



## CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

July 25, 2013

### **S. 1197** **National Defense Authorization Act for Fiscal Year 2014**

*As reported by the Senate Committee on Armed Services on June 20, 2013*

#### **SUMMARY**

S. 1197 would authorize appropriations totaling \$626 billion for fiscal year 2014 for the military functions of the Department of Defense (DoD), for certain activities of the Department of Energy (DOE), and for other purposes. That total includes \$81 billion for the cost of overseas contingency operations, primarily in Afghanistan. In addition, S. 1197 would prescribe personnel strengths for each active-duty and selected-reserve component of the U.S. armed forces. CBO estimates that appropriation of the authorized amounts would result in outlays of \$613 billion over the 2014-2018 period.

The bill also contains provisions that would increase or decrease the costs of defense programs funded through discretionary appropriations in 2015 and future years. Those implicit authorizations would affect force structure, DoD compensation and benefits, DoD's use of multiyear procurement authority, and other programs and activities. CBO has analyzed the costs of a select number of those authorizations and estimates they would, on a net basis, lower the amount of appropriations needed to implement defense programs relative to current law by about \$15 billion over the 2015-2018 period. Those savings are not included in the outlays referenced in the previous paragraph because funding for those activities would be covered by specific authorizations in future years.

In addition, S. 1197 contains provisions that would affect direct spending. CBO estimates that, on net, those provisions would decrease direct spending by \$23 million over the 2014-2018 period, but increase such spending by \$28 million over the 2014-2023 period. Enacting the bill would have an insignificant effect on revenues. Because enacting the legislation would affect direct spending and revenues, pay-as-you-go procedures apply.

S. 1197 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA).

## ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 1197 is summarized in Table 1. Almost all of the \$626 billion that would be authorized by the bill is for activities within budget function 050 (national defense). Some authorizations, however, fall within other budget functions, including \$143 million for the Department of Veterans Affairs (function 700—veterans benefits and services) and \$68 million for the Armed Forces Retirement Home (function 600—income security).

The provisions that would affect direct spending are primarily for activities within budget functions 600 and 550 (health).

**TABLE 1. BUDGETARY IMPACT OF S. 1197, THE NATIONAL DEFENSE AUTHORIZATION ACT FOR FISCAL YEAR 2014**

	By Fiscal Year, in Millions of Dollars					2014- 2018
	2014	2015	2016	2017	2018	
<b>SPENDING SUBJECT TO APPROPRIATION</b>						
Specified Authorization of Regular Appropriations for 2014, Primarily for the Departments of Defense and Energy						
Authorization Level	544,478	0	0	0	0	544,478
Estimated Outlays	347,627	115,466	42,699	18,950	7,933	532,675
Estimated Authorization of Regular Appropriations for 2014 for Accrual Payments <sup>a</sup>						
Estimated Authorization Level	580	0	0	0	0	580
Estimated Outlays	580	0	0	0	0	580
Specified Authorization of Appropriations for Overseas Contingency Operations						
Authorization Level	80,704	0	0	0	0	80,704
Estimated Outlays	41,205	25,764	8,997	2,974	764	79,704
Total						
Estimated Authorization Level	625,763	0	0	0	0	625,763
Estimated Outlays	389,412	141,230	51,696	21,924	8,697	612,959
<b>CHANGES IN DIRECT SPENDING<sup>b</sup></b>						
Estimated Budget Authority	-27	-29	12	11	11	-22
Estimated Outlays	-28	-29	12	11	11	-23

(Continued)

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**TABLE 1. Continued**

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Notes: Except as noted below, the authorization levels in this table reflect amounts that would be specifically authorized by the bill. The bill also would implicitly authorize some defense activities in 2015 and future years; those authorizations are not included above (but estimates for a select number of them are shown in Table 3) because funding for those activities would be covered by specific authorizations in future years.

Enactment of the bill would have an insignificant effect on revenues.

Numbers may not sum to totals because of rounding.

- a. This authorization reflects CBO’s estimate of the added cost of certain accrual payments required under current law but not fully reflected in the amounts specifically authorized by the bill.
  - b. In addition to the changes in direct spending shown above, S. 1197 would have effects beyond 2018. CBO estimates that over the 2014-2023 period, S. 1197 would increase direct spending by \$28 million (see Table 4).
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## **BASIS OF ESTIMATE**

For this estimate, CBO assumes that S. 1197 will be enacted near the start of fiscal year 2014 and that the authorized and estimated amounts will be appropriated.

