



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

October 29, 2001

S. 1408 **Veterans' Copayment Adjustment Act**

As introduced on September 6, 2001

SUMMARY

S. 1408 would allow more veterans to become eligible for free prescription drugs by raising the income threshold for determining which veterans need to make a prescription drug copayment. The bill would not extend the authority to collect prescription drug copayments, which expires on September 30, 2002, and thus the budgetary effects of this bill would be limited to 2002. By making more veterans eligible for free prescription drugs, S. 1408 would reduce the total copayments collected by the Department of Veterans Affairs (VA) and also would reduce VA's spending of those copayment collections.

By reducing VA collections and spending of those collections, the bill would affect direct spending. Thus, pay-as-you-go procedures would apply. There would be no net effect on direct spending over the 2002-2006 period, however, because the cost of reduced collections is exactly offset by the reduced spending from those collections.

In addition, CBO estimates that implementing S. 1408 would increase spending subject to appropriation by \$42 million in 2002, assuming appropriation of the estimated amounts. Such appropriated funds would cover the cost of keeping health care services at the same levels provided in 2001. CBO also estimates that if the authority to collect the prescription drug copayments were extended to September 30, 2006, that spending subject to appropriation would have to increase by \$360 million over the 2003-2006 period to achieve the same levels of veterans' health care provided today.

S. 1408 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 1408 is shown in the following table. This estimate assumes the legislation will be enacted before December 31, 2001. The costs of this legislation fall within budget function 700 (veterans benefits and services).

	By Fiscal Year, in Millions of Dollars				
	2002	2003	2004	2005	2006
SPENDING SUBJECT TO APPROPRIATION					
Spending Under Current Law for Veterans' Medical Care					
Estimated Authorization Level ^a	21,866	22,110	22,839	23,547	24,285
Estimated Outlays	21,501	22,020	22,613	23,298	24,028
Proposed Changes					
Estimated Authorization Level	42	0	0	0	0
Estimated Outlays	38	4	0	0	0
Spending Under S. 1408 for Veterans' Medical Care					
Estimated Authorization Level	21,908	22,110	22,839	23,547	24,285
Estimated Outlays	21,539	22,024	22,613	23,298	24,028
CHANGES IN DIRECT SPENDING					
Estimated Budget Authority	0	0	0	0	0
Estimated Outlays	42	-32	-10	0	0

a. The current-law amounts for 2002-2006 period assume that appropriations remain at the 2001 level, with adjustments for inflation.

BASIS OF ESTIMATE

Under current law, veterans who are eligible for a VA pension, eligible for Medicaid, or meet a certain income threshold are eligible to receive free health care at VA hospitals and clinics. That income threshold is currently \$23,688 for a veteran with no dependents. Some veterans also can receive free prescription drugs, but the income threshold is much lower, currently less than \$9,000 for a veteran with no dependents. (Both thresholds are adjusted annually for inflation.) S. 1408 would raise the income threshold for receiving free prescription drugs to the same level needed to receive free health care and would allow all veterans with incomes less than the annually adjusted amount to be eligible for free prescription drugs.

Today, veterans who do not meet the income threshold for free prescription drugs must make a copayment when they have their prescriptions filled. VA currently collects a \$2 copayment for each outpatient prescription it fills and deposits this copayment into the Medical Care Collections Fund (MCCF). Under current law, amounts deposited into the MCCF are considered to be offsets to discretionary appropriations and spending from the MCCF is subject to annual appropriation.

Using statutory authority, VA is planning to increase the copayment to \$7 per prescription and CBO assumes that this increase will occur before December 31, 2001. Under current law, the \$5 increase in the prescription copayment will be deposited into the Health Services Improvement Fund (HSIF). Deposits into the HSIF are considered offsets to direct spending, and VA may spend amounts in the HSIF without appropriation action. (That is, both the receipts and outlays of the HSIF constitute direct spending.)

