



## CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

September 10, 2001

### **S. 1188** **Department of Veterans Affairs Medical Programs** **Enhancement Act of 2001**

*As ordered reported by the Senate Committee on Veterans' Affairs on August 2, 2001*

#### **SUMMARY**

S. 1188 would change how the Department of Veterans Affairs (VA) compensates nurses and other employees and would provide expanded medical benefits to some veterans. The bill would increase retirement benefits for VA nurses by changing how retirement annuities are calculated and would make permanent the authority to provide scholarships and pay school debts as an incentive to attract and keep employees in critical occupations. Under the bill, certain VA employees also would be eligible for premium pay for working on Saturdays. Finally, S. 1188 would calculate the income thresholds for determining whether a veteran qualifies for free health care on a regional basis rather than using a single national level.

CBO estimates that enacting the bill would increase direct spending by \$1 million in 2002, \$9 million over the 2002-2006 period, and \$26 million over the 2002-2011 period. Because the bill would affect direct spending, pay-as-you-go procedures would apply. In addition, S. 1188 would authorize funding or modify provisions governing discretionary spending for veterans' programs, which CBO estimates would result in additional outlays of about \$390 million in 2002 and about \$3 billion over the 2002-2006 period, assuming appropriation of the estimated amounts.

S. 1188 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 S. 1188 is shown in Table 1. This estimate assumes the legislation will be enacted near the start of fiscal year 2002 and that the necessary funds for

implementing the bill will be provided for each year. The costs of this legislation fall within budget functions 600 (income security) and 700 (veterans benefits and services).

TABLE 1. ESTIMATED BUDGETARY IMPACT OF S. 1188

	By Fiscal Year, in Millions of Dollars				
	2002	2003	2004	2005	2006
<b>CHANGES IN DIRECT SPENDING</b>					
Estimated Budget Authority	1	1	2	2	2
Estimated Outlays	1	1	2	2	2
<b>CHANGES IN SPENDING SUBJECT TO APPROPRIATION</b>					
Estimated Authorization Level	428	559	691	714	726
Estimated Outlays	388	539	671	704	716

### Direct Spending

Section 132 would change the way part-time service performed by registered nurses, physicians assistants, and certain dental technicians at VA prior to April 7, 1986, is treated in calculating retirement annuities. Under current law, retirement benefits for these workers are calculated according to a formula that prorates all part-time service performed in these positions. For most other federal workers, part-time service performed prior to April 7, 1986, is treated as full-time service when calculating retirement annuities. Information about these employees is limited, but based on information supplied by VA, CBO estimates there are about 1,600 of these workers still employed by the federal government. Assuming that retirement benefits calculated under the new formula would be between 4 percent and 13 percent higher than under the current formula, depending on how much part-time service was performed before April 7, 1986, CBO estimates that enacting this section would increase direct spending by \$1 million in 2002, \$8 million over the 2002-2006 period, and \$23 million over the 2002-2011 period.

Section 122 would authorize unused sick leave to be counted toward total years of service when calculating retirement benefits accrued by registered nurses who are employed by the Veterans Health Administration and retire under the Federal Employees' Retirement System (FERS). Under current law, unused sick leave is counted toward total service under the Civil Service Retirement System, but not under FERS. According to information from VA, about

1,000 registered nurses retire from VA every year, and most employees have between 3 and 6 months of accrued sick leave upon retirement. CBO estimates that enacting this provision would increase direct spending by less than \$500,000 every year until 2011 when the increase would round to \$1 million, with the 10-year costs totaling \$3 million.

## **Spending Subject to Appropriation**

Table 2 shows the estimated effects of S. 1188 on discretionary spending for veterans' programs, assuming that appropriations are provided in the amounts of the estimated authorizations.

**Compensation.** S. 1188 contains several provisions that would increase compensation and benefits for health care workers employed by VA. CBO estimates that these provisions would increase discretionary spending by \$8 million in 2002 and by \$58 million over the 2002-2006 period, assuming appropriation of the necessary amounts.

*Employee Incentive Scholarships.* VA currently administers a program to provide scholarships for employees in the Veterans Health Administration as an incentive to help meet staffing needs in critical occupations. The authority to provide those incentive scholarships expires on December 31, 2001. Section 111 would permanently extend this authority as well as clarify the rules for awarding full-time and part-time scholarships. VA expects to spend about \$7 million on this program in fiscal year 2001. CBO estimates that allowing VA to continue to provide those scholarships would cost \$7 million in 2002 and \$58 million over the 2002-2006 period, assuming appropriation of the estimated amounts. Because VA is currently funding this program, the costs associated with this provision are assumed in the baseline levels shown for veterans' medical care.

*Education Debt Reduction.* VA currently has the authority to reimburse new employees for employee payments of principal and interest on debts incurred for education related to the position the employee presently holds. The authority to enroll employees into this program expires on December 31, 2001. To date, VA has not implemented this program nor has it finalized the regulations under which the program would operate. Section 112 would extend this authority permanently, increase the maximum amount that could be reimbursed from \$24,000 over three years to \$44,000 over five years, and temporarily expand the definition of a new employee through December 31, 2001. CBO estimates that about 200 employees would take advantage of this program on an annual basis, with about two-thirds receiving the full amount allowed under the bill. CBO estimates that extending this authority along with the other changes would cost \$4 million in 2002 and \$36 million over the 2002-2006 period, assuming both appropriation of the estimated amounts and that VA actually implements this program by January 1, 2002. Since this program has not yet begun operation, the current law

baseline does not reflect the costs of extending the program and these costs are included in the “Compensation” section of Table 2.