### **Spending Subject to Appropriation**

The bill would authorize appropriations for 2014 totaling \$626 billion, of which \$545 billion would be authorizations of regular appropriations for “base budget” costs (not directly related to overseas contingency operations). Of the funding that would be authorized for base budget costs, \$544 billion would be specifically authorized as follows: \$526 billion for DoD and \$18 billion for atomic energy defense activities within DOE and for various other programs (see Table 2).

The funding that would be authorized for DoD’s base budget represents an increase of nearly \$32 billion (6 percent) relative to appropriations enacted for 2013 and adjusted to reflect the effects of the March 2013 sequestration. Authorized funding would increase for all major categories of spending: operation and maintenance would increase by \$17 billion (9 percent), procurement by \$8 billion (9 percent), research and development by \$4 billion (7 percent), military personnel by nearly \$2 billion (1 percent), and military construction and family housing by \$100 million (1 percent). For those comparisons, the amount authorized for DoD’s base budget also reflects CBO’s estimate of the additional amount needed—\$580 million—to fully fund certain accrual payments required under current law but not fully reflected in the amounts specifically authorized by the bill.

**TABLE 2. SPECIFIED AUTHORIZATIONS IN S. 1197**

	By Fiscal Year, in Millions of Dollars					2014- 2018
	2014	2015	2016	2017	2018	
<b>Authorization of Regular Appropriations</b>						
<b>Department of Defense</b>						
<b>Military Personnel<sup>a</sup></b>						
Authorization Level	136,807	0	0	0	0	136,807
Estimated Outlays	127,407	8,120	587	38	0	136,152
<b>Operation and Maintenance</b>						
Authorization Level	211,042	0	0	0	0	211,042
Estimated Outlays	150,993	43,756	9,568	2,429	833	207,579
<b>Procurement</b>						
Authorization Level	99,208	0	0	0	0	99,208
Estimated Outlays	21,007	30,804	23,515	13,162	5,247	93,735
<b>Research and Development</b>						
Authorization Level	67,541	0	0	0	0	67,541
Estimated Outlays	33,179	24,403	5,036	2,221	1,309	66,148
<b>Military Construction and Family Housing</b>						
Authorization Level	9,662	0	0	0	0	9,662
Estimated Outlays	1,187	3,072	2,918	1,116	555	8,848
<b>Revolving Funds</b>						
Authorization Level	2,164	0	0	0	0	2,164
Estimated Outlays	1,779	317	37	20	7	2,160
<b>General Transfer Authority</b>						
Authorization Level	0	0	0	0	0	0
Estimated Outlays	200	-80	-60	-40	-20	0
<b>Subtotal, Department of Defense</b>						
Authorization Level	526,425	0	0	0	0	526,425
Estimated Outlays	335,752	110,392	41,601	18,946	7,931	514,622
<b>Atomic Energy Defense Activities</b>						
Authorization Level <sup>b</sup>	17,842	0	0	0	0	17,842
Estimated Outlays	11,688	5,051	1,097	4	2	17,842

(Continued)

**TABLE 2. Continued**

	By Fiscal Year, in Millions of Dollars					2014- 2018
	2014	2015	2016	2017	2018	
Other Programs						
Authorization Level <sup>c</sup>	211	0	0	0	0	211
Estimated Outlays	187	23	1	0	0	211
Subtotal, Authorization of Regular Appropriations						
Authorization Level	544,478	0	0	0	0	544,478
Estimated Outlays	347,627	115,466	42,699	18,950	7,933	532,675
Authorization of Appropriations for Overseas Contingency Operations						
Military Personnel						
Authorization Level <sup>a</sup>	9,853	0	0	0	0	9,853
Estimated Outlays	9,222	602	5	1	0	9,830
Operation and Maintenance						
Authorization Level	64,254	0	0	0	0	64,254
Estimated Outlays	30,109	22,693	7,493	2,508	604	63,407
Procurement						
Authorization Level	6,216	0	0	0	0	6,216
Estimated Outlays	1,620	2,378	1,461	463	167	6,089
Research and Development						
Authorization Level	117	0	0	0	0	117
Estimated Outlays	55	45	10	3	1	114
Working Capital Funds						
Authorization Level	265	0	0	0	0	265
Estimated Outlays	99	86	58	19	2	264
Special Transfer Authority						
Authorization Level	0	0	0	0	0	0
Estimated Outlays	100	-40	-30	-20	-10	0
Subtotal, Overseas Contingency Operations						
Authorization Level	80,704	0	0	0	0	80,704
Estimated Outlays	41,205	25,764	8,997	2,974	764	79,704
Total Specified Authorizations						
Authorization Level	625,183	0	0	0	0	625,183
Estimated Outlays	388,832	141,230	51,696	21,924	8,697	612,379

