



## CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

June 29, 2005

### **H.R. 1220** **Veterans' Compensation Cost-of-Living Adjustment Act of 2005**

*As ordered reported by the House Committee on Veterans' Affairs  
on June 23, 2005*

#### **SUMMARY**

H.R. 1220 would increase the amounts paid to veterans for disability compensation and to survivors for dependency and indemnity compensation (DIC) by the same cost-of-living adjustment (COLA) payable to Social Security recipients. The bill also would increase the amount of additional assistance paid to surviving spouses with dependent children under age 18 by that same COLA. In addition, H.R. 1220 would authorize \$10 million for the Department of Veterans Affairs (VA) to conduct a demonstration project to improve business practices within the Veterans Health Administration (VHA) for recovering payments from third-party payors. Finally, the bill would authorize VA to establish six centers to conduct Parkinson's disease research, education, and clinical activities.

CBO estimates that enacting this legislation would increase direct spending for veterans disability compensation by less than \$200,000 in 2006, \$1 million over the 2006-2010 period, and \$2 million over the 2006-2015 period. In addition, CBO estimates that discretionary spending resulting from implementation of H.R. 1220 would total \$2 million in 2006 and \$10 million over the 2006-2008 period, assuming appropriation of the authorized amount.

H.R. 1220 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 H.R. 1220 is shown in the following table. The costs of this legislation fall within budget function 700 (veterans benefits and services).

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	By Fiscal Year, in Millions of Dollars					
	2005	2006	2007	2008	2009	2010

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**SPENDING SUBJECT TO APPROPRIATION**

Spending Under Current Law for VA

Medical Services

Budget Authority <sup>a</sup>	21,860	22,710	23,415	23,627	24,355	25,099
Estimated Outlays	21,658	22,285	23,072	23,439	24,086	24,769

Proposed Changes

Authorization Level	0	10	0	0	0	0
Estimated Outlays	0	2	5	3	0	0

Spending Under H.R. 1220 for VA Medical

Services

Estimated Authorization Level <sup>a</sup>	21,860	22,720	23,415	23,627	24,355	25,099
Estimated Outlays	21,658	22,287	23,077	23,442	24,086	24,769

**CHANGES IN DIRECT SPENDING**

Estimated Budget Authority	*	*	*	*	*	*
Estimated Outlays	*	*	*	*	*	*

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NOTE: \* = less than \$500,000.

a. The 2005 level is the amount appropriated for that year for VA medical services.

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**BASIS OF ESTIMATE**

This estimate assumes that the bill will be enacted near the start of fiscal year 2006. Almost all of the budgetary impact would be associated with discretionary spending for veterans medical programs. In total, CBO estimates that discretionary spending resulting from implementation of H.R. 1220 would total \$2 million in 2006 and \$10 over the 2006-2010 period, assuming appropriation of the authorized amount. Enacting this legislation would also increase direct spending for veterans' disability compensation by less than \$500,000 in 2006, \$1 million over the 2006-2010 period, and \$2 million over the 2006-2015 period, CBO estimates.

## **Spending Subject to Appropriation**

**Demonstration Project for Recovery Payments from Third Parties.** Section 5 would direct VA to conduct a two-year demonstration project to improve business practices within the VHA for recovering payments from third-party payors. Under current law, VA is entitled to seek reimbursement from insurance companies for treatment of veterans for nonservice-connected injuries and illnesses. Under the bill, VHA would be required to hire a contractor to evaluate the current business practices at two VHA facilities, to recommend and implement improvements to those practices aimed at increasing payments from third-party payors, and to establish a database of third-party payor information for veterans receiving health care and services at these two facilities. The bill would authorize the appropriation of \$10 million for this activity. Based on the requirements in the legislation regarding deadlines for contractor selection and information from VA about their typical payment schedules for such contractors, CBO estimates that implementing this provision would cost \$2 million in 2006 and \$10 million over the 2006-2008 period, assuming appropriation of the necessary amounts.

**Parkinson's Disease Centers.** Section 6 would codify the establishment of six Parkinson's Disease Centers within VHA to perform research, education, and clinical activities focusing on that illness. According to VA, it used authority available under current law to establish these centers beginning in 2001. CBO estimates that implementing this provision would have no cost since the bill would not create any centers beyond the six currently in operation.

## **Direct Spending**

**Cost-of-Living Adjustment for Veterans' Disability Compensation and DIC.** Section 2 would increase the amounts paid to veterans for disability compensation and to their survivors for dependency and indemnity compensation by the same cost-of-living adjustment payable to Social Security recipients. The increase would take effect on December 1, 2005, and the results of the adjustment would be rounded to the next lower dollar.

The COLA that would be authorized by this bill is assumed in CBO's baseline, pursuant to section 257 of the Balanced Budget and Emergency Deficit Control Act, and savings from rounding it down were achieved by the Balanced Budget Act of 1997 (Public Law 105-33) and extended to 2013 by the Veterans Benefits Act of 2003 (Public Law 108-183).

Because the COLA is assumed in CBO's baseline, the COLA provision would have no budgetary effect relative to that baseline. Relative to current law, CBO estimates that enacting this provision would increase spending for these programs by \$538 million in 2006.

(The annualized cost would be about \$720 million in subsequent years.) This estimate assumes that the COLA effective on December 1, 2005, would be 2.3 percent.

**Cost-of-Living Adjustment to Surviving Spouses with Children Under Age 18.** Under current law, surviving spouses who are eligible for DIC and have one or more children under age 18 have their monthly DIC payment increased by \$250 for up to two years from the date that the survivor becomes eligible for DIC. Section 2 would increase the \$250 benefit by the same cost-of-living adjustment payable to Social Security recipients effective December 1, 2005. Based on an assumed COLA of 2.3 percent, CBO estimates that this monthly benefit would increase to \$255 (after rounding down to the next lowest dollar) for 2006 and each subsequent year relative to current law and CBO's baseline. Therefore, CBO estimates that enacting this provision would increase direct spending for veterans compensation by less than \$200,000 in 2006, \$1 million over the 2006-2010 period, and \$2 million over the 2006-2015 period.

## **INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT**

H.R. 1220 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 June 2, 2005, CBO transmitted an estimate for H.R. 1220, as introduced on March 10, 2005. H.R. 1220, as ordered reported by the House Committee on Veterans Affairs on June 23, 2005, contains provisions that were not included in the introduced version of the bill—specifically, provisions that would increase the amount of additional assistance paid to surviving spouses with dependent children under age 18; direct VA to conduct a demonstration project to improve business practices within VHA for recovering payments from third-party payors; and authorize VA to establish six centers to conduct Parkinson's disease research, education, and clinical activities. The differences in the estimated costs reflect the differences in the two versions of the bill.

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