CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

October 21, 2014

S. 2410
Carl Levin National Defense Authorization Act for Fiscal Year 2015

As reported by the Senate Committee on Armed Services on June 2, 2014

SUMMARY

S. 2410 would authorize appropriations totaling an estimated $573 billion for fiscal year 2015 for the military functions of the Department of Defense (DoD), for certain activities of the Department of Energy (DOE), and for other purposes. Of that amount, CBO estimates that $59 billion would be for the cost of overseas contingency operations, primarily related to Afghanistan. In addition, S. 2410 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 $560 billion over the 2015-2019 period.

The bill also contains provisions that would affect the costs of defense programs funded through discretionary appropriations in 2016 and future years. Those implicit authorizations would modify force structure, DoD compensation and benefits, and other programs and activities. CBO has analyzed the budgetary effects of a select number of those provisions and estimates that they would, on a net basis, lower the amount of appropriations needed to implement defense programs relative to current law by about $40 billion over the 2016-2019 period. The effects of those reductions are not included in the totals in the previous paragraph because funding for those activities would be covered by specific authorizations enacted in future years.

In addition, S. 2410 contains provisions that would affect direct spending. CBO estimates that, on net, those provisions would decrease direct spending by $1.1 billion over the 2015-2019 period and by $4.5 billion over the 2015-2024 period. Because enacting the legislation would affect direct spending, pay-as-you-go procedures apply. Enacting the bill would not affect revenues.

S. 2410 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 effects of S. 2410 are summarized in Table 1. Almost all of the $573 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: $147 million for activities within the Department of Veterans Affairs (function 700—veterans benefits and services); $63 million for the Armed Forces Retirement Home (function 600—income security), and $20 million for the Department of Housing and Urban Development (also in function 600).

TABLE 1. BUDGETARY EFFECTS OF S. 2410, THE CARL LEVIN NATIONAL DEFENSE AUTHORIZATION ACT FOR FISCAL YEAR 2015

	By Fiscal Year, in Millions of Dollars					
	2015	2016	2017	2018	2019	2015-2019
SPENDING SUBJECT TO APPROPRIATION						
Authorization of Regular Appropriations for 2015, Primarily for the Departments of Defense and Energy						
Estimated Authorization Level	513,726	6	7	7	7	513,753
Estimated Outlays	330,864	106,132	38,719	18,089	8,213	502,017
Authorization of Additional Regular Appropriations for 2015 for Accrual Payments[a]						
Estimated Authorization Level	727	0	0	0	0	727
Estimated Outlays	727	0	0	0	0	727
Authorization of Appropriations for Overseas Contingency Operations						
Estimated Authorization Level	58,697	0	0	0	0	58,697
Estimated Outlays	27,709	17,977	7,187	3,027	1,055	56,955
Total						
Estimated Authorization Level	573,150	6	7	7	7	573,177
Estimated Outlays	359,300	124,109	45,906	21,116	9,268	559,699
CHANGES IN DIRECT SPENDING[b]						
Estimated Budget Authority	-96	-144	-200	-310	-432	-1,182
Estimated Outlays	-73	-120	-185	-288	-390	-1,056

Note: Except as noted below, the authorization levels in this table reflect CBO's estimates of amounts that would be authorized for appropriation by the bill. The bill also would implicitly authorize some defense activities in 2016 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 subsequent authorizations of appropriations in future years.

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 (a decrease of $1,056 million over the 2015-2019 period), S. 2410 would have effects beyond 2019. CBO estimates that over the 2015-2024 period, S. 2410 would decrease direct spending by $4,513 million (see Table 4).

The provisions of the bill that would affect direct spending are primarily for activities within budget functions 550 (health), 570 (Medicare), 150 (international affairs), and 600.

BASIS OF ESTIMATE

For this estimate, CBO assumes that S. 2410 will be enacted before the end of calendar year 2014 and that the authorized and estimated amounts will be appropriated at about that time.

Spending Subject to Appropriation

The bill would authorize appropriations for fiscal year 2015 totaling an estimated $573 billion, of which $514 billion would be authorizations of regular appropriations for “base budget” costs (not directly related to overseas contingency operations). Funding for base budget costs would be authorized as follows: $496 billion for DoD and $18 billion for the atomic energy defense activities of DOE and various other programs (see Table 2).

The funding that would be authorized for DoD’s base budget is $1 billion above regular appropriations enacted for fiscal year 2014. For that comparison, the authorized level for DoD reflects amounts that would be specifically authorized by the bill, plus CBO’s estimate of the additional amount needed—$727 million—to fully fund certain accrual payments required under current law but not fully reflected in those authorizations. Authorized funding would increase for both operation and maintenance ($6 billion, or 3 percent) and research and development ($1 billion, or 1 percent). Funding for military construction, family housing, and the department’s revolving funds would, in total, decline by $4 billion (34 percent), while the authorized level for procurement would decline by $2 billion (2 percent). The 2015 funding that would be authorized for military personnel would be nearly unchanged from the amount that was appropriated for 2014.

For DOE and other programs, the $18 billion that would be authorized for 2015 represents a $1 billion (3 percent) increase over the amount appropriated for 2014.

Although most of the authorizations of regular appropriations that would be provided by the bill would be only for 2015, two authorizations, in sections 3114 and 1085, would cover more than one year.

TABLE 2. AUTHORIZATIONS OF APPROPRIATIONS IN S. 2410

	By Fiscal Year, in Millions of Dollars					
	2015	2016	2017	2018	2019	2015-2019
Authorization of Regular Appropriations						
Department of Defense						
Military Personnel[a]						
Authorization Level	135,147	0	0	0	0	135,147
Estimated Outlays	125,269	8,047	676	37	0	134,029
Operation and Maintenance						
Authorization Level	198,836	0	0	0	0	198,836
Estimated Outlays	139,710	40,684	9,878	3,622	1,356	195,250
Procurement						
Authorization Level	90,378	0	0	0	0	90,378
Estimated Outlays	20,559	27,311	20,599	11,494	5,032	84,995
Research and Development						
Authorization Level	63,484	0	0	0	0	63,484
Estimated Outlays	31,037	22,945	4,711	2,140	1,473	62,306
Military Construction and Family Housing						
Authorization Level	6,452	0	0	0	0	6,452
Estimated Outlays	936	1,985	1,861	839	370	5,991
Revolving Funds						
Authorization Level	1,529	0	0	0	0	1,529
Estimated Outlays	1,255	256	17	0	0	1,528
General Transfer Authority						
Authorization Level	0	0	0	0	0	0
Estimated Outlays	250	-100	-75	-50	-25	0
Subtotal, Department of Defense						
Authorization Level	495,826	0	0	0	0	495,826
Estimated Outlays	319,016	101,128	37,667	18,082	8,206	484,099
Atomic Energy Defense Activities[b]						
Authorization Level	17,683	0	0	0	0	17,683
Estimated Outlays	11,674	4,970	1,039	0	0	17,683
Advisory Board on Toxic Substances and Worker Health						
Estimated Authorization Level	2	2	3	3	3	13
Estimated Outlays	2	2	3	3	3	13