(Continued)

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**TABLE 2. Continued**

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Notes: This table summarizes the authorizations of appropriations explicitly stated in the bill in specified amounts. Various provisions of the bill also would authorize activities and provide authorities that would result in additional costs in 2015 and in future years. Because the bill would not specifically authorize appropriations to cover those costs, they are not reflected in this table. Rather, Table 3 contains the estimated costs of a select number of those provisions.

Numbers may not sum to totals because of rounding.

- a. The authorizations of appropriations for military personnel (in sections 421 and 1505) include \$6,677 million and \$164 million, respectively, for accrual payments to the Medicare-Eligible Retiree Health Care Fund. CBO estimates, however, that section 421 understates—by \$580 million—the amount required for those payments, thus that amount has been added to the estimated cost of the bill as reflected in Table 1.
  - b. This authorization is primarily for atomic energy activities within the Department of Energy.
  - c. This authorization is for veterans benefits and services (\$143 million) and the Armed Forces Retirement Home (\$68 million).
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For DOE and other programs, the \$18 billion that would be authorized for 2014 represents a \$2 billion (11 percent) increase over the level appropriated for 2013, adjusted to reflect the March sequestration.

The \$81 billion that would be authorized for 2014 overseas contingency operations represents a \$1 billion (2 percent) decrease relative to the post-sequestration amounts for 2013. Authorized levels would increase by \$6 billion (10 percent) for operation and maintenance, but would decrease by \$4 billion (31 percent) and \$3 billion (33 percent) for military personnel and procurement, respectively. Changes in other accounts would total less than \$100 million.

S. 1197 also contains provisions that would affect the cost of various discretionary programs in future years. Most of those provisions would change end strength, military compensation and benefits, and acquisition programs using multiyear procurement authorities. The estimated effects of a select number of those provisions are shown in Table 3 and discussed below. The following discussion does not address the timing of outlays from those estimated authorizations. All such spending would be subject to appropriation action consistent with the bill.

**Force Structure.** The bill would affect the force structure of the various military services by setting end-strength levels for 2014 and modifying the minimum end-strength levels authorized in permanent law.

Under title IV, the authorized end strengths in 2014 for active-duty personnel and personnel in the selected reserves would total 1,361,400 and 842,700, respectively. Of

those selected reservists, 78,386 would serve on active duty in support of the reserves. In total, active-duty end strength would decrease by 40,160 and selected-reserve end strength would decrease by 8,180 when compared with levels authorized under current law for 2014. The specified end-strength levels for each component of the armed forces are detailed below.

*Active-Duty End Strengths.* Compared with end-strength levels authorized under current law for 2014, section 401 would authorize reductions in active-duty personnel across three of the four services: 32,100 fewer for the Army; 7,100 fewer for the Marine Corps; and 1,860 fewer for the Air Force. In contrast, the Navy would increase strength by 900. CBO estimates that the net reduction in active-duty personnel of 40,160 servicemembers would decrease costs to DoD by \$24.9 billion over the 2014-2018 period, assuming appropriations are reduced by that amount. Those decreases reflect reductions in pay and benefits from fewer personnel, as well as reductions in costs for operation and maintenance.

*Selected-Reserve End Strengths.* Sections 411 and 412 would authorize the end strengths for reserve components, including those who serve on active duty in support of the reserves. Under this bill, four of the six reserve components would experience decreases in end strength: 4,000 fewer for the Army National Guard, 3,400 fewer for the Navy Reserve, 300 fewer for the Air National Guard and 480 fewer for the Air Force Reserve. The other reserve components would see no change in the levels already authorized for 2014. Those numbers include a small net increase (21 reservists) in the number of full-time reservists who serve on active duty in support of the reserves compared with the authorized end-strength levels for 2014. CBO estimates that the net result of implementing those provisions would be a decrease in costs for salaries and expenses for selected reservists of \$1.1 billion over the 2014-2018 period, assuming appropriations are reduced by the same amount.

*Reserve Technicians End Strengths.* Section 413 would authorize the minimum end-strength levels for dual-status military technicians, who are federal civilian personnel required to maintain membership in a selected-reserve component as a condition of their employment. The bill would lower the minimum number of technicians required by 276 relative to the levels currently authorized. CBO estimates that such a reduction would decrease costs for civilian salaries and expenses by \$131 million over the 2014-2018 period.

