CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

June 24, 2002

S. 2043
Veterans Long-Term Care and Mental Health Programs Enhancement Act of 2002

As ordered reported by the Senate Committee on Veterans' Affairs on June 6, 2002

SUMMARY

S. 2043 contains several provisions that would affect health care provided by the Department of Veterans Affairs (VA). CBO estimates that enacting the bill would increase direct spending by $6 million in 2003, $30 million over the 2003-2007 period, and $64 million over the 2003-2012 period. Because the bill would affect direct spending, pay-as-you-go procedures would apply. In addition, S. 2043 would modify provisions governing discretionary spending for veterans' health care programs, which CBO estimates would result in outlays of $28 million in 2003 and $880 million over the 2003-2007 period, assuming appropriation of the estimated amounts.

The bill would extend for five years certain requirements that specify how VA is to provide long-term care to veterans. S. 2043 also would increase the amount of appropriated funds spent on mental health services and would increase the number of centers at VA hospitals that focus on mental health research and services. In addition, the bill would permanently extend the authority to provide counseling and treatment for veterans who suffer from sexual trauma and establish a pilot program of outreach clinics in the state of Washington. S. 2043 also would require retirement annuities to be recalculated for certain former VA employees.

S. 2043 also 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. Because the bill would not extend the authority to collect prescription drug copayments, which expires on September 30, 2002, enacting this provision would have no budgetary effect over the 2003-2007 period. The provision could increase direct spending in fiscal year 2002, however, if the bill is enacted soon. If the bill is enacted before the end of the fiscal year, CBO estimates that raising the income thresholds for eligibility for free prescription drugs could increase direct spending by no more than $9 million in 2002, and that this increase would be offset by savings of $7 million in 2003 and $2 million in 2004.

Finally, the bill would authorize appropriations for construction projects and would raise the threshold for projects to be financed out of the appropriation for major medical facility construction from $4 million to $9 million. (Thus, under the bill projects costing up to $9 million would be considered minor construction.)

S. 2043 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. 2043 is shown in Table 1. For this estimate CBO assumes that the bill will be enacted near the beginning of fiscal year 2003, and that both the authorized and estimated amounts will be appropriated 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. 2043

	By Fiscal Year, in Millions of Dollars				
	2003	2004	2005	2006	2007
CHANGES IN DIRECT SPENDING					
Estimated Budget Authority	6	6	6	6	6
Estimated Outlays	6	6	6	6	6
CHANGES IN SPENDING SUBJECT TO APPROPRIATION					
Estimated Authorization Level	150	192	197	179	186
Estimated Outlays	28	208	237	213	194

a. Enacting S. 2043 could also increase direct spending in fiscal year 2002 if the bill is enacted before the end of the fiscal year. In that case, CBO estimates raising the income threshold for determining which veterans are eligible for free prescription drugs could increase direct spending by no more than $9 million in 2002, depending on the date of enactment, but that this increase would be offset by savings of $7 million in 2003 and $2 million in 2004.

BASIS OF ESTIMATE

Direct Spending

The legislation would affect direct spending in all future years for retirement annuities to certain former VA employees. The bill could also affect direct spending in 2002 by allowing more veterans to become eligible for free prescription drugs, but those potential effects are not included in Table 1 because we assume the bill will be enacted near the beginning of fiscal year 2003 for the purposes of this cost estimate.

Retirement Annuities for Certain Retirees with Part-time Service. S. 2043 would require retirement annuities to be recalculated for federal retirees who performed part-time service as registered nurses, physician's assistants, and certain dental technicians at VA prior to April 7, 1986. The Department of Veterans Affairs Health Care Programs Enhancement Act of 2001 (Public Law 107-135), enacted on January 23, 2002, made changes to the way retirement benefits are determined for those workers who retired on or after the date that legislation was enacted. That legislation treated pre-April 7, 1986, part-time service as full-time service for the purpose of calculating retirement annuities. S. 2043 would extend these changes to the types of workers covered by Public Law 107-135, but who retired between April 6, 1986, and January 23, 2002. Retirement benefits for these workers currently are set according to a formula that prorates all part-time service performed in these positions. For most other federal workers, including those covered by Public Law 107-135, part-time service performed prior to April 7, 1986, is treated as full-time service when calculating retirement annuities. In most cases, the changes result in higher retirement benefits.

Information about retirees who would be covered by S. 2043 is limited, but based on data provided by VA and the Office of Personnel Management, CBO estimates that about 1,500 current retirees would have their benefits increased by the bill. CBO estimates that the new formula would increase benefits for affected retirees by 13 percent to 22 percent, depending on how much part-time service was performed prior to April 7, 1986. As a result, enacting S. 2043 would increase direct spending by $6 million in 2003, $30 million over the 2003-2007 period, and $64 million over the 2003-2012 period.