TABLE 2. ESTIMATED CHANGES IN SPENDING SUBJECT TO APPROPRIATIONS FOR S. 1188

	By Fiscal Year, in Millions of Dollars					
	2001	2002	2003	2004	2005	2006
<b>Spending Under Current Law for Veterans' Medical Care</b>						
Estimated Authorization Level <sup>a</sup>	20,863	21,866	22,110	22,839	23,547	24,285
Estimated Outlays	20,418	21,501	22,020	22,613	23,298	24,028
<b>Proposed Changes</b>						
<b>Compensation</b>						
Estimated Authorization Level	0	8	9	11	14	16
Estimated Outlays	0	8	9	11	14	16
<b>Income Threshold</b>						
Estimated Authorization Level	0	420	550	680	700	710
Estimated Outlays	0	380	530	660	690	700
<b>Total Changes</b>						
Estimated Authorization Level	0	428	559	691	714	726
Estimated Outlays	0	388	539	671	704	716
<b>Spending Under S. 1188</b>						
Estimated Authorization Level	20,863	22,294	22,669	23,530	24,261	25,011
Estimated Outlays	20,418	21,889	22,559	23,284	24,002	24,744

a. The 2001 level is the estimated net amount appropriated for that year. The current-law amounts for the 2002-2006 period assume that appropriations remain at the 2001 level, with adjustments for inflation.

*Saturday Pay.* Currently, pharmacists, licensed practical nurses, and many therapists receive premium pay when they work on Sundays, but premium pay for work performed on Saturdays is managed at a local level and many do not receive such pay for Saturday work. Section 121 would require that all these employees receive premium pay, equal to 25 percent of their hourly wage, for all hours worked on Saturday. Using data from VA, CBO estimates that this provision would cost \$4 million in 2002 and \$22 million over the 2002-2006 period, assuming appropriation of the estimated amounts.

**Income Threshold.** Under current law, VA furnishes free medical care to veterans who meet certain eligibility requirements—one of which is an income threshold. Any veteran eligible for Medicaid, or who receives a VA pension, or who has an income below a

statutory level (currently \$23,688 for a veteran without a dependent) can receive free health care. Under the bill, veterans eligible for low-income housing also would qualify for free medical care. In general, the Department of Housing and Urban Development sets eligibility for low-income housing at 80 percent of each county's median income with adjustments for cost-of-living.

This provision would affect both veterans who currently receive medical care from VA and those who do not currently use VA health care services. CBO estimates that the total cost associated with expanding eligibility for free VA medical care would be \$380 million in 2002 and about \$3 billion over the 2002-2006 period, assuming appropriation of the estimated amounts.

*Current VA Health Care Users.* Using data from VA and the Current Population Survey, CBO estimates that under this provision about 1.4 million veterans would become eligible for free health care. CBO estimates that this number includes more than 250,000 veterans who currently use VA medical facilities but are not presently eligible for free health care. Under the bill, these veterans would no longer need to make copayments when receiving health care benefits. Because individuals use more health care services when they do not face any out-of-pocket costs, the cost of providing medical care would increase for those users who become eligible for free health care. Using data from VA and from published research, CBO estimates that those veterans receiving free health care would cost VA about \$700 more per person in 2002. Using that information and adjusting for inflation, CBO estimates that providing free health care to veterans currently using VA would cost about \$170 million in 2002 and almost \$1 billion over the 2002-2006 period, assuming appropriation of the estimated amounts.

Because the veterans discussed above would be eligible for free health care, VA also would lose the copayments that these veterans make when receiving care. CBO estimates that the lost copayments would total about \$40 million over the 2002-2006 period. Under current law, those copayments can be spent by VA, if authorized by the appropriators. Since CBO's baseline assumes both the collection and the spending of those copayments, the budgetary effect would be neutral. Although there is no net budgetary impact, VA would not be able to provide the same level of care as they currently do without additional appropriations to replace the lost copayments.

*New VA Health Care Users.* CBO also estimates that some veterans who do not currently use VA medical facilities because of the requirement to make copayments would do so once they became eligible for free health care. Currently, only about 20 percent of veterans eligible for free health care based on income actually use VA medical facilities. CBO expects that an even lower percentage of those who would become eligible for free health care would end up using VA medical facilities, because some of those veterans have access

to health care from other sources. CBO estimates that eventually about 100,000 newly eligible veterans would begin using VA medical care at a cost of more than \$4,000 per person. CBO estimates that providing free health care to these veterans would cost \$210 million in 2002 and about \$2 billion over the 2002-2006 period, assuming appropriation of the estimated amounts.

**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 Table 3. 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.

TABLE 3. ESTIMATED IMPACT OF S. 1188 ON DIRECT SPENDING AND RECEIPTS

	By Fiscal Year, in Millions of Dollars											
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	
Changes in outlays	0	1	1	2	2	2	3	3	3	3	4	
Changes in receipts					Not applicable							

**INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT**

S. 1188 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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