*Coast Guard Reserve End Strength.* The bill also would authorize an end-strength level of 9,000 servicemembers in 2014 for the Coast Guard Reserve. Because this authorization is the same as that under current law, CBO does not estimate any change in costs for this provision.

**TABLE 3. ESTIMATED AUTHORIZATIONS OF APPROPRIATIONS FOR SELECTED PROVISIONS IN S. 1197**

	By Fiscal Year, in Millions of Dollars					2014-2018
	2014 <sup>a</sup>	2015	2016	2017	2018	
<b>FORCE STRUCTURE</b>						
Active-Duty End Strengths	-3,037	-4,808	-5,468	-5,712	-5,900	-24,925
Selected-Reserve End Strengths	-91	-203	-252	-281	-289	-1,116
Reserve Technicians End Strengths	-13	-28	-29	-30	-31	-131
<b>COMPENSATION AND BENEFITS</b>						
Lower Pay Raise	-596	-807	-830	-861	-895	-3,989
Expiring Bonuses and Allowances	935	582	336	293	150	2,296
<b>OTHER PROVISIONS</b>						
Multiyear Procurement Contracts						
C-130J Aircraft Variants	1,594	1,044	1,815	800	537	5,789
E-2D Aircraft	965	935	981	1,003	699	4,582
Increased Cost Cap for CVN-78 Aircraft Carrier	132	777	605	0	0	1,514
Incrementally Funded Construction Projects	235	363	235	0	0	833
Additional Missile Defense Radar	30	220	200	100	100	650

Notes: Amounts shown in this table for 2015 through 2018 are not included in amounts that would be specifically authorized by the bill and would be covered by specific authorizations for defense programs in future years (and therefore are not reflected in Tables 1 and 2).

The authorization of appropriations in Title 35 of the bill for the Maritime Administration is not reflected in this estimate because that authorization is in existing statute.

Numbers may not sum to totals because of rounding.

a. Amounts shown in this table for 2014 are included in amounts specifically authorized to be appropriated by the bill (as reflected in Table 2 and summarized in Table 1).

**Compensation and Benefits.** S. 1197 contains several provisions that would affect compensation and benefits for uniformed personnel. The bill would specifically authorize regular appropriations of \$137 billion for the costs of military pay and allowances in 2014. For related costs resulting from overseas contingency operations (primarily in Afghanistan), the bill would authorize the appropriation of an additional \$10 billion for 2014.

*Lower Pay Raise.* Section 601 would reduce the raise in basic pay for members of the uniformed services that is scheduled to go into effect on January 1, 2014. Under current law, CBO estimates that across-the-board increase will be 1.8 percent, and will cost \$1,341 million in 2014. This section would reduce the pay increase by 0.8 percentage points, to 1.0 percent. CBO estimates that such a change would reduce the cost of the pay raise by \$596 million in 2014 and almost \$4.0 billion over the 2014-2018 period.

*Expiring Bonuses and Allowances.* Sections 611 through 616 would extend for another year DoD's authority to enter agreements to pay certain bonuses and allowances to military personnel. The authority to enter into such agreements is currently scheduled to expire on December 31, 2013. Some bonuses are paid in a lump sum, while others are paid in annual or monthly installments over the period of obligated service. Based on DoD's budget submission for fiscal year 2014, CBO estimates that extending that authority for one year would cost \$2.3 billion over the 2014-2018 period.

**Other Provisions.** Various other provisions of S. 1197 would increase the cost of discretionary programs over the 2014-2018 period, CBO estimates.

*Multiyear Procurement Contracts.* The bill would authorize the military departments to enter multiyear procurement contracts for two major acquisition programs. Multiyear procurement is a special contracting method authorized in current law (title 10, United States Code, section 2306b) that permits the government to enter into contracts covering acquisitions for more than one year but not more than five years, even though the total funds required for all years are not appropriated at the time the contracts are awarded. Additional legislative authorization is required for multiyear contracts costing more than \$500 million.

Multiyear procurement contracts are used to acquire multiple assets—such as ships, planes, and other weapons—under one agreement. As part of such a contract, the government commits to purchase all items specified at the time the contract is signed, including those to be produced and paid for in subsequent years. Budget authority is provided in advance only for the cost of the items that will be ordered in the upcoming budget year. Because multiyear procurement allows a contractor to plan for more efficient production, such a contract can reduce the cost of an acquisition compared with the cost of buying the items through a series of annual contracts. If such a contract is cancelled before completion, an agency usually has useable assets, albeit fewer than were envisioned under the contract.