Prescription Copayments. 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 $24,305 for a veteran with no dependents. Some veterans also can receive free prescription drugs, but the income threshold is much lower, currently $9,556 for a veteran with no dependents. (Both thresholds are adjusted annually for inflation.) Section 311 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 $7 copayment for each outpatient prescription it fills and deposits the first $2 of 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. The remaining $5 is 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.

Using information from VA, CBO estimates that raising the income threshold for determining which veterans make prescription drug copayments would reduce copayment collections by about 35 percent. Because the authority to collect prescription drug copayments expires on September 30, 2002, the impact of providing free prescription drugs to a larger number of veterans would only affect fiscal year 2002 and have no budgetary effect over the 2003-2012 period.

If S. 2043 were enacted before the end of the fiscal year, CBO estimates that collections deposited into the HSIF would decline by no more than $23 million. Because VA has the authority to spend the money in the HSIF without appropriation, any drop in collections would be matched by a drop in spending from the fund. Accounting for a lag in spending of HSIF deposits, we estimate that there could be a net increase in direct spending of up to $9 million in 2002. That increase would be offset exactly by savings of $7 million in 2003 and $2 million in 2004. Thus, enacting S. 2043 would have no net direct spending costs or savings over the 2002-2007 period.

Spending Subject to Appropriation

Table 2 shows the estimated effects of S. 2043 on discretionary spending for veterans' health care programs, assuming that appropriations are provided in the authorized and estimated amounts. Individual provisions that would affect discretionary spending are described below.

Veterans Medical Care. Federal spending for all veterans medical care totals more than $22 billion a year. Several sections of the bill would affect medical care for veterans. In total, CBO estimates that implementing these provisions would cost $23 million in 2003 and $759 million over the 2003-2007 period.

TABLE 2. ESTIMATED CHANGES IN SPENDING SUBJECT TO APPROPRIATION FOR S. 2043

	By Fiscal Year, in Millions of Dollars				
	2003	2004	2005	2006	2007
Veterans' Medical Care					
Long-Term Care					
Estimated Authorization Level	0	166	171	177	184
Estimated Outlays	0	151	169	176	182
Mental Health Care					
Estimated Authorization Level	23	24	26	2	2
Estimated Outlays	21	24	26	4	2
Pilot Project on Medical Care Outreach					
Estimated Authorization Level	2	2	0	0	0
Estimated Outlays	2	2	0	0	0
Subtotal for Veterans' Medical Care					
Estimated Authorization Level	25	192	197	179	186
Estimated Outlays	23	177	195	180	184
Major Construction of Veterans Medical Facilities					
Authorization Level	109	0	0	0	0
Estimated Outlays	5	29	35	26	10
Grants for Construction of Extended Care Facilities					
Authorization Level	16	0	0	0	0
Estimated Outlays	0	2	7	7	0
Total Changes					
Estimated Authorization Level	150	192	197	179	186
Estimated Outlays	28	208	237	213	194

Long-Term Care. Section 101 would extend a requirement in current law that VA provide nursing home care to veterans that have a disability rating of 70 percent or greater. Under current law, this requirement expires on December 31, 2003. This provision would extend the requirement for five more years through December 31, 2008. Section 101 also would extend an authorization to treat noninstitutional extended care services as regular medical care. According to VA, the department currently spends about $3.5 billion a year providing long-term care services to veterans. Of that amount, VA spends more than $2 billion for nursing home care and less than $0.5 billion for noninstitutional extended care.

According to VA, it currently spends about $150 million a year out of the $3.5 billion to conform with the above requirements. Accordingly, CBO estimates that requiring VA to continue these services would cost $151 million in 2004 and $678 million over the 2004-2007 period, assuming appropriation of the estimated amounts.

Mental Health Care. Section 113 would require VA to establish not more than 15 centers for mental illness research, education, and clinical activities. VA can establish no more than five centers under current law. According to VA, there are eight such centers operating today, however. Thus, for this estimate, CBO assumes that VA would establish seven more centers for mental illness research, education, and clinical activities to implement this provision. Based on data from VA, CBO estimates that each center would cost about $2 million a year to operate. Assuming normal delays in organizing new centers and appropriation of the estimated amounts, CBO estimates that establishing seven new centers would cost $12 million in 2003 and $70 million over the 2003-2007 period.