The authority to collect these copayments expires on September 30, 2002. Because this bill would not extend VA's collection authority, the impact of providing free prescription drugs to a larger number of veterans would only affect fiscal year 2002. However, if VA's collection authority were extended in conjunction with the provisions of S. 1408, budgetary effects would occur each year through the new extension date.

According to VA, prescription drug copayments in 2001 totaled about \$140 million and all of these collections were deposited into the MCCF. After adjusting for continued growth in the number of new veterans using VA healthcare, growth in the average number of prescriptions filled per veteran, and a slight decline in usage once the copayment is raised to \$7, CBO estimates that collections from prescription drug copayments would total about \$460 million in 2002. Of that amount, \$298 million would be deposited into the HSIF, and the rest into the MCCF.

Direct Spending

According to VA, about one-third of all veterans making copayments for prescription drugs in 1999 would have been eligible for free prescription drugs if the income threshold were raised to the new level. Those veterans accounted for about 40 percent of the total copayments. While the number of veterans using VA for medical care with an income under the new threshold has grown since 1999, the number of new veterans using VA medical care with an income greater than the new threshold has grown even more. Adjusting for that relative change, CBO estimates that about 35 percent of the total copayments in 2002, or \$147 million, would not be collected under S. 1408 because of increased eligibility for free prescription drugs. Of that amount, CBO estimates that deposits in the HSIF would decline by about \$105 million in 2002 (the remainder would come from reductions in the MCCF).

Because VA has the authority to spend the money in the HSIF without appropriation, CBO expects that VA also would spend \$105 million less on health care. The budget authority for collections and spending offset each other exactly in each year, but there is a lag in outlays. We estimate that the spending of these deposits would occur over three years as follows: \$63 million in 2002, \$32 million in 2003, and \$10 million in 2004. Thus, enacting S. 1408 would have no net direct spending costs or savings over the 2002-2006 period.

Spending Subject to Appropriation

CBO also estimates that deposits into the MCCF, would decline by \$42 million under S. 1408. As with the HSIF, the estimated reduction in budget authority for collections and spending would offset exactly while outlays would lag somewhat. Because spending from the MCCF is subject to appropriation, the reduced spending represents a real cost to VA that would need to be paid for out of increased appropriations if the level of medical care were not to be reduced. As shown in the above table, CBO estimates that implementing S. 1408 would increase spending in 2002 by \$42 million, assuming appropriation of the estimated amounts. If the authority to collect prescription copayments were extended through September 30, 2006, discretionary spending would have to increase by \$360 million over the 2003-2006 period.

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 direct spending 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 budget year and the succeeding four years are counted.

	By Fiscal Year, in Millions of Dollars									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Change in outlays	42	-32	-10	0	0	0	0	0	0	0
Change in receipts	Not applicable									

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

S. 1408 contains no intergovernmental or private-sector mandates as defined by UMRA and would impose no costs on state, local, or tribal governments.

PREVIOUS CBO ESTIMATE

On July 20, 2001, CBO prepared an estimate of H.R. 2540, the Veterans Benefits Act of 2001, as ordered reported by the House Veterans' Affairs Committee on July 19, 2001. While H.R. 2540 would not increase the threshold for receiving free prescription drugs, it would extend the authority to collect the prescription drug copayment through September 30, 2007, and would require that spending from the HSIF be subject to annual appropriations. After that estimate was published, CBO obtained information from VA that prescription drug copayments were significantly higher in 2001 than the estimate for H.R. 2540 had assumed. This estimate for S. 1408 uses the new information and thus the total copayments assumed in this estimate are higher than the total assumed for H.R. 2540.

ESTIMATE PREPARED BY:

Federal Spending: Sam Papenfuss
Impact on State, Local, and Tribal Governments: Elyse Goldman
Impact on the Private Sector: Bill Thomas

ESTIMATE APPROVED BY:

Peter H. Fontaine
Deputy Assistant Director for Budget Analysis