



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

December 16, 2002

H.R. 5235 **Former Prisoners of War Special Compensation Act of 2002**

As introduced on July 25, 2002

SUMMARY

H.R. 5235 would provide a special monthly compensation payment to former prisoners of war (POWs). The bill also would amend current law to prohibit compensation payments to veterans for alcohol- or drug-related disabilities caused by a disability incurred as a result of military service.

Taken together, CBO estimates that enacting the provisions of H.R. 5235 would result in a net increase in direct spending for veterans' compensation benefits totaling about \$20 million in 2003, \$287 million over the 2003-2007 period, and \$454 million over the 2003-2012 period.

H.R. 5235 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 H.R. 5235 is shown in Table 1. The costs of this legislation fall within budget function 700 (veterans benefits and services). This estimate assumes that the legislation will be enacted by spring of 2003.

TABLE 1. ESTIMATED BUDGETARY IMPACT OF H.R. 5235

	By Fiscal Year, in Millions of Dollars				
	2003	2004	2005	2006	2007
CHANGES IN DIRECT SPENDING					
Estimated Budget Authority	20	64	77	68	58
Estimated Outlays	20	64	77	68	58

BASIS OF ESTIMATE

H.R. 5235 contains provisions that would both increase and decrease direct spending for veterans' compensation. CBO estimates that enacting section 2 would increase direct spending by \$24 million in 2003, \$345 million over the 2003-2007 period, and \$634 million over the 2003-2012 period for special compensation to former POWs, while enacting section 3 would decrease direct spending by \$4 million in 2003, \$58 million over the 2003-2007 period, and \$180 million over the 2003-2012 period by eliminating payments to veterans for alcohol or drug abuse caused by a service-connected condition. On balance, CBO estimates that enacting H.R. 5235 would result in a net increase in direct spending totaling \$20 million in 2003, \$287 million over the 2003-2007 period, and \$454 million over the 2003-2012 period (see Table 2).

TABLE 2. ESTIMATED CHANGES IN DIRECT SPENDING FOR VETERANS' COMPENSATION BENEFITS UNDER H.R. 5235

Description of Provision	By Fiscal Year, in Millions of Dollars				
	2003	2004	2005	2006	2007
Special Compensation for Former POWs	24	71	88	84	78
Prohibition on Payment of Compensation for Alcohol- or Drug-Related Disability	<u>-4</u>	<u>-7</u>	<u>-11</u>	<u>-16</u>	<u>-20</u>
Total Changes in Compensation Benefits	20	64	77	68	58

Special Compensation Payments for Former POWs

Section 2 would provide for special compensation payments to former POWs who were held captive for 30 days or more. The bill would provide a monthly payment of \$150 to veterans who were held for 30 days to 120 days, a monthly payment of \$300 to veterans who were held for 121 days to 540 days, and a monthly payment of \$450 to veterans who were held for more than 540 days.

Based on information provided by the Department of Veterans Affairs (VA), CBO estimates that there are currently about 41,000 living former POWs. Of those former POWs, roughly three-fifths were held captive for 120 days to 540 days. About one-fifth of former POWs were held for 30 days to 120 days, and another one-fifth were held for more than 540 days. Fewer than 500 former POWs were held for less than 30 days and would not be eligible for the special payments.

According to VA, about one-third of former POWs, or about 14,000 POWs, are registered as POWs with the department. CBO expects that VA would contact these former POWs directly within a few weeks of the bill's enactment to confirm whether or not the veteran wishes to accept the special compensation. Based on information provided by VA, CBO estimates that all but a handful of these veterans would accept the special compensation.

CBO expects that VA would attempt to contact the remaining two-thirds, or about 27,000 former POWs through mailings and other media. In all, after a three-year phase-in period, CBO expects that, on average, about 55 percent of these former POWs would receive the special compensation between 2006 and 2012.

After accounting for expected mortality, CBO estimates that about 18,000 former POWs would begin receiving the special payments in 2003, and that the number would increase to 25,000 former POWs in 2005 before declining to about 13,000 former POWs in 2012. After sorting this population by length of captivity and applying the appropriate monthly payment, CBO estimates that enacting this section would increase direct spending for veterans compensation by \$24 million in 2003, \$345 million over fiscal years 2003 through 2007, and \$634 million over fiscal years 2003 through 2012.

