CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

July 2, 2015

H.R. 675
Veterans' Compensation Cost-of-Living Adjustment Act of 2015

As ordered reported by the House Committee on Veterans' Affairs on May 21, 2015

SUMMARY

H.R. 675 would make changes to several benefit programs administered by the Department of Veterans Affairs (VA), and to the administrative processes of the Court of Appeals for Veterans Claims (CAVC). CBO estimates that enacting H.R. 675 would decrease net direct spending by $4 million over the 2016-2025 period. Pay-as-you-go procedures apply because enacting the legislation would affect direct spending. Enacting the bill would have no effect on revenues.

In addition, CBO estimates that implementing the bill would cost $5 million over the 2016-2020 period, subject to the availability of appropriated funds.

H.R. 675 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary effect of H.R. 675 is shown in Table 1. The costs of this legislation fall within budget function 700 (veterans benefits and services).

TABLE 1. ESTIMATED BUDGETARY EFFECTS OF H.R. 675, THE VETERANS' COMPENSATION COST-OF-LIVING ADJUSTMENT ACT OF 2015

	By Fiscal Year, in Millions of Dollars					
	2016	2017	2018	2019	2020	2016-2020
CHANGES IN DIRECT SPENDING[a]						
Estimated Budget Authority	-16	-30	7	4	5	-30
Estimated Outlays	-16	-30	7	4	5	-30
CHANGES IN SPENDING SUBJECT TO APPROPRIATION						
Estimated Authorization Level	*	*	*	2	2	5
Estimated Outlays	*	*	*	2	2	5

Notes: Components may not sum to totals because of rounding.

* = between zero and $500,000.

a. In addition to the changes in direct spending shown above, enacting H.R. 675 would have effects beyond 2020 (see Table 2). CBO estimates that enacting H.R. 675 would decrease net direct spending by $4 million over the 2016-2025 period.

BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 675 will be enacted near the beginning of fiscal year 2016, that appropriations will reflect the estimated changes each year, and that outlays will follow historical spending patterns for the affected programs.

Direct Spending

H.R. 675 contains several provisions that would affect direct spending (see Table 2). Enacting H.R. 675 would result in a net decrease in direct spending of $30 million over the 2016-2020 period, and $4 million over the 2016-2025 period.

Cost-of-Living Adjustment Round-Down. Section 101 would increase the amounts paid to veterans for disability compensation and to their survivors for dependency and indemnity compensation (DIC) by the same cost-of-living adjustment (COLA) that recipients of Social Security receive. Those increased payments would be rounded down to the next lower whole dollar, effective on December 1, 2015.

TABLE 2. ESTIMATED CHANGES IN DIRECT SPENDING UNDER H.R. 675

	By Fiscal Year, in Millions of Dollars											
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016-2020	2016-2025
CHANGES IN DIRECT SPENDING												
COLA Round-down	-24	-30	-28	-32	-33	-34	-38	-36	-34	-38	-147	-327
Accrued Benefits	0	0	35	36	38	39	40	41	42	43	109	314
Interim Payments of Adjudicated Claims	8	*	*	*	*	*	*	*	*	*	8	9
Total Changes in Direct Spending	-16	-30	7	4	5	5	2	5	8	5	-30	-4

Notes: Components may not sum to totals due to rounding.

COLA = Cost-of-Living Adjustment; * = between zero and $500,000.

The COLA that would be authorized by this bill is assumed in CBO's baseline, consistent with section 257 of the Balanced Budget and Emergency Deficit Control Act. Because the COLA is assumed in CBO's baseline, authorizing the COLA would have no budgetary effect relative to the baseline. Relative to current law, CBO estimates that enacting this bill would increase spending for those programs by $662 million in fiscal year 2016. That estimate assumes that the COLA effective on December 1, 2015, would be 0.9 percent. (The annualized cost would be about $890 million in subsequent years.)

Section 101 also would require that the increased payments resulting from the cost-of-living adjustment be rounded down to the next lower whole dollar. The previous authority to round down the COLA expired at the end of calendar year 2013. Based on projections of the number of people receiving benefits and payments made each year, CBO estimates that enacting this section would reduce direct spending by $327 million over the 2016-2025 period.

Accrued Benefits. Section 401 would add the estate of a veteran to the list of payees for any accrued benefits owed to a veteran upon his or her death. Under current law, if a veteran dies while an application for benefits is being processed, and that application is subsequently approved, any benefits due to the veteran are paid to the spouse, children, or parents of the veteran, in that order. In the absence of an eligible survivor, no payments are made. By allowing payments to be made to veterans' estates, section 401 would ensure that such payments are made in all cases. Section 401 would take effect two years after the date of enactment.

VA reports that, over the last several years, there was an average of 4,200 cases per year where an award for benefits was approved but there was no eligible survivor. The average amount paid to eligible survivors is about $8,000. CBO expects the same accrued benefit amount would be paid to veterans' estates. After accounting for inflation and annual growth in the number of approved applications, CBO estimates that enacting section 401 would increase direct spending by $314 million over the 2016-2025 period.

Interim Payments of Adjudicated Claims. In cases where veterans file claims for more than one disability at the same time, section 301 would require VA to pay disability benefits to veterans as each claim is decided. Under current law, VA has the authority to make such partial payments for multiple claims, but that authority is rarely used.

