



December 18, 2018

Honorable Mike Enzi
Chairman
Committee on the Budget
United States Senate
Washington, DC 20510

Re: *Blue Water Navy Vietnam Veterans Act of 2018*

Dear Mr. Chairman:

The Congressional Budget Office has estimated the budgetary effects of H.R. 299, the Blue Water Navy Vietnam Veterans Act of 2018, as passed by the House of Representatives on June 25, 2018. As you requested, this estimate incorporates additional information that CBO received after the legislation was engrossed in the House. In particular, this estimate reflects the considerable uncertainty about the number of veterans who would benefit from provisions of the bill affecting eligibility for veterans' disability compensation. Even so, considerable uncertainty remains concerning that key input.

The act would increase disability compensation for more of the veterans who served in the seas near Vietnam during the Vietnam War. It also would modify the loan guarantee program administered by the Department of Veterans Affairs (VA). On net, CBO estimates that enacting the bill would increase direct spending for those programs by almost \$1.2 billion over the 2019-2028 period.

In addition, H.R. 299 would expand access to VA medical care for certain veterans and their dependents. In total, CBO estimates that implementing those provisions would cost \$294 million over the 2019-2023 period, assuming appropriation of the necessary amounts.

The estimated budgetary effects of H.R. 299 as passed by the House of Representatives are shown in Table 1.

Direct Spending

Enacting H.R. 299 would increase direct spending by \$1,193 million over the 2019-2028 period. (See Table 2.) On May 15, 2018, CBO transmitted a cost estimate for H.R. 299, as ordered reported by the House Committee on Veterans Affairs on May 8, 2018. CBO estimated that enacting that bill would reduce net direct spending by \$271 million over that same period. Several changes contribute to the \$1,464 million difference in direct spending between that previous estimate and this one.

Approximately \$260 million of the difference would arise from a change to the geographic area off the coast of Vietnam that would be covered by the passed bill. The cost of that change is partially offset by modifications to the provision affecting VA loan fees that would reduce net direct spending by \$173 million. The remainder of the increase (\$1,377 million) would result from changes in key inputs—primarily a larger number of veterans who CBO estimates would be newly eligible for benefits. There is significant uncertainty about that input.

Direct Spending for Blue Water Navy Veterans

Section 2 of the bill would increase disability compensation to some veterans who served in the seas near Vietnam during the Vietnam War. It also would provide compensation to dependents or survivors of some of those veterans. Prospective and retroactive payments arising from section 2 would increase direct spending by \$530 million in 2019, and by \$2,520 million over the 2019-2028 period, CBO estimates.

Under current law, veterans of the Vietnam War who served on land or in the country's inland or coastal waterways are presumed to have been exposed to Agent Orange, a blend of herbicides used by the Department of Defense to remove dense tropical foliage. Generally, VA compensates veterans who have disabilities or diseases that have been determined to be service-connected based on military medical records and physical examinations. However, VA presumes certain diseases, such as type 2 diabetes, Parkinson's disease, and prostate cancer, result from exposure to Agent Orange. If veterans served during specified time periods in designated locations where Agent Orange was used, those illnesses are presumed to be connected to the veterans' service. The veterans only need to provide evidence that they were in the designated locations at the specified times.

VA does not currently presume that veterans who served in the seas near Vietnam, commonly referred to as the “Blue Water Navy,” have been exposed to Agent Orange. Under section 2, for the purposes of determining eligibility for disability compensation, VA would presume those veterans have been exposed to Agent Orange.

VA already presumes that veterans who served aboard certain U.S. Navy ships on the dates they were near the coast of Vietnam were exposed to Agent Orange. Since we completed our estimate of the bill as ordered reported, CBO has learned from additional discussions with VA and from reviewing other research that there is considerably more uncertainty than we originally anticipated about the number of veterans who are covered under current law.

Using information about the crew size of the ships that VA considers to have been close to shore, CBO initially estimated that about 65 percent of veterans who served in the geographic area covered by the bill are eligible for a presumption of exposure to Agent Orange under current law. The remaining 35 percent of those veterans would be newly eligible under the legislation.

The Department of Veterans Affairs and other analysts have conducted similar reviews of that same list of ships to arrive at significantly estimates. In those analyses, the number of veterans who would be newly eligible for a presumption of exposure ranged from 55 percent to 75 percent of veterans who served in the seas off Vietnam.

To reflect the uncertainty regarding this important factor, for this analysis, CBO now estimates that roughly half of Blue Water Navy veterans are eligible for a presumption of exposure to Agent Orange under current law, and half would be newly eligible under H.R. 299. That estimate is in the middle of the total range of Blue Water Navy veterans.

On the basis of information from the Department of the Navy, VA, and other sources, CBO estimates that about 190,000 service members served during the Vietnam War in the offshore area delineated by H.R. 299. Thus, CBO estimates that about 95,000 are already eligible for a presumption of exposure to Agent Orange. The remaining 95,000 personnel are not currently eligible for that presumption. Under H.R. 299, those additional veterans would be presumed to have been exposed to the herbicide and would be eligible for increased disability compensation if they have one of the conditions VA has determined to be related to that exposure.

CBO estimates that about 60 percent, or 54,000, of the 95,000 offshore personnel are still living. VA reports that 52 percent of veterans who served in the Vietnam theater of operations have service-connected disabilities (SCD). Thus, about 28,000 of those Blue Water Navy veterans who are living already have a disability rating. CBO estimates roughly 45 percent of those veterans have a disease that VA considers to be caused by exposure to Agent Orange. On that basis, CBO expects that about 12,700 veterans would have their current disability ratings raised; as a result, their disability compensation would increase by about \$8,000 per veteran in 2019. After accounting for cost-of-living adjustments, CBO estimates that disability compensation for veterans with existing SCDs would increase by \$965 million over the 2019-2028 period. (See Table 3.)

