billion over the 2003-2008 period. After 2008, spending under that program would return to the levels under current law.

Veterans in Medicaid Nursing Homes. Subsection 8(e) would extend from September 30, 2002, to September 30, 2008, the expiration date on a provision of law that sets a $90 per month limit on pensions for any veteran without a spouse or child, or for any survivor of a veteran, who is receiving Medicaid coverage in a Medicaid-approved nursing home. It also allows the beneficiary to retain the pension instead of having to use it to defray nursing home costs.

Based on VA's experience under current law, CBO estimates gross savings for VA of $459 million in 2003. Higher Medicaid payments to nursing homes would offset some of the savings credited to VA. Those costs would total $285 million in 2003, resulting in a net savings of $174 million in 2003.

Income Verification. Current law authorizes VA to acquire information on income reported to the Internal Revenue Service (IRS) to verify income reported by recipients of VA pension benefits. This authorization expires on September 30, 2002. Section 8(d) would extend the expiration date to September 30, 2008. However, the provision of law that allows the IRS to provide the information to VA will expire on September 30, 2003. Because the bill would not extend both provisions in current law, savings would be limited to the effects of a one-year renewal, which occur in the year that income is reported, in this case 2003, and in the following years to reflect the continuing effects of the lower pensions. This estimate is based on VA's recent experience, which has shown that about $3 million in new savings is achieved annually through this income match.

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 outlays that are subject to pay-as-you-go procedures 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.

	By Fiscal Year, in Millions of Dollars										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Changes in outlays	0	141	152	-134	-114	-133	-75	-23	-43	438	452
Changes in receipts	Not applicable										

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 4268 contains no intergovernmental or private-sector mandates as defined in UMRA, however a provision of the bill would increase Medicaid costs for state governments by $1.3 billion over the next six years. The provision would extend until 2008 the limitation, currently set to expire on September 30, 2002, on the monthly pension that certain veterans in nursing homes covered by Medicaid can receive and retain. The effect of the extension would be to require the Medicaid program to continue covering 100 percent of the nursing home expenses of those veterans after 2002. Because states possess flexibility to alter programmatic responsibilities to continue to provide required services under the Medicaid program, these additional costs are not considered mandates under UMRA.

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