Prohibition on Payment of Disability Compensation for Alcohol- or Drug-Related Disabilities

Section 3 would direct VA to stop factoring alcohol or drug abuse into a veterans' disability rating when the alcohol or drug abuse was caused by a service-connected disability.

(Disability ratings determine the amount of disability compensation paid to a veteran on a monthly basis.)

Current law states that a veteran with a disability caused by military service is eligible to receive a monthly disability compensation payment provided that the disability was not caused by the veteran's own deliberate misbehavior or abuse of alcohol or drugs. Before 2002, VA interpreted the law to mean that claims evaluators could not factor in any evidence of alcohol or drug abuse when determining the severity of a veteran's disability.

In February 2001, the United States Court of Appeals for the Federal Circuit (CAFC) issued a decision in *Allen v. Principi*. In the case, a veteran applied for an increase in his disability rating to reflect his alcohol abuse that, in a VA doctor's opinion, was caused by post-traumatic stress disorder (PTSD).

In its decision, CAFC specified that when a VA claims evaluator determines a veteran's disability rating, the evaluator must consider that there are two types of substance abuse: primary and secondary. According to the court, primary substance abuse occurs when a veteran voluntarily and willfully abuses alcohol or drugs. In contrast, secondary substance abuse occurs when another service-connected condition causes the substance abuse. For example, in the *Allen* case, the veteran's alcohol abuse was considered to be secondary because his PTSD caused him to abuse alcohol.

VA made no changes to its procedures for evaluating veterans' disability claims until April 2002, when the Department of Justice officially declined to appeal the case. On April 18, 2002, VA issued a directive to claims evaluators instructing them to immediately begin incorporating the *Allen* decision in evaluating veterans' disability claims.

Section 3 would effectively reverse the CAFC decision and direct VA to return to the evaluation procedures that were in place prior to the *Allen* decision. Because changes to the evaluation procedures for veterans' disability compensation became effective only six months ago, VA could not provide any data on the effects of the *Allen* decision on either individual disability ratings or monthly compensation payments. CBO expects that over the 2003-2012 period, implementing the *Allen* decision will result in increased disability compensation payments to some veterans who have a primary service-connected disability that causes them to abuse alcohol or drugs (or "secondary substance abuse").

Enacting H.R. 5235 would eliminate the increase in disability payments that will occur now that VA has begun rating veterans for secondary substance abuse under the *Allen* decision. CBO estimates, therefore, that enacting this legislation would reduce direct spending for disability compensation payments by the size of the potential increase in payments that will result from the *Allen* decision.

Estimate of Number of Veterans Affected by the *Allen* Decision. According to VA, the service-connected disabilities that veterans may be able to prove as causing their alcohol or drug abuse are overwhelmingly likely to be mental conditions—in particular, anxiety disorders like PTSD, schizophrenia, and mood disorders like depression. While VA expects that there may be some cases where disabilities other than these mental conditions might be judged to cause substance abuse, CBO assumes that the number of these cases would be insignificant.

Based on information provided by VA, CBO estimates that there are currently about 255,000 veterans who have a service-connected rating for these types of mental conditions. Of these, about 190,000 veterans have a service-connected disability rating for anxiety disorders. An additional 40,000 of these veterans have a service-connected disability rating for schizophrenia and another 25,000 have a service-connected disability rating for mood disorders. CBO estimates that, based on information provided by VA, on average about 20,000 more veterans would qualify for a service-connected disability rating for these mental disorders each year over the 2003-2012 period.

Based on peer-reviewed research and information provided by VA, CBO estimates that about 40 percent of veterans with anxiety disorders, 30 percent of veterans with schizophrenia, and 20 percent of veterans with mood disorders abuse alcohol or drugs due to their mental disorder. In all, CBO estimates that these primary service-connected conditions currently cause about 93,000 veterans to have secondary substance abuse and that about 8,000 more veterans a year would qualify for a ratings increase due to secondary substance abuse. After accounting for expected mortality, CBO estimates that the number of veterans who will be able to prove secondary substance abuse will increase gradually to about 140,000 veterans by 2012.

Estimated Savings in Spending for Disability Compensation. CBO estimates that enacting H.R. 5235 would decrease direct spending for disability compensation by eliminating the additional payments that will be made under the *Allen* decision for current service-connected conditions, new service-connected conditions, and dependency and indemnity compensation (DIC). The total savings in direct spending under section 3 would be \$4 million in 2003, \$58 million over the 2003-2007 period, and \$180 million over the 2003-2012 period, CBO estimates.