Once adjudicated, VA benefits are paid retroactively from the date of the initial application. That is, veterans usually receive an initial lump-sum payment that covers the months since their application was submitted. Thus, section 301 would have the effect of shifting some payments to an earlier fiscal year by paying certain veterans a part of their benefit earlier than they would otherwise receive it. However, those early payments would be fully offset by savings in the following year when the retroactive payments would normally be made.

Based on information from VA, and assuming trends similar to those observed in previous years, CBO estimates that about 290,000 veterans will apply for disability benefits for the first time in 2016. CBO expects that veterans who begin receiving payments at a disability rating of 50 percent or greater (about 135,000 veterans) would probably have applied to be compensated for more than one disability. Of those, CBO estimates that half would be fully adjudicated within the same fiscal year as the application. For those claims, enacting this provision would not move spending from one fiscal year to another.

For claims that would be settled in the fiscal year after the year of submission, CBO estimates that about 20 percent would have a claim that could be adjudicated quickly. Two-thirds of those claims—about 9,000—would then be paid one year earlier than under current law. Assuming an average rating of 10 percent ($140 per month) for the quickly adjudicated claims, and an average of six months of benefits, CBO estimates that enacting section 301 would increase direct spending by $8 million in 2016. However, that new spending in 2016 would be offset by an equal reduction in spending in 2017. In each subsequent year, a similar effect would be seen—increased spending in one year followed by decreased spending in the following year. For this estimate, CBO adjusted the amount of the accelerated spending each year to account for inflation and population growth.

On that basis, CBO estimates that enacting section 301 would cost $8 million over the 2016-2020 period, and $9 million over the 2016-2025 period.

Spending Subject to Appropriation

H.R. 675 contains several provisions that would affect spending subject to appropriation including extending the temporary expansion of the Court of Appeals for Veterans Claims and increasing the salaries of CAVC judges, among others (see Table 3). CBO estimates that implementing those provisions would cost $5 million over the 2016-2020 period, subject to the availability of appropriated amounts.

Extension of Temporary Expansion of CAVC. Section 201 would extend, through January 1, 2020, the authority for the Court of Appeals for Veterans Claims to appoint a new judge to the court should a position become vacant. Previous legislation allowed for the court to expand from seven judges to nine in order to address the workload of the court. The authority to appoint a new judge to maintain nine judges expired on January 1, 2013.

TABLE 3. ESTIMATED CHANGES IN SPENDING SUBJECT TO APPROPRIATION UNDER H.R. 675

	By Fiscal Year, in Millions of Dollars					
	2016	2017	2018	2019	2020	2016-2020
Extension of Temporary Expansion of CAVC						
Estimated Authorization Level	0	0	*	1	1	3
Estimated Outlays	0	0	*	1	1	3
Increased Salaries of CAVC Judges						
Estimated Authorization Level	*	*	*	*	*	1
Estimated Outlays	*	*	*	*	*	1
Other Provisions						
Estimated Authorization Level	*	*	*	*	*	1
Estimated Outlays	*	*	*	*	*	1
Total Changes						
Estimated Authorization Level	*	*	*	2	2	5
Estimated Outlays	*	*	*	2	2	5

Note: Components may not sum to totals due to rounding.

* = between zero and $500,000; CAVC = Court of Appeals for Veterans Claims.

According to the CAVC, the cost of a judge and his or her chamber is about $1 million per year. CBO expects that one judge will leave or retire over the next several years; thus, under section 201 one new judge would be appointed. Therefore, CBO estimates that implementing section 201 would cost $3 million over the 2016-2020 period.

Increased Salaries of CAVC Judges. Section 205 would increase the annual salaries for judges of the CAVC. Under current law, CAVC judges are paid at the level of district court judges, which was $199,100 in 2014. Section 205 would increase the CAVC judges' salaries to the same rate as U.S. Court of Appeals judges—$211,200 in 2014. Currently, there are nine CAVC judges. After accounting for inflation, CBO estimates that implementing section 205 would increase costs for salaries by about $1 million over the 2016-2020 period.

Other Provisions. Several sections of H.R. 675 would have very small effects on discretionary costs. In total, CBO estimates that implementing the following provisions would cost $1 million over the 2016-2020 period.

- Section 202 would allow judges who are eligible to be recalled to serve for more than the 90 days currently authorized.

- Section 302 would require VA to establish a training process for newly hired claims processors. According to VA, it has already begun the process of establishing new training programs for claims processors. Most of the requirements of section 104 would align with VA's new training program.

- Section 303 would require VA to post in public spaces and on their website information about the average processing times for all claims submitted, claims filed by veterans service organizations or other persons on the behalf of veterans, and claims filed by the veteran. Section 303 also would require VA to provide a notice containing information on processing times for submitted claims to all individuals who submit claims for benefits with the department.

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.

CBO Estimate of Pay-As-You-Go Effects for H.R. 675 as ordered reported by the House Committee on Veterans' Affairs on May 21, 2015

	By Fiscal Year, in Millions of Dollars											
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016-2020	2016-2025
NET DECREASE (-) IN THE DEFICIT												
Statutory Pay-As-You-Go Impact	-16	-30	7	4	5	5	2	5	8	5	-30	-4

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 675 contains no intergovernmental or private sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

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