Multiyear contracts frequently include provisions that require DoD to pay for unrecovered fixed costs in the event that the contract is canceled before completion. In practice, DoD does not budget for, obtain, or obligate funds sufficient to pay for those

contractual commitments at the time they are incurred. Thus, should the contracts be cancelled at the end of the first year, DoD could owe the contractors for unrecovered fixed costs, but the department does not request budget authority for that amount. The amount of cancellation liability declines in subsequent years, as increasing portions of the fixed costs are covered by annual contract payments, falling to zero in the final year of the contract.

CBO believes that the full cost of such liabilities should be recorded in the budget at the time they are incurred. The failure to request funding for cancellation liabilities may distort the resource allocation process by understating the cost of decisions made today and possibly requiring a future Congress to pay for those decisions.

- Section 151 would authorize the Air Force to enter a multiyear contract beginning in fiscal year 2014 to purchase several variants of the C-130J aircraft for the Air Force and the Marine Corps. The C-130 is a medium-sized transport aircraft that performs a broad variety of airlift and support missions. CBO estimates that under such a contract, the Air Force would buy 72 aircraft for its active and reserve component squadrons and seven aircraft for the Marines over the 2014-2018 period at a cost of \$5.8 billion. The services estimate that a single multiyear contract would cost about \$600 million less than five annual contracts.
- Section 121 would authorize the Navy to pursue a multiyear contract beginning in fiscal year 2014 to purchase E-2D Advanced Hawkeye aircraft. The E-2D is an airborne command, control and surveillance aircraft. CBO estimates that the Navy would buy 32 aircraft over the 2014-2018 period at a cost of \$4.6 billion. The service estimates that a single multiyear contract would cost about \$520 million less than five annual contracts.

*Increased Cost Cap for the CVN-78 Aircraft Carrier.* Section 122 of the bill would increase the cost cap for acquiring the CVN-78 aircraft carrier, the lead ship of the Ford class of nuclear aircraft carriers. Public Law 109-364 established a cost cap of \$10.5 billion that was later revised to \$11.8 billion in 2010 under the authority of the Secretary of the Navy to make adjustments to the cap for costs incurred primarily because of inflation adjustments back to 2006. Under that same authority, and subject to approval by the relevant Congressional Committees, the cap can be further increased to \$12 billion to reflect inflation since 2010.

The Congress has appropriated more than \$11.5 billion for the CVN-78 through 2013. Since the bill would continue to provide authority to the Secretary of the Navy to make further adjustments to the revised cap amount for inflation back to 2006, CBO estimates that section 122 would potentially increase the cap well above the stated amount of

\$12.9 billion, but that DoD would not seek, nor would the Committees authorize, funds in excess of the actual cost of the vessel. Based on CBO's estimate of the cost to finish constructing the CVN-78, we estimate implementing this provision would increase the need for appropriations by \$1.5 billion over the 2014-2016 period.

*Incrementally Funded Construction Projects.* Division B would authorize DoD to begin three construction projects while authorizing appropriations for a portion of the cost in advance. The bill would authorize \$235 million for those projects in 2014; an additional \$598 million in authorizations and appropriations would be required in subsequent years to complete those projects. (Additionally, the bill would authorize the appropriation of \$1,077 million for subsequent increments of 11 projects that were authorized in prior years. That amount is included in the amounts shown in Table 2 for military construction.)

*Additional Missile Defense Radar.* Section 234 would require that the Secretary of Defense deploy an X-band radar, or other comparable sensor, at a location chosen to optimize the defense of the United States homeland against long-range ballistic missile threats. The bill would authorize \$30 million in 2014 for initial costs to deploy the radar.

CBO recognizes that there are several radar choices that could meet that requirement; however, for purposes of the estimate, we assume that DoD would upgrade the existing radar currently used for missile testing at the Ronald Reagan Test Range on Kwajalein Atoll in the Pacific Ocean. That radar is a prototype ground-based radar called the GBR-P. In addition, CBO assumes that the radar would be moved to an existing military base or facility somewhere on the East Coast of the United States. Under those assumptions, operations could begin by early 2017. CBO estimates that implementing section 234 would require appropriations of \$650 million over the 2014-2018 period. That amount includes the costs for upgrading the GBR-P and buying communications equipment (\$220 million), preparing the site and building facilities (\$290 million), and operating the radar through 2018 (\$140 million).