(Continued)

TABLE 2. Continued

	By Fiscal Year, in Millions of Dollars					
	2015	2016	2017	2018	2019	2015-2019
HUD Grants						
Authorization Level	4	4	4	4	4	20
Estimated Outlays	0	1	3	4	4	12
Other Programs[c]						
Authorization Level	210	0	0	0	0	210
Estimated Outlays	172	31	7	0	0	210
Subtotal, Authorization of Regular Appropriations						
Estimated Authorization Level	513,726	6	7	7	7	513,753
Estimated Outlays	330,864	106,132	38,719	18,089	8,213	502,017
Authorization of Appropriations for Overseas Contingency Operations						
Military Personnel						
Estimated Authorization Level	5,460	0	0	0	0	5,460
Estimated Outlays	5,041	345	2	1	0	5,389
Operation and Maintenance						
Estimated Authorization Level	46,993	0	0	0	0	46,993
Estimated Outlays	20,541	15,515	5,989	2,557	882	45,484
Procurement						
Estimated Authorization Level	6,027	0	0	0	0	6,027
Estimated Outlays	1,956	2,091	1,183	462	179	5,871
Research and Development						
Estimated Authorization Level	80	0	0	0	0	80
Estimated Outlays	37	31	7	2	2	79
Military Construction						
Estimated Authorization Level	46	0	0	0	0	46
Estimated Outlays	0	5	16	18	2	41
Defense Working Capital Funds						
Estimated Authorization Level	91	0	0	0	0	91
Estimated Outlays	34	30	20	7	0	91

(Continued)

TABLE 2. Continued

	By Fiscal Year, in Millions of Dollars					
	2015	2016	2017	2018	2019	2015-2019
Special Transfer Authority						
Authorization Level	0	0	0	0	0	0
Estimated Outlays	100	-40	-30	-20	-10	0
Subtotal, Overseas Contingency Operations						
Estimated Authorization Level	58,697	0	0	0	0	58,697
Estimated Outlays	27,709	17,977	7,187	3,027	1,055	56,955
Total Authorization of Appropriations						
Estimated Authorization Level	572,423	6	7	7	7	572,450
Estimated Outlays	358,573	124,109	45,906	21,116	9,268	558,972

Notes: The authorization levels in this table reflect CBO's estimate of amounts that would be authorized for appropriation by the bill. Various provisions of the bill also would authorize activities and provide authorities that would affect costs in 2016 and in future years. Because the bill would not authorize appropriations for those activities in 2016 and beyond, those costs are not reflected in this table. Rather, Table 3 contains the estimated costs of some of those provisions.

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 add up to totals because of rounding; HUD = Housing and Urban Development; DoD = Department of Defense.

a. The authorization of appropriations for military personnel in section 421 understates—by $727 million—the amount required for accrual payments to the Medicare-Eligible Retiree Health Care Fund. As a result, CBO has added $727 million to the estimated cost of the bill as reflected in Table 1.

b. This authorization is primarily for atomic energy defense activities of the Department of Energy.

c. This authorization is for veterans' benefits and services ($147 million for a Medical Facility Demonstration Fund jointly operated by DoD and the Department of Veterans Affairs) and for the Armed Forces Retirement Home ($63 million).

Section 3114 would establish a board to advise the President on the medical criteria used by the Department of Labor in adjudicating claims for compensation under Part E of the Energy Employees Occupational Illness Compensation Program (EEOICP). The bill would authorize the appropriation of such sums as may be necessary for related costs. Based on the costs for a similar board, CBO estimates that implementing this provision would cost $2 million in 2015 and $13 million over the 2015-2019 period, assuming the appropriation of the necessary amounts.

Section 1085 of the bill would require the Secretary of Housing and Urban Development to initiate a pilot program to provide grants to organizations to rehabilitate and modify the homes of disabled or low-income veterans. To fund the pilot program, section 1085 would authorize the appropriation of $4 million a year for fiscal years 2015 through 2019. Assuming appropriation of the authorized amounts, CBO estimates that implementing the pilot program would cost $12 million over the 2015-2019 period.

For DoD's costs arising from overseas contingency operations (OCO), in particular military operations in Afghanistan, title XV of the bill would authorize "such amounts as may be designated" for OCO (sometimes referred to as the Global War on Terrorism) by the President and the Congress. DoD has requested $58.7 billion for such costs in 2015 as follows: $5.5 billion for military personnel, $47.0 billion for operation and maintenance, $6.0 billion for procurement, and $0.2 billion for other categories of spending.[1] However, neither the House of Representatives nor the Senate—which, in statute, would ultimately designate funding for OCO—has passed a bill that would appropriate funds in response to that request.[2]

For this estimate, CBO assumes the Administration's request—$58.7 billion—is the amount that would be authorized by the bill. That authorization level would represent a $26.5 billion (31 percent) decline relative to the 2014 appropriations. Funding for operation and maintenance would decline by $22.7 billion (33 percent), while funding for military personnel would decrease by $2.6 billion (32 percent). Appropriations for procurement would decline by $1.0 billion (14 percent), with all other categories (combined) declining by $0.2 billion.

S. 2410 also contains provisions that would affect the cost of various discretionary programs in future years. Most of those provisions address end strength, military compensation and benefits, and the defense health system. The estimated effects of some of those provisions are shown in Table 3 and discussed below. The following sections discuss how those provisions would affect the need for discretionary appropriations in future years. All such spending would be subject to future appropriation action.

Force Structure. The bill would affect the force structure of the various military services by setting end strengths for 2015 and modifying the minimum end strengths authorized in permanent law.

1. The DoD request of $58.7 billion reflected here excludes a proposed cancellation of $0.1 billion of existing procurement appropriations.

2. On June 26, 2014, the Administration released its detailed funding request for 2015 OCO costs. Prior to that—on June 20, 2014—the House passed H.R. 4870, the Department of Defense Appropriations Act, 2015, which if enacted would provide $79,445 million for such costs. That amount, however, was considered a placeholder that was subject to change once the Administration submitted its detailed request.