Current Service-Connected Conditions. According to VA, under the *Allen* decision, veterans who can prove secondary substance abuse are eligible to receive an increase in their current disability rating for the primary condition that caused the substance abuse. In addition, veterans with secondary substance abuse coming to VA for an initial disability rating will be eligible to receive a higher disability rating for the primary condition than they would have before the decision.

Based on information provided by VA, CBO expects that no more than 10 percent of veterans who will be able to prove secondary substance abuse will actually receive a higher disability rating because it is very difficult for claims examiners to separate one effect of the primary disability from another. Thus, it is likely that some of the effects of alcohol or drug abuse are already factored into the disability rating. Moreover, the criteria for determining the various rating levels have specific and distinct requirements—simply considering secondary substance abuse in the evaluation of the primary condition may not qualify a veteran for a higher rating.

CBO estimates that less than half of veterans who currently have a service-connected disability rating for conditions causing secondary substance abuse will apply for a rating re-evaluation over the 2003-2012 period and that about 10 percent of veterans that apply will receive an increase in their current disability rating. In total, we estimate that about 3,000 veterans (after accounting for expected mortality) will receive a higher disability rating than they would have before the VA began factoring secondary substance abuse into disability ratings.

On average, CBO estimates that the annual disability compensation payment for these veterans will increase—under current law—by \$5,200 a year. Enacting H.R. 5235 would eliminate these payments related to secondary substance abuse. As a result, CBO estimates that enacting this legislation would reduce spending for disability compensation by about \$4 million in 2003, about \$52 million over the 2003-2007 period, and about \$153 million over the 2003-2012 period.

New Service-Connected Conditions. Under the *Allen* decision, any additional disabilities caused by a veteran's secondary substance abuse can now be considered in evaluating a veteran's overall level of disability and, in turn, the size of the veteran's monthly payment. CBO expects that there will be some increase in disability compensation payments associated with veterans developing alcohol- and drug-related diseases as a result of their secondary substance abuse. According to VA, the most common medical consequences of alcohol or drug abuse are endocarditis, cirrhosis of the liver, and liver cancer.¹

CBO was unable to obtain reliable data on the incidence or prevalence of these three conditions in the general U.S. population. Lacking sufficient information, CBO has no basis for estimating the potential savings that would arise from VA discontinuing its current policy of awarding benefits for these new service-connected conditions.

1. Endocarditis is a bacterial infection of the tissue surrounding the heart and can be caused by injecting intravenous drugs. Cirrhosis, or scarring of the liver, and liver cancer can be caused by long-term, excessive alcohol consumption and by the Hepatitis C virus contracted through sharing intravenous needles.

Dependency and Indemnity Compensation. Dependents of veterans who die from a service-connected condition are eligible to receive DIC. CBO estimates that implementing the *Allen* decision will increase DIC payments to eligible dependents of veterans who die from alcohol- or drug-related diseases caused by secondary substance abuse. Thus, enacting this legislation would reverse the expected increase in direct spending for DIC payments that will occur over the 2003-2012 period as a result of the *Allen* decision.

CBO estimates that—on average—about 70 veterans with service-connected disabilities related to secondary substance abuse will die of alcohol- or drug-related causes each year over the 2003-2012 period and, after applying age-specific mortality to their eligible survivors, that implementing the *Allen* decision will result in DIC payments to about 35 more survivors in 2003, increasing to about 300 by 2012. CBO estimated potential veteran deaths related to alcohol or drug use using mortality rates provided by the National Institutes of Health (NIH) and the Centers for Disease Control and Prevention for alcohol- and drug-related deaths in the general U.S. population. CBO expects that the mortality rates for alcohol- and drug-related deaths among veterans with alcohol or drug abuse problems might be higher than those of the U.S. population but, according to NIH, there is no available mortality data specifically for people with alcohol or drug abuse problems.

According to VA, the average DIC payment in fiscal year 2001 was \$11,942. These payments are adjusted annually for increases in the cost of living. CBO estimates that enacting this bill would reduce direct spending for DIC by less than \$500,000 in 2003, \$6 million over the 2003-2007 period, and \$27 million over the 2003-2012 period. However, these savings could be higher if, as CBO expects, the alcohol- and drug-related mortality rates for people with alcohol or drug abuse problems are higher than that of the U.S. population.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 5235 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

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