## **Direct Spending and Revenues**

Several provisions in S. 1197 would affect direct spending. CBO estimates that those provisions would increase direct spending by \$28 million over the 2014-2023 period (see Table 4).

**TABLE 4. ESTIMATED IMPACT OF S. 1197 ON DIRECT SPENDING**

	By Fiscal Year, in Millions of Dollars											
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014-2018	2014-2023
<b>Retired Pay Inversion</b>												
Estimated Budget Authority	-38	-49	-12	-13	-14	-15	-16	-17	-18	-20	-126	-212
Estimated Outlays	-38	-49	-12	-13	-14	-15	-16	-17	-18	-20	-126	-212
<b>Payment by SBP to a Special Needs Trust</b>												
Estimated Budget Authority	5	9	14	14	15	15	15	17	17	18	57	139
Estimated Outlays	5	9	14	14	15	15	15	17	17	18	57	139
<b>Special Immigrant Visas for Iraqi and Afghan Allies</b>												
Estimated Budget Authority	5	9	8	8	7	7	7	7	7	7	37	72
Estimated Outlays	5	9	8	8	7	7	7	7	7	7	37	72
<b>Redetermination of Dependent Status</b>												
Estimated Budget Authority	*	1	1	1	2	2	2	3	3	4	5	19
Estimated Outlays	*	1	1	1	2	2	2	3	3	4	5	19
<b>Waiver of Overpayments in Instances of Retroactive CRSC</b>												
Estimated Budget Authority	1	1	1	1	1	1	1	2	2	2	5	13
Estimated Outlays	*	1	1	1	1	1	1	1	1	2	4	10
<b>Total Changes in Direct Spending</b>												
Estimated Budget Authority	-27	-29	12	11	11	10	9	12	11	11	-22	31
Estimated Outlays	-28	-29	12	11	11	10	9	11	10	11	-23	28

Notes: SBP = Survivor Benefit Program; CRSC = Combat Related Special Compensation.

Enactment of S. 1197 would have an insignificant effect on revenues.

\* = less than \$500,000.

**Retired Pay Inversion.** In 1975, a law was enacted that required DoD to recalculate the annuities of military retirees to take into account any additional cost-of-living adjustments (COLAs) that would have occurred had members retired at earlier dates, if they were eligible to do so; this provision is referred to as the Tower Amendment. In

instances where an earlier retirement would have resulted in a larger annuity, DoD was directed to recalculate using that earlier date.<sup>1</sup>

Subsequently, a new method of computing retired pay was enacted into law. The new method (known as “High-36 Average”) applies to all personnel who entered the service after 1980. DoD believed that the Tower Amendment did not apply to that new provision of law. However, a recent audit concluded that the Tower Amendment does apply to those who retire using the High-36 Average method of computation and that a number of those retirees stand to benefit from its application. DoD believes they are now required to make retroactive retirement payments back to the year 2000 (the year in which retirees started receiving annuities under the High-36 plan), and that they will also have to recalculate payments to future retirees to determine if those payments should be increased. Section 641 would prevent most of those higher payments from taking place, by specifying that the Tower Amendment applies to High-36 retirees only in very limited circumstances.

Based on an analysis of DoD retirement statistics and COLAs published by the Defense Finance and Accounting Service (DFAS), CBO estimates that about 370,000 former members have retired using the High-36 Average method of computation since 2000, and that, under current law, about 15 percent of those will benefit from application of the Tower Amendment. Of those who will benefit, CBO estimates the average retroactive payment should be about \$1,000 per person, or almost \$60 million in total. Section 641 would prevent those retroactive payments from being made.

In addition, CBO estimates section 641 would reduce future payments by more than \$10 million annually over the next 10 years. That amount includes both the added payments to current retirees (which would average about \$200 a year each), as well as increased payments for those who will retire during that period and stand to benefit from application of the Tower Amendment. In total, CBO estimates that enacting section 641 would reduce spending from the Military Retirement Fund by \$212 million over the 2014-2023 period.

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1. For military personnel who entered service prior to 1981, retirement pay is based on their final annual pay at the time they retired. In certain instances, it would have been more advantageous, from a financial perspective, if the member had retired at an earlier date. For example, assume the member retired in the month of October after exactly 20 years of service. If the member’s initial annuity was \$1,000 per month and his first COLA was 3 percent, his retired pay the following January would have been \$1,030. However, if the member waited until that January to initially retire and in the intervening three months received a pay raise of 1.5 percent, the member’s initial retired pay in January (including the impact of the additional three months of service) would have only been \$1,028. The member would have been better off retiring the previous October.