TABLE 3. ESTIMATED COSTS FOR SELECTED PROVISIONS IN S. 2410

	By Fiscal Year, in Millions of Dollars					
	2015[a]	2016	2017	2018	2019	2015-2019
FORCE STRUCTURE						
Active-Duty End Strengths	-3,876	-6,415	-7,205	-7,620	-7,826	-32,942
Selected-Reserve End Strengths	-239	-461	-550	-597	-614	-2,461
Reserve Technicians End Strengths	-53	-109	-112	-116	-120	-510
COMPENSATION AND BENEFITS						
Lower Pay Raise	-588	-798	-822	-851	-883	-3,942
Lower Basic Allowance for Housing	-191	-688	-1,010	-1,038	-1,067	-3,994
Expiring Bonuses and Allowances	750	469	274	246	123	1,862
Delay Changes to Military Retirement System[b]	0	60	60	60	60	240
DEFENSE HEALTH SYSTEM						
TRICARE Pharmacy Benefit[c]						
Defense Health Program	-155	-261	-306	-349	-409	-1,480
Accrual Payments to the MERHCF[b]	0	-700	-725	-750	-775	-2,950
TRICARE Coverage for Emerging Products and Services	0	5	10	50	50	115
Inpatient Mental Health Coverage	12	13	13	14	15	67
Mental Health Assessments	4	9	10	10	10	43
Timing of MERHCF Accrual Payments[b]	0	225	225	250	250	950
OTHER PROVISIONS						
Assistance in Acquiring Professional Credentials	15	30	45	60	65	215
Support of Foreign Military Liaisons	4	10	10	10	10	44

Notes: The table shows effects on potential authorizations of appropriations. Amounts shown in this table for 2016 through 2019 are not included in amounts that would be authorized for appropriation by the bill (and therefore are not reflected in Tables 1 and 2). Rather, those amounts would be covered by subsequent authorizations of appropriations for defense programs in future years.

Numbers may not add up to totals because of rounding; MERHCF = Medicare-Eligible Retiree Health Care Fund; DoD = Department of Defense.

a. Amounts shown in this table for 2015 are included in amounts that would be authorized for appropriation by the bill (as reflected in Table 2 and summarized in Table 1).

b. Several proposals in S. 2410 would change DoD's accrual contributions to the MERHCF and the Military Retirement Trust Fund. Because those changes would affect DoD's discretionary appropriations, they are displayed here. However, those payments are intra-governmental transactions. Changes in accrual payments by DoD are offset one-for-one by changes elsewhere in the budget.

c. TRICARE is the military's health care program.

Under title IV, the authorized end strengths in 2015 for active-duty personnel and personnel in the selected reserves would total 1,308,600 and 829,800 respectively. Of those selected reservists, 77,414 would serve on active duty in support of the reserves. In total, active-duty end strength would decrease by 52,800 and selected-reserve end strength would decrease by 12,900 when compared with levels authorized under current law for 2015. The specified end strengths for the components of the armed forces are detailed below.

Active-Duty End Strengths. Compared with end strengths authorized under current law for 2015, section 401 would authorize reductions in active-duty personnel for three of the four services: 30,000 fewer for the Army; 6,100 fewer for the Marine Corps; and 16,700 fewer for the Air Force. The end strength authorized for the Navy would remain the same. CBO estimates that reducing the number of active-duty personnel by 52,800 service members would decrease costs to DoD by $32.9 billion over the 2015-2019 period, assuming appropriations are reduced by that amount (see Table 3). That estimate includes reduced costs for personnel compensation and benefits, as well as lower costs for operation and maintenance.

Selected-Reserve End Strengths. Sections 411 and 412 would set the end strengths for reserve components, including those who serve on active duty in support of the reserves. Under this bill, all six of the reserve components would experience decreases in end strength: 3,000 fewer reservists for the Army Reserve, 1,800 fewer for the Navy Reserve, 400 fewer for the Marine Corps Reserve, 3,300 fewer for the Air Force Reserve, 4,000 fewer for the Army Guard, and 400 fewer for the Air Guard. The number of full-time reservists who serve on active-duty in support of the reserves would also decline, by 972 compared with current authorized end strengths for 2015. CBO estimates that implementing those provisions would decrease costs for salaries and expenses for selected reservists by $2.5 billion over the 2015-2019 period, assuming appropriations are reduced by that amount.

Reserve Technicians End Strengths. Section 413 would set the minimum end strengths 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 1,223 relative to the number currently authorized. CBO estimates that implementing that change would decrease costs for civilian salaries and expenses by $510 million over the 2015-2019 period.

Coast Guard Reserve End Strength. The bill also would authorize an end-strength level of 9,000 service members in 2015 for the Coast Guard Reserve. Because this authorization is the same as under current law, CBO does not estimate any change in costs for this provision.

Compensation and Benefits. S. 2410 contains several provisions that would affect compensation and benefits for uniformed personnel. The bill would specifically authorize regular appropriations of $135 billion for the costs of military pay and allowances in 2015. In addition, for related costs resulting from overseas contingency operations (primarily related to Afghanistan), the bill would authorize appropriations totaling an estimated $5.5 billion for 2015 (see Table 2).

Lower Pay Raise. Section 601 would reduce the increase in basic pay for members of the uniformed services that is scheduled to go into effect on January 1, 2015. Under current law, CBO estimates that across-the-board increase will be 1.8 percent, and will cost $1.3 billion in 2015. This section would reduce the pay increase by 0.8 percentage points, to 1.0 percent, for enlisted member pay grades, warrant officer pay grades, and commissioned officer pay grades below pay grade O-7, and provide no increase for officers in pay grades O-7 and above. Most of the officers in grades O-7 and above would have received the 1.8 percent pay increase estimated under current law. But, the monthly pay of some of those officers in grades O-9 and above is capped under level II of the Executive Schedule. Because CBO estimates that under current law the fiscal year 2015 increase in level II of the Executive Schedule will be 1.3 percent, the reduction in the pay increase for those officers under this legislation would be 1.3 percentage points rather than 1.8 percentage points. CBO estimates that those changes would reduce the cost of pay raises by $588 million in 2015 and $3.9 billion over the 2015-2019 period.