Section 111 would require VA to spend an additional $25 million a year on mental health care over the 2003-2005 period. Under current law, VA is required to spend $15 million more each year than what they otherwise would have spent on post-traumatic stress disorder and substance use disorders; there is no expiration date associated with this requirement. Under section 111, VA would be required to spend $10 million more than specified under current law over the 2003-2005 period, but would then not be required to spend any additional amounts after 2005. Thus, CBO estimates that implementing this section would cost $9 million in 2003, cost $29 million over the 2003-2005 period, and save $28 million over the 2006-2007 period.

Section 112 would permanently extend VA's authority to provide counseling and treatment for veterans who suffered sexual trauma while a member of the armed services. Under current law, this provision expires on December 31, 2004. VA currently spends about $2 million a year providing this counseling and treatment. CBO estimates that extending this provision would cost $2 million in 2005 and $6 million over the 2005-2007 period, assuming appropriation of the estimated amounts.

Prescription Drug Copayments. Section 311 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. The specifics of this proposal were discussed above under the heading of "Direct Spending." As mentioned earlier, CBO estimates the impact of providing free prescription drugs to a larger number of veterans would have no budgetary effect over the 2003-2007 period because the authority to collect prescription drug copayments expires on September 30, 2002. (As noted below, costs would be triggered if future legislation extends that authority.)

If S. 2043 were enacted before the end of the fiscal year, CBO estimates that this provision would decrease spending from the MCCF by no more than $10 million. Because spending from the MCCF is subject to appropriation, this reduction would represent a real cost to VA that would need to be paid for out of increased appropriations if the level of medical care were not reduced. CBO estimates that implementing S. 2043 could increase spending by as much as $10 million, if the bill were enacted before October 1, 2002, assuming the availability of appropriated funds.

In addition, if the authority to collect prescription drug copayments were extended through September 30, 2007, CBO estimates that VA would collect $634 million from prescription drug copayments in 2003 and almost $4 billion over the 2003-2007 period. If the collection authority is extended, CBO estimates that those collections would be reduced by about 35 percent or $222 million in 2003 and about $1.4 billion over the 2003-2007 period under S. 2043.

Pilot Project on Medical Care Outreach. Section 322 would authorize VA to establish and operate two VA clinics for fiscal years 2003 and 2004 as a pilot project in the state of Washington to provide outreach on health care and services for veterans in that state. These clinics would provide basic health care services to veterans in areas that do not currently have VA facilities and would be open at least one day a week. Based on information from VA, CBO estimates that each clinic would cost about $1 million a year to operate. Thus CBO estimates that implementing this provision would cost $4 million over the 2003-2004 period, assuming appropriation of the estimated amounts.

Major Construction of Veterans Medical Facilities. Sections 201 would authorize specific construction projects for seismic corrections along with one construction project for a long-term care facility, and would set spending limits for each project. Section 202 would authorize the appropriation of $108.5 million in 2003 for major construction projects. Finally, section 211 would raise the threshold for projects to be financed out of the appropriation for major medical facility construction from $4 million to $9 million. (Thus, under the bill projects costing up to $9 million would be considered minor construction.) CBO estimates that implementing these provisions would cost $5 million in 2003 and $105 million over the 2003-2007 period, assuming appropriation of the authorized amounts.

Grants for Construction of Extended Care Facilities. Section 212 would authorize up to $16 million to expand, remodel, or alter space in six Pioneer Homes in the state of Alaska that are dedicated to providing care for veterans. Under section 212, these modified Pioneer Homes would be considered a state home facility for the state of Alaska for the purpose of laws administered by the Secretary of VA. CBO estimates that this provision would have no cost in 2003 but would cost $16 million over the 2004-2007 period, assuming appropriation of the authorized 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. 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 through fiscal year 2006 are counted.

TABLE 3. ESTIMATED IMPACT OF S. 2043 ON DIRECT SPENDING AND RECEIPTS

	By Fiscal Year, in Millions of Dollars										
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Changes in outlays	0	6	6	6	6	6	6	7	7	7	7
Changes in receipts	Not applicable										

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

S. 2043 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

PREVIOUS CBO ESTIMATE

On October 29, 2001, CBO transmitted a cost estimate for S. 1408, the Veterans' Copayment Adjustment Act, as introduced on September 6, 2001. S. 2043 and S. 1408 would both 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. Because neither bill would extend the authority to collect prescription drug copayments, which expires on September 30, 2002, the estimated costs of this provision are limited to fiscal year 2002 for both bills. CBO's estimate for S. 2043 does not include any costs for fiscal year 2002 because we assume the bill will be enacted near the beginning of fiscal year 2003. Differences in the cost estimates stem primarily from different assumed enactment dates.

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