**Payment by SBP to a Special Needs Trust.** Section 643 would allow the Survivor Benefit Plan (SBP) to make payments to a Special Needs Trust when the survivor is a dependent child incapable of self-support. Allowing SBP payments to go into a Special Needs Trust would allow some of those beneficiaries to become eligible for Supplemental Security Income (SSI) and Medicaid, since payments to the trust are not counted as personal income when conducting the means-testing required for enrollment in those programs.

Based on DoD data about survivors of former military personnel and benefit-payment rates, CBO estimates about 800 beneficiaries would become newly eligible for SSI if their payments were made to a Special Needs Trust. Assuming an average payment of about \$7,000 per year, CBO estimates spending for SSI would increase by about \$6 million per year, or about \$57 million over the 2014-2023 period.

Individuals who become eligible for SSI generally also become eligible for Medicaid. Although survivors of former military personnel are eligible for health benefits through DoD, many of those survivors require long-term institutional health care that is not provided by DoD—but which is covered by Medicaid. Based on studies of health care for disabled adults and an analysis of Medicaid spending for long-term care, CBO estimates that about 40 percent of the 800 new SSI recipients would use the Medicaid long-term care benefit. Assuming an average per capita cost to the federal government of about \$25,000 per year, CBO estimates this section would increase spending for Medicaid by about \$8 million per year, or about \$82 million over the 2014-2023 period. In total, CBO estimates section 643 would increase direct spending by \$139 million over the 2014-2023 period.

**Special Immigrant Visas (SIVs) for Iraqi and Afghan Allies.** Section 1217 would amend the Refugee Crisis in Iraq Act to extend by one year (through the end of fiscal year 2014) the period during which SIVs can be provided to certain Iraqis. Eligible immigrants under that provision are Iraqis who were employed by the United States government at some point since 2003 and are experiencing an ongoing serious threat as a consequence. Section 1217 also would expand eligibility for SIVs to individuals employed in Iraq by media or non-governmental organizations that are headquartered in the United States or organizations associated with the U.S. mission in Iraq that received federal funding.

Section 1218 would amend the Afghan Allies Protection Act of 2009 to increase the number of SIVs that can be provided to certain Afghans in fiscal year 2014. That provision also would expand eligibility for SIVs to individuals employed in Afghanistan by media or non-governmental organizations that are headquartered in the United States

or organizations associated with the U.S. mission in Iraq that received federal funding, and to certain family members of eligible Afghans.

CBO estimates that nearly 2,500 people would receive immigrant visas because of those provisions. Because special immigrants (including their spouses and children) are eligible for public benefits to the same extent as refugees, they could receive subsidies through health insurance exchanges, Medicaid benefits, nutrition benefits, and Supplemental Security Income, if otherwise eligible, upon arrival in the United States. CBO estimates that direct spending for those benefits would increase by \$72 million over the 2014-2023 period.

**Redetermination of Dependent Status.** Disabled children of members or retirees of the uniformed services may remain eligible for TRICARE past the age of 21, if, among other requirements, such offspring are dependent on that parent for over 50 percent of their living expenses.<sup>2</sup> DoD conducts periodic reviews to confirm those criteria are being met, although those redeterminations usually cease once the sponsoring parent dies. However, DoD does conduct some redeterminations after the death of the sponsor, usually in instances when a previous redetermination is found to be incomplete. Section 645 would prohibit any redeterminations from occurring after the death of the sponsor, thus allowing some dependents to remain eligible for TRICARE who otherwise would be found ineligible.

Based on reports from DoD, CBO estimates that prohibiting redeterminations after the death of a sponsor would initially allow an additional 125 dependent children each year to remain eligible for TRICARE, and that by 2023 almost 950 additional dependents would be eligible. Furthermore, most of those dependents would be eligible for Medicare, and hence eligible for the mandatory TRICARE-for-Life health benefit, which has an annual cost of about \$5,500 per beneficiary. After adjustments to account for the decreased usage of other mandatory federal health programs, such as Medicaid, CBO estimates section 645 would increase net direct spending by \$19 million over the 2014-2023 period.