Lower Basic Allowance for Housing. Section 603 would authorize the Secretary of Defense to reduce the monthly basic allowance for housing (BAH) paid to service members within the United States. Under current law, BAH rates are calculated to cover, on average, the full cost of specific types of housing in the areas around members' assigned duty stations. Under this provision, the Secretary could reduce the portion of housing costs covered by BAH by up to 5 percent. Based on information from DoD, CBO estimates that DoD would implement this authority starting in 2015 with a 1 percent reduction in BAH, and reach the full 5 percent by 2017. CBO estimates that implementing this change in the calculation of BAH would reduce discretionary costs by $4 billion over the 2015-2019 period.

Expiring Bonuses and Allowances. Sections 611 through 615 would extend for one year DoD's authority to enter into 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, 2014. Some bonuses are paid in a lump sum, while others are paid in annual or monthly installments over a period of obligated service. Based on DoD's budget submission for fiscal year 2015, CBO estimates that extending that authority for one year would cost $1.9 billion over the 2015-2019 period.

Delay Changes to the Military Retirement System. Section 403 of the Bipartisan Budget Act of 2013 (Division A of Public Law 113-67), as modified by the Consolidated Appropriations Act, 2014 (Public Law 113-76), reduced the annual cost-of-living adjustment for annuities paid to certain military retirees and survivors by up to 1 percent. Public Law 113-82 later amended this change by applying it only to retirees who first became members of the uniformed services after January 1, 2014. Section 621 of S. 2410 would amend the change further, by applying it only to those who first become members of the uniformed services after January 1, 2016.

Because those entering the service in 2014 and 2015 will not be eligible for a longevity-based retirement until 2034 at the earliest, this provision would not affect spending from the Military Retirement Trust Fund over the 2015-2024 period. However, the change would eventually result in higher spending from the fund, and would therefore require DoD to increase its discretionary accrual payments so that the fund's balances reflect the costs of the higher annuities for those members when they do eventually retire. Based on information from DoD, CBO estimates those accrual payments would need to increase by about $60 million per year, beginning in 2016. Because those accrual payments are intragovernmental transactions, they are fully offset elsewhere in the budget, and therefore have no net effect on federal spending. They do, however, count against the caps on discretionary budget authority set by the Budget Control Act of 2011 (Public Law 112-25), as amended.

Defense Health System. Title VII contains several provisions that would affect health benefits for current and former members of the Uniformed Services, including benefits offered through TRICARE.[3] Health care spending for active-duty members, military retirees who are not Medicare-eligible, and their dependents are derived from accounts that are subject to annual appropriations. Provisions affecting those beneficiaries are discussed in this section. Health care costs for TRICARE beneficiaries who are eligible for Medicare are paid from the DoD Medicare-Eligible Retiree Health Care Fund (MERHCF), a mandatory account, and are discussed in the "Direct Spending" section of this cost estimate. Most of the provisions related to the defense health system affect both sets of beneficiaries and are discussed in both sections.

While spending from the MERHCF is mandatory, amounts in the fund are partially derived from annual accrual payments that are part of DoD's budget and count against the caps on discretionary budget authority set by the Budget Control Act of 2011 (Public Law 112-25), as amended. Those accrual payments represent the future costs to the MERHCF of members currently serving in the military and are made at the beginning

3. The military's health care program, TRICARE, comprises nine 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.

of each fiscal year. Therefore, provisions that would have a significant effect on spending from the MERHCF would affect accrual payments made from the military personnel accounts to the MERHCF, and those effects are discussed in this section. Assuming appropriation action consistent with the caps on discretionary budget authority, reducing required accrual payments would free up room under the caps for other uses, and increasing such payments would reduce room under the caps for other uses.

TRICARE Pharmacy Benefit. Section 702 would set higher copayments for those who use the TRICARE pharmacy system beginning in 2015 and would require that certain maintenance medications be available only through the TRICARE national mail-order pharmacy (TMOP) or military treatment facilities (MTFs). Pharmaceutical costs for active-duty members, military retirees who are not eligible for Medicare, and their dependents are paid from discretionary funds.

DoD currently spends about $3.5 billion each year on prescription drugs for TRICARE beneficiaries who are not Medicare-eligible. Under current law, the rate of growth in TRICARE pharmacy copayments for fiscal years through 2022 is limited to the annual cost-of-living adjustment for military retired pay, which CBO projects will be about 2 percent each year. If the changes in section 702 are enacted, CBO estimates that spending subject to appropriation would be reduced by about $1.5 billion over the 2015-2019 period. About a quarter of those savings would come from the requirement to obtain maintenance medications through the TMOP or MTFs, and the rest would result from the increase in copayments (higher copayments by beneficiaries would reduce DoD's payments to the pharmacies). CBO's analysis also accounts for the likelihood that some beneficiaries would reduce their use of some medications because of the higher copayments, which, in some cases, would lead to more outpatient visits and hospitalizations.

Pharmaceutical costs for TRICARE beneficiaries who are eligible for Medicare are paid from the MERHCF. CBO estimates that implementing section 702 would allow accrual payments to the MERHCF to be reduced by about $3 billion over the 2016-2019 period.[4] We assume that section 702 would not be enacted in time to affect the accrual payments for 2015. Details about the mandatory costs, as well as a more complete overview of section 702, are discussed below, in the "Direct Spending" section.

4. The actual amount of the accrual payments are set by the DoD Office of the Actuary, and the actual decrease to the accrual payments because of section 702 would ultimately depend on that office's economic and policy assumptions. Because section 702 would codify certain policy changes requested by DoD as part of the Administration's 2015 budget request, CBO has adopted the accrual estimates from the DoD actuaries that were included with the Administration's request.

*TRICARE Coverage for Emerging Products and Services***.** Section 705 would expand the authority of TRICARE to provide coverage for emerging products and services that have not previously been determined to be safe and effective. Except in certain circumstances, current TRICARE regulations prevent DoD from providing coverage for products or services that are not FDA-approved.

It is not clear how DoD would use this new authority, and the cost estimate of this section is very uncertain. To estimate the possible effect on TRICARE spending, CBO examined spending by Medicare under its authorities for Coverage with Evidence Development (CED), which is similar to the authorities that would be provided to TRICARE under section 705.[5] We also considered the potential cost of products and services currently being considered for coverage by DoD, including Laboratory-Developed Tests (LDTs).[6] Based on this analysis, CBO estimates section 705 would increase spending subject to appropriations by about $115 million over the 2016-2019 period. There would be no costs in 2015 and small costs in 2016-2017 because of the time needed to issue regulations and assess which products or services would be candidates for this new authority, and also because DoD recently announced it will use existing temporary authorities to reimburse beneficiaries for certain LDTs until July 2017.

Inpatient Mental Health Coverage. Section 703 would remove certain limitations on inpatient mental health coverage under TRICARE. Specifically, beneficiaries would no longer be subject to the annual limit on stays at inpatient mental health facilities, which is currently 30 days for adults and 45 days for children. In addition, children would no longer be subject to the 150-day annual limit for stays at Residential Treatment Centers. DoD is currently allowed to issue waivers that allow beneficiaries to exceed the annual limits. However, based on an examination of data from DoD, CBO believes that at least some beneficiaries will have their inpatient stays curtailed because of the current restrictions, and that removal of those restrictions would result in longer stays and an increase in costs to DoD.

Based on data from DoD, CBO estimates that about 650 TRICARE beneficiaries who are not Medicare-eligible would extend their stays at inpatient mental health facilities each year if the current restrictions are eliminated, and that they would extend their stays by about 26 days, on average. With an average cost of about $700 per day, CBO estimates section 703 would increase spending subject to appropriation by about $12 million per year, or $67 million over the 2015-2019 period after adjustments for annual inflation.

5. Medicare's authority for Coverage with Evidence Development (CED) comes from section 1862(a)(1)(E) of the Social Security Act. Under CED, Medicare provides coverage for certain experimental products or services if various conditions are met. The conditions usually involve data collection or beneficiary participation in a clinical study.

6. Laboratory-Developed Tests (LDTs) are tests performed by individual laboratories for which the test kit is unique to that laboratory. Because they are relatively simple tests and considered safe, they are not always required to have regulatory approval. Many LDTs involve genetic testing.

Mental Health Assessments. Section 701 would require DoD to administer an annual mental health assessment to all members on active duty and in the selected reserve. Based on information from DoD, most of the services perform annual assessments that would meet the requirements of section 701. However, the Air Force and Air National Guard currently require such assessments at intervals of three and five years, respectively. Based on information from DoD, CBO estimates that implementing section 701 would require the Air Force and Air National Guard to perform an additional 240,000 mental health assessments each year, at a cost of about $35 each (the assessments may be performed over the phone). In total, after accounting for inflation, CBO estimates section 701 would require an increase in spending subject to appropriation of $43 million over the 2015-2019 period. Costs would be lower in the first year because of the time needed to establish regulations and procedures.

Timing of MERHCF Accrual Payments. Section 721 would change the mechanism and timing by which accrual payments are made to the MERHCF. Those accrual payments represent payments estimated to fully cover the future costs of health benefits for members currently serving in the military. Prior to 2006, the accrual contributions were made by each of the individual services on a monthly basis from their discretionary appropriations for military personnel. The Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005 (Public Law 108-375) shifted responsibility for the accrual payments to the Treasury, which now makes the payments on DoD’s behalf in one lump-sum contribution at the beginning of each fiscal year. Even though the Treasury now makes the accrual payments, they are still part of DoD’s discretionary budget and count against the caps on discretionary budget authority set by the Budget Control Act of 2011.

Section 721 would reverse the changes made by Public Law 108-375, and require the services to make the accrual contributions on a monthly basis from their discretionary appropriations beginning in fiscal year 2016. As a consequence of moving from one large lump-sum payment at the beginning of the year to smaller monthly payments, the MERHCF would not earn as much interest on new investments, and thus, the accrual contributions would need to be increased to make up for that loss. Accrual contributions to the MERHCF currently total about $8 billion per year, and the DoD Office of the Actuary assumes the fund will earn rates of return of 5.75 percent annually. Transitioning to monthly contributions would effectively reduce the rate of return on new investments by about half in the year the contribution is made, initially about $225 million per year using current actuarial assumptions and increasing in subsequent years with inflation.

Amounts in the MERHCF are invested in special Treasury securities. Therefore, any change to the source or timing of the accrual payments has no net effect on the federal deficit, because any change to amounts received by the MERHCF are fully offset by corresponding changes elsewhere in the budget.

Other Provisions. A number of other provisions in S. 2410 would have discretionary costs in 2015 and over the 2016-2019 period.

Construction of a San Antonio Class Ship. Section 123 would authorize the Navy to procure one additional San Antonio class amphibious ship (referred to as a LPD-17 class ship), which CBO estimates would cost about $2 billion. Under the bill, the Navy could use incremental funding to enter into a contract, beginning in fiscal year 2015, for the procurement of the ship, and also could transfer up to $650 million from amounts available in Navy procurement accounts—including funds made available in Shipbuilding and Conversion, Navy—to begin construction. Based on information from the Navy on its spending priorities, CBO does not expect the Navy would use the transfer authority. Because the bill does not authorize additional appropriations for that purpose, CBO expects that the additional ship would not be constructed over the next five years.

Assistance in Acquiring Professional Credentials. Section 531 would require DoD and the Department of Homeland Security to establish programs to help service members obtain professional licenses and credentials related to their military occupation. Under those programs, the departments would pay for classroom instruction, hands-on training, supplies and materials, and testing fees. Under current law, both the Navy and Coast Guard already administer similar programs that provide assistance to service members seeking professional licenses and credentials. Based on usage and cost data for those programs, we estimate that under this provision approximately 15,000 additional service members would each receive about $900 in such assistance in 2015 and that, by 2019, 60,000 service members would each receive about $1,100 in assistance. In total, implementing section 531 would cost $215 million over the 2015-2019 period, assuming appropriation of the estimated amounts.

Support of Foreign Military Liaison Officers. Section 1263 would expand DoD's authority to pay for certain expenses of military liaison officers from foreign militaries. Currently, DoD is allowed to cover travel, subsistence, and medical expenses of such officers if they are assigned to U.S. military commands in connection with a military operation. This provision would broaden that authority by allowing DoD to provide such support without the requirement that assignments be connected with a military operation.

CBO anticipates that as operations in Afghanistan are curtailed, the number of foreign officers receiving support pursuant to the existing authority—currently about 40—would be reduced to approximately 15 individuals. Based on information from DoD, CBO expects that under section 1263, the department would support a total of 60 officers a year, mostly in support of U.S. military engagements in areas where DoD has a relatively limited presence. On that basis, CBO estimates that DoD would provide support to an additional 45 officers a year under this authority at a cost of $44 million over the 2015-2019 period.

Direct Spending

Enacting S. 2410 would affect direct spending. CBO estimates that, on net, direct spending would decrease by $4.5 billion over the 2015-2024 period (see Table 4).

Several sections in S. 2410 would affect spending on health care for beneficiaries of the Defense Health System, including TRICARE. Health care costs for TRICARE beneficiaries who are eligible for Medicare are paid from the DoD Medicare-Eligible Retiree Health Care Fund (MERHCF), a mandatory account.