**Waiver of Overpayments in Instances of Retroactive CRSC.** When a former servicemember is divorced, the retired pay for that former member is often divided by court order and a share is paid directly to the former spouse. In some instances, the retiree later applies for, and is awarded, Combat-Related Special Compensation (CRSC), which is paid in lieu of other retired pay. Because CRSC is considered non-divisible property by

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2. The military's health care program, TRICARE, is a group of health plans that cover uniformed service members, retirees, and their dependents in the United States and abroad. Two of the most commonly used plans are TRICARE Prime—a managed care option, and TRICARE Standard—a fee-for-service option. Medicare-eligible TRICARE beneficiaries use the TRICARE-for-Life benefit, which acts as Medicare wrap-around coverage.

DoD, it often has the effect of reducing the amount of pay available to be shared with the former spouse. When CRSC is awarded retroactively, certain amounts already paid to the former spouse are deemed, retroactively, as overpayments, resulting in a debt owed to the government. Section 642 would allow the former spouse to keep any of those overpayments.

Based on data from DoD, CBO estimates that each year about 275 former spouses incur debts because of retroactive CRSC determinations. The size of the debts can be large, sometimes more than \$50,000. To date, DoD has issued waivers for many of the larger debts, and CBO believes that, under current law, DoD will continue to issue waivers for such debts. However, CBO believes there is some probability that the smaller debts will continue to be collected under current law, because waivers will either not be sought or not granted. To estimate the potential cost of waiving those smaller debts, CBO examined retiree pay statistics, ranked the potential debts based on size, and assessed which debts are most likely to be waived under current law. The remaining debts would cover less than half of the former spouses and total about \$1 million per year. Thus, CBO estimates section 642 would result in the forgiveness of about \$13 million in debts over the 2014-2023 period, and would cost \$10 million in lost payments to the Military Retirement Fund over that same period.

**Other Provisions.** Other provisions in the bill would have insignificant effects on direct spending or revenues, generally because few people would be affected:

- Section 506 would modify rules related to the selective early retirement of reserve personnel. In certain circumstances, those changes might affect the number of former reserve members drawing retired pay in a given year.
- Section 511 would enhance protections for military whistleblowers from acts of reprisal and also would require that the service records of victims of reprisals be corrected. CBO estimates that correcting those records would result in some individuals receiving retroactive payments, benefits, or awards that were improperly denied.
- Section 661 would enhance enforcement of the Military Lending Act by the Attorney General and establish civil penalties for violations of that act. Such penalties would be considered revenues.
- Section 711 would create a pilot program to improve the collection of third-party reimbursements at military treatment facilities. In certain circumstances, expenses associated with third-party collection activities are recorded as direct spending.

- Section 1303 would extend by three years DoD’s authority to collect and spend contributions received from the private sector and foreign governments for use on activities associated with the Cooperative Threat Reduction program. Currently that authority will expire on December 31, 2015. Under section 1303, any amounts not spent by December 31, 2018, would be returned to the donor.

## **PAY-AS-YOU-GO CONSIDERATIONS**

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending or revenues. The net changes in outlays that are subject to those pay-as-you-go procedures are shown in the following table. The change in revenues would not be significant.

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**CBO Estimate of Pay-As-You-Go Effects for S. 1197 as reported by the Senate Committee on Armed Services on June 20, 2013**

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	By Fiscal Year, in Millions of Dollars											2013-	2013-
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2018	2023
<b>NET INCREASE OR DECREASE (-) IN THE DEFICIT</b>													
Statutory Pay-As-You-Go Impact	0	-28	-29	12	11	11	10	9	11	10	11	-23	28

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

S. 1197 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 11, 2013, CBO transmitted a cost estimate for H.R. 1960, the National Defense Authorization Act for Fiscal Year 2014, as reported by the House Committee on Armed Services on June 7, 2013. S. 1197 would authorize the appropriation of \$626 billion for fiscal year 2014, or \$5 billion less than the amount authorized in H.R. 1960. Other differences in the estimated costs of S. 1197 and H.R. 1960 reflect differences between the two bills.

**ESTIMATE PREPARED BY:**

Federal Costs:

Defense Authorizations—Kent Christensen

Immigrant Visas—David Rafferty

Military and Civilian Personnel—Dawn Regan

Military Construction and Multiyear Procurement—David Newman

Military Retirement and Health Care—Matthew Schmit

Missile Defenses and Naval Vessels—Raymond J. Hall

Operation and Maintenance—Bill Ma, Kent Christensen, and Jason Wheelock

Special Needs Trust—David Rafferty, Robert Stewart, and Matthew Schmit

Impact on State, Local, and Tribal Governments: J'nell L. Blanco

Impact on the Private Sector: Elizabeth Bass

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