TRICARE Pharmacy Benefit. Section 702 would reduce spending from the MERHCF by $5.1 billion over the 2015-2024 period by making the following changes to the TRICARE pharmacy benefit.

- The copayment for generic medications would gradually increase over the 2015-2024 period to $14 for both a 30-day supply from retail pharmacies and up to a 90-day supply from the TRICARE national mail-order pharmacy (TMOP). Copayments for generic medications are currently $5 for drugs purchased through the retail network; there is no copayment for generics if they are purchased through the TMOP.

- Copayments for brand-name drugs in the TRICARE formulary would gradually increase to $45 by 2024 for both a 30-day supply from retail pharmacies and up to a 90-day supply from the TMOP. Copayments for those medications are currently $17 for drugs purchased through the retail network and $13 for drugs purchased from the TMOP.

- TRICARE would no longer pay for non-formulary drugs purchased from retail pharmacies. All such medications would be offered through the TMOP, and the copay for a 90-day supply would increase from $43 to $90 by 2024.

- Service members who are retired for medical reasons, spouses of members who die on active duty, and the family members of both of those groups, would be exempt from any copay increases. Pharmacy copayments for those beneficiaries would remain at 2014 levels indefinitely.

- With some exceptions, maintenance medications would only be available through the TMOP or military treatment facilities. Beneficiaries would still be able to obtain an initial 30-day prescription from a retail pharmacy.

TABLE 4. ESTIMATED EFFECTS OF S. 2410 ON DIRECT SPENDING

	By Fiscal Year, in Millions of Dollars											
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-2019	2015-2024
TRICARE Pharmacy Benefit												
Estimated Budget Authority	-114	-205	-265	-378	-496	-623	-771	-904	-771	-761	-1,458	-5,288
Estimated Outlays	-91	-181	-250	-356	-454	-590	-741	-876	-828	-772	-1,332	-5,139
TRICARE Coverage for Emerging Products and Services												
Estimated Budget Authority	0	5	5	10	10	15	15	15	15	15	30	105
Estimated Outlays	0	5	5	10	10	15	15	15	15	15	30	105
Inpatient Mental Health Coverage												
Estimated Budget Authority	2	2	2	2	2	2	3	3	3	3	10	24
Estimated Outlays	2	2	2	2	2	2	3	3	3	3	10	24
Special Immigrant Visas for Afghan Allies												
Estimated Budget Authority	11	43	42	38	36	34	33	34	33	32	170	336
Estimated Outlays	11	43	42	38	36	34	33	34	33	32	170	336
Payment by SBP to a Special Needs Trust												
Estimated Budget Authority	5	10	15	16	15	16	17	17	19	20	61	150
Estimated Outlays	5	10	15	16	15	16	17	17	19	20	61	150
Early Reserve Retirement												
Estimated Budget Authority	*	*	1	1	2	3	3	4	6	7	4	27
Estimated Outlays	*	*	1	1	2	2	3	4	6	7	4	26
Retired Pay for General and Flag Officers												
Estimated Budget Authority	*	*	-1	-1	-2	-2	-3	-4	-5	-5	-4	-23
Estimated Outlays	*	*	-1	-1	-2	-2	-3	-4	-5	-5	-4	-23
Global Security Contingency Fund												
Estimated Budget Authority	0	1	1	1	*	*	*	0	0	0	4	5
Estimated Outlays	0	1	1	1	*	*	*	0	0	0	4	5
Buy American Solar Panels												
Estimated Budget Authority	*	*	*	*	*	*	*	*	*	*	1	2
Estimated Outlays	*	*	*	*	*	*	*	*	*	*	1	2
Purple Heart Awards												
Estimated Budget Authority	*	*	*	*	*	*	*	*	*	*	*	1
Estimated Outlays	*	*	*	*	*	*	*	*	*	*	*	1
Total Changes in Direct Spending												
Estimated Budget Authority	-96	-144	-200	-310	-432	-555	-703	-834	-699	-688	-1,182	-4,661
Estimated Outlays	-73	-120	-185	-288	-390	-523	-673	-806	-756	-699	-1,056	-4,513

Note: Numbers may not add up to totals because of rounding; * = between -$500,000 and $500,000; SBP = Survivor Benefit Program.

Prescription medications obtained at the MTFs would continue to be offered at no charge, and DoD would maintain authority to increase the pharmacy copayments after 2024, to reflect inflation in pharmacy ingredient and dispensing costs.

CBO estimates that all of the changes discussed above would reduce spending from the MERHCF for pharmacy benefits by about $7.7 billion over the 2015-2024 period. It is difficult to assign a portion of the savings to each of the proposed changes because of the price and demand interactions that occur among the different parts of the proposal. However, a rough allocation of those savings is provided in the following paragraphs.

The largest part of the estimated savings—roughly half—would occur as a direct result of the lower DoD cost sharing associated with the higher copayments. In 2013, DoD helped pay for about 60 million prescriptions for Medicare-eligible TRICARE beneficiaries at a cost of about $3.5 billion. Under current law, the rate of growth in TRICARE pharmacy copayments for fiscal years through 2022 is limited to the annual cost-of-living adjustment for military retired pay, which CBO projects will be about 2 percent each year. After 2022, current law gives DoD the authority to increase the pharmacy copayments to any levels that DoD deems appropriate. CBO estimates there is some probability that the higher copayments authorized by the bill would occur after 2022 under current law, which accounts for the lower savings attributed to section 702 beginning in 2023.

About one-fifth of the $7.7 billion in savings would come from the changes that would limit refills of maintenance medications to the TMOP or MTFs. Based on data from DoD, more than 15 million maintenance medications are filled by Medicare-eligible TRICARE beneficiaries each year through retail pharmacies at a cost to DoD of about $1 billion a year. Data from DoD indicates that the department would save about 20 percent—or $200 million per year—if those same medications were provided through the TMOP or MTFs. However, savings would initially be lower, because DoD is already moving significant numbers of maintenance medications away from retail pharmacies to the TMOP through a pilot program for Medicare-eligible TRICARE beneficiaries required by section 716 of the National Defense Authorization Act for Fiscal Year 2013 (Public Law 112-239). The authority for that program expires at the end of calendar year 2017. (That pilot program does not apply to TRICARE beneficiaries who are not Medicare-eligible, which is why the savings for section 702 that are subject to annual appropriations would initially be higher than the savings to the MERHCF.)

Various studies have shown that higher copayments lead to lower use of prescription drugs.[7] CBO estimates this lower demand accounts for about 30 percent of the $7.7 billion in savings.

However, there is also evidence that changes in prescription drug usage affect the usage of inpatient and outpatient medical services.[8] In this instance, while the higher copayments may deter some beneficiaries from filling prescriptions they no longer need or use, such an increase in out-of-pocket spending also would cause some chronically ill beneficiaries to stop taking their medications, which would result in more doctor visits and hospitalizations. As a result, CBO estimates that the $7.7 billion in direct pharmacy savings would be offset by a $2.5 billion increase in other federal spending for medical services (most of it from Medicare).

TRICARE Coverage for Emerging Products and Services. Section 705 would expand the authority of TRICARE to provide coverage for emerging products and services that have not previously been determined to be safe and effective. Except in certain circumstances, current TRICARE regulations prevent DoD from providing coverage for products or services that are not approved by the Food and Drug Administration.

Section 705 would increase direct spending from the MERHCF for those TRICARE beneficiaries who are also eligible for Medicare. Based on the same analysis discussed above in the "Spending Subject to Appropriation" section of this estimate, CBO estimates that implementing section 705 would increase spending from the MERHCF by about $10 million per year, or $105 million over the 2016-2024 period after adjusting for inflation. CBO estimates that costs for Medicare-eligible beneficiaries under section 705 would be lower than for other TRICARE beneficiaries because some of the products and services authorized for use with this authority may already be approved for use under Medicare, in which case TRICARE would only need to pay for those costs not already covered by that program.

Inpatient Mental Health Coverage. Section 703 would remove certain limitations on inpatient mental health coverage under TRICARE. Based on data from DoD, CBO estimates that about 100 Medicare-eligible TRICARE beneficiaries would extend their stays at inpatient mental health facilities by an average of 25 days a year if the current restrictions are eliminated. With an average cost of about $700 per day, CBO estimates section 703 would increase direct spending from the MERHCF by about $2 million per year, or $24 million over the 2015-2024 period. Costs for the Medicare-eligible

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7. Based on a review of various studies, CBO measured changes in demand using a price arc-elasticity of demand that ranged from -.05 to -.15 depending on the type of drug, point of service, and current copayment level.

8. For more information, see Congressional Budget Office, *Offsetting Effects of Prescription Drug Use on Medicare's Spending for Medical Services* (November 2012).

TRICARE beneficiaries are lower than those for the other TRICARE beneficiaries because the overall population of Medicare-eligible TRICARE beneficiaries is smaller and their combined eligibility for both TRICARE and Medicare gives them access to a more robust benefit for inpatient mental health services under current law.

Special Immigrant Visas (SIVs) for Afghan Allies. Section 1230 would amend the Afghan Allies Protection Act of 2009 to provide 5,000 additional SIVs that could be issued through the end of calendar year 2016. Afghans who would be eligible under this provision are those who were employed by the U.S. government or certain organizations associated with the U.S. mission in Afghanistan at some point since 2001 and are experiencing an ongoing serious threat as a consequence of that employment. (Additional SIVs, not subject to limitation, would be available to certain relatives of those workers.)

CBO estimates that approximately 10,000 people would receive immigrant visas under section 1230. 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 and benefits from Medicaid, nutrition programs, and the Supplemental Security Income (SSI) program, if otherwise eligible, upon arrival in the United States. On that basis, CBO estimates that direct spending for those benefits would increase by $336 million over the 2015-2024 period.

Payment by SBP to a Special Needs Trust. Section 625 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 SSI and Medicaid, since payments to such trusts are not counted as personal income for the purposes of the means-testing required for enrollment in those programs.

Based on DoD data on 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 $55 million over the 2015-2024 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 $30,000 per year, CBO estimates this section would increase spending for Medicaid by about $10 million per year, or about $95 million over the 2015-2024 period. In total, CBO estimates section 625 would increase direct spending by $150 million over the 2015-2024 period.

Credit Towards Early Reserve Retired Pay. Former service members who qualify for a reserve retirement generally cannot start receiving their annuities until age 60. The National Defense Authorization Act for Fiscal Year 2008 (Public Law 110-181) allowed those members to receive their annuity 90 days prior to age 60 for each 90 days spent on active duty while a member of the reserves. However, each 90-day increment must be accumulated within the same fiscal year. Section 623 would modify the language from Public Law 110-181 to allow 90-day increments that bridge across two fiscal years to count towards the early annuity criteria.

The changes made by section 623 would only apply to time earned after enactment of this bill, and because of this, the costs of this section in the initial 10-year budget window would be limited to those reserve members serving on active duty from 2015 onward and who are nearing the age of 60, at which point they can begin drawing their retired pay. Less than 10 percent of reserve members are over the age of 50, which means few reserve members would see an increase in their annuities because of this change over the next 10 years. However, the population affected by this provision would increase over time. By 2024, CBO projects that enacting section 623 would result in hundreds of former reserve members receiving annuities months earlier than they otherwise would have. On an annualized basis, that would be the equivalent of 170 reserve members at an annual cost of about $40,000 per person. This estimate is based on current reserve activation statistics and an analysis of DoD data on current reserve annuitants under the age of 60. In total, CBO estimates section 623 would increase direct spending by $26 million over the 2015-2024 period.

Retired Pay for General and Flag Officers. Section 622 would change the pay base used in calculating the retired pay for certain general and flag officers to the amounts they receive while serving in an active status, which is currently capped at level II of the Executive Schedule. Under current law, retired pay is based on the military pay table, which exceeds the Executive Schedule in some instances. This change would apply to those who first retire after the enactment of this bill.

Based on data from DoD, CBO estimates that about 120 generals and admirals retire each year, of which about 40 would have their retired pay lowered because of this provision. Under current law, the initial retired pay for those who would be affected by section 622 varies from $165,000 to $230,000 per year (in 2015 dollars), depending on their rank and years of service. CBO estimates that because of this provision, the initial retired pay for those individuals would decrease by about $15,000 per year, on average. The decrease would be smaller in the first few years after enactment of section 622, because the provision would allow some retiring members to choose between what their retired pay would be on the day they retire or what it would be had they retired prior to enactment of section 622 (using their rank and pay tables that existed prior to that date). In total, CBO estimates section 622 would reduce direct spending by $23 million over the 2015-2024 period.

Global Security Contingency Fund. Section 1205 would modify and extend the Global Security Contingency Fund (GSCF). GSCF is jointly administered by DoD and the State Department to assist foreign countries with emergent security-related needs and expires in 2015. The bill would extend its authority through 2017.

Under current law, funds available in the GSCF are authorized to be spent beyond 2015 on programs that have been initiated before the end of 2015. By extending the GSCF's authority through 2017, the bill would allow existing appropriations in the fund to be used for programs that would commence in 2016 and 2017. The bill would also expand GSCF's authority to include routine maintenance and repair of equipment and certain small-scale construction, thereby allowing existing appropriations to be used for new purposes. Those effects are considered direct spending.

GSCF was established in 2012, but has been slow to obligate funds and implement programs. The fund had no outlays in 2012 or 2013 and has expended $24 million through August 2014. The Administration estimates that at the end of 2015, GSCF will have unexpired, unobligated balances of $34 million. CBO estimates that not all of those funds would be used under current law and that enacting this provision would cost $5 million over the 2015-2024 period.

Buy American Solar Panels. Section 829 would require photovoltaic devices that are installed on DoD property or reserved for the exclusive use of the department to be manufactured in the United States with U.S.-produced materials. Under current law, DoD complies with this provision for most of its purchases of solar panels but some acquisitions—such as for panels installed on privatized military housing—are exempt. Restricting the source of supply to American-made products would increase the cost to DoD for such purchases.

Some of those panels would be acquired through contracts such as energy savings performance contracts, utility energy service contracts, and power purchase agreements. Such agreements are a form of third-party financing, in which private parties fund projects on behalf of the federal government.[9] Upon signing such contracts, the government effectively commits to make payments to a vendor in future years to cover

9. For more on third-party financing, see Congressional Budget Office, *Third-Party Financing of Federal Projects* (June 1, 2005).

the costs of equipment and services as well as interest costs on the vendor's borrowing to finance upfront costs. In CBO's view, the authority to enter into such contractual agreements is a form of direct spending.[10]

By increasing the cost of such contracts, section 829 would increase direct spending. CBO estimates that the provision would increase direct spending by $2 million over the 2015-2024 period.

Purple Heart Awards. Section 561 would require the Secretary of Defense to award the Purple Heart to military personnel killed or wounded in attacks motivated or inspired by foreign terrorist organizations. This policy would be retroactive to September 11, 2001. In instances when a wounded member of the military retires for medical reasons, the Purple Heart entitles that member to Combat-Related Special Compensation (CRSC), which is paid from the Military Retirement Trust Fund. Based on the number of military personnel wounded during the November 2009 shooting at Ft. Hood and other incidents, CBO estimates that enacting this provision would result in 10 additional military retirees receiving CRSC, at an average monthly amount of about $400 per person. After factoring in retroactive payments and cost-of-living adjustments, CBO estimates section 561 would increase direct spending by about $1 million over the 2015-2024 period.

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

- Sections 501, 502, and 504 would modify rules related to the selective early retirement of military personnel. In certain circumstances, those changes might affect the number of former service members drawing retired pay in a given year.

- Section 602 would increase the retired pay for both the Chief of the National Guard Bureau and the Senior Enlisted Advisor to the Chief of the National Guard Bureau.

- Section 704 would require DoD to increase TRICARE coverage for breastfeeding supplies and support. Some of the additional costs would be direct spending because TRICARE expenses for certain retirees of the Uniformed Services and their family members are paid with mandatory appropriations.

10. For further details of the principles that govern CBO's analyses of long-term contracts such as energy savings performance contracts and utility energy services contracts, see Congressional Budget Office, letter to the Honorable Fred Upton on the Budgetary Impact of Energy Savings Performance Contracts (July 1, 2011) and Congressional Budget Office, letter to the Honorable Jeff Bingaman and the Honorable Christopher Coons on the Budgetary Impact of Power Purchase Agreements (November 29, 2011).

- Section 724 would require DoD to carry out a medication management program at military medical treatment facilities. Pharmaceutical spending for some of the beneficiaries that would be covered by this program is classified in the budget as mandatory.

- Section 1325 would extend indefinitely 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, 2018.

- Section 2841 would authorize the Secretary of the Navy to establish a memorial to the victims of the shootings that occurred on September 16, 2013, at the Washington Navy Yard. The Secretary could accept and spend donations to establish and maintain the memorial. Such contributions are classified as offsetting receipts. The Treasury would credit the funds with interest until the Secretary spent the collections. The authority to spend the interest earned from the Treasury constitutes direct spending.

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. Enacting S. 2410 would not affect revenues.

CBO Estimate of Pay-As-You-Go Effects for S. 2410 as reported by the Senate Committee on Armed Services on June 2, 2014

	By Fiscal Year, in Millions of Dollars											
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-2019	2015-2024
NET INCREASE OR DECREASE (-) IN THE DEFICIT												
Statutory Pay-As-You-Go Effects	-73	-120	-185	-288	-390	-523	-673	-806	-756	-699	-1,056	-4,513

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

S. 2410 contains no intergovernmental mandates as defined in UMRA. CBO estimates that requirements in the bill that would increase federal spending for Medicaid would similarly result in $157 million of additional Medicaid spending by states over the 2015-2024 period. Those requirements, however, would not be intergovernmental mandates as defined by UMRA because Medicaid provides states with significant flexibility to make programmatic adjustments to accommodate the changes.

The bill would benefit military families and their dependents by providing financial assistance to local educational agencies to fund education and services for children with disabilities. Any costs to those governments would be incurred voluntarily as conditions of receiving federal assistance.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

This bill contains no private-sector mandates as defined in UMRA.

PREVIOUS CBO ESTIMATE

On May 16, 2014, CBO transmitted a cost estimate for H.R. 4435, the Howard P. "Buck" McKeon National Defense Authorization Act for Fiscal Year 2015, as reported by the House Committee on Armed Services on May 13, 2014. S. 2410 would authorize the appropriation of an estimated $573 billion for fiscal year 2015, or $21 billion less than the $594 billion that CBO estimates would be authorized by H.R. 4435.

That difference is primarily the result of authorizations associated with DoD's costs for Overseas Contingency Operations. H.R. 4435 would specifically authorize $79.4 billion for such costs, an amount equal to the placeholder that the Administration originally included in its 2015 budget request (prior to the submission of its detailed budget request of $58.7 billion in June 2014). S. 2410 would not authorize a specified amount for OCO; rather, it would authorize "such amounts as may be designated" by the Congress and the President as being for that purpose. This estimate reflects $58.7 billion as the amount that would be authorized by S. 2410—$21 billion less than would be authorized by H.R. 4435.

ESTIMATE PREPARED BY:

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Military and Civilian Personnel—Dawn Regan
Military Construction and Energy Policy—David Newman
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