The remaining 26,000 living Blue Water Navy veterans would be newly eligible to have disabilities considered service-connected as a result of exposure to Agent Orange. CBO expects that half of the 11,700 newly eligible veterans with diseases related to Agent Orange exposure (roughly 5,800 people) would apply to VA for a disability rating throughout the 2019-2023 period. New disability payments would average \$8,200 in 2019. Those additional payments would total \$410 million over the 2019-2028 period.

Survivors of veterans who die as a result of a SCD are eligible to receive dependency and indemnity compensation (DIC). Because more veterans would be designated as having SCDs, additional survivors would receive DIC payments. Survivors of Blue Water Navy veterans who died before the date of enactment of the legislation also would be eligible for DIC benefits if the veteran had previously applied for disability compensation because of exposure to Agent Orange. On the basis of information about the number of DIC beneficiaries per veteran, CBO estimates that enacting the bill would result in roughly 1,500 additional DIC beneficiaries who would receive an average of about \$19,000 in compensation annually.¹ New DIC payments would total \$290 million over the 2020-2028 period, CBO estimates.

Section 2 also would authorize retroactive payments to Blue Water Navy veterans who have previously been denied a claim for a condition that is presumed to be caused by exposure to Agent Orange. On the basis of

1. The estimate for H.R. 299 as ordered reported by the House Veterans' Affairs Committee did not include a significant portion of the population of new DIC beneficiaries. That omission has been corrected in this estimate. Approximately half of the \$280 million difference in DIC costs between that estimate and this revised estimate arises from correcting that error.

information from VA about the number of veterans and survivors denied a SCD rating for Agent Orange exposure, CBO estimates that about 14,500 veterans would receive retroactive payments under the provision. Those retroactive benefits would be paid in a lump sum for the amount of disability compensation due to the veteran or survivor for the period between when they first applied for compensation and the date on which the SCD rating is approved. Using information from VA on the amount of retroactive payments made to veterans and survivors when new presumptive conditions have been added to the list of those connected to Agent Orange exposure, CBO estimates average payments would be about \$59,000 per individual.² Retroactive payments would be made in 2019 and 2020, and would total about \$855 million, CBO estimates.

Other Direct Spending

Other provisions of H.R. 299 would decrease direct spending by \$1.3 billion over the 2019-2028 period, CBO estimates. Most significantly, section 6 would temporarily increase the fees that VA charges veterans for providing loan guarantees under its home loan program. CBO estimated that similar provisions in the bill that was ordered reported by the House Committee on Veterans' Affairs would decrease direct spending by almost \$1.2 billion over 10 years. The difference in those estimates primarily arises from the difference in the period during which those changes to the loan fees would apply. Estimates are unchanged for other provisions of the bill that would affect direct spending for compensation to Korean War veterans and children of certain veterans who were born with spina bifida.

Spending Subject to Appropriation

CBO estimates that costs for health care and disability claims processing would increase by \$294 million over the 2019-2023 period, assuming appropriation of the estimated amounts. (See Table 4.) That amount is \$158 million greater than the estimate for the ordered reported bill. Of that increase, \$76 million arises from an increase in the number of people who would receive health care from VA. The remaining \$82 million stems from additional costs to process disability claims.

2. CBO previously estimated that retroactive payments would average about \$68,000 per veteran.

Discretionary Spending for Veterans' Health Care

Section 2 would increase the disability ratings of some Blue Water Navy veterans. Additionally, such veterans who are not determined to have a disability connected to exposure to Agent Orange would become eligible to receive a higher priority for care or become newly eligible for care in the VA health care system under the act. As a result, some of those veterans and certain dependents would receive additional health care benefits from VA. In total, CBO estimates that under section 2, spending for VA health care would increase by \$208 million over the 2019-2023 period, assuming appropriation of the necessary amounts.

Veterans whose service-connected disability rating is 50 percent or greater are charged lower copayments for VA medical care than those with a lesser rated disability or no service-connected disability. CBO expects that the reduction in expenses would lead veterans to use more VA-funded medical care and to increase the portion of their medical care that is paid for by VA. Additionally, VA prioritizes the medical treatment of disabilities that are service-connected. Thus, CBO expects that veterans who receive a new or increased SCD rating as a result of presumed exposure to Agent Orange would receive more VA-funded care than if the disability was not connected to their service.

On the basis of data regarding participation rates in the VA health care system, CBO estimates that under the bill about 17,200 veterans who are already enrolled in the VA health care system would be included in a higher priority group over the next five years. Those veterans would receive an average of about \$2,000 in additional care each year.³ In total, health care costs for existing enrollees would increase by about \$110 million over the 2019-2023 period, CBO estimates.

In addition, CBO expects that about 5,400 veterans would enroll in the VA health care system over the next five years as a result of new eligibility or heightened priority for health care. On the basis of health care costs for current enrollees, CBO estimates that those veterans would receive an average of \$4,600 in health care from VA each year. Over the 2019-2023 period, CBO estimates that increases in health care costs for new enrollees would total \$83 million.

3. CBO previously estimated that such veterans would receive an average of \$2,600 more in VA-funded health care each year.

DIC recipients are eligible for health care through the Civilian Health and Medical Program of the Department of Veterans Affairs (CHAMPVA), an insurance program paid for by VA. CBO estimates that 1,100 new DIC beneficiaries would use the CHAMPVA benefits at an average cost of \$4,400 in each year. CBO estimates that payments for those beneficiaries would total \$17 million over the 2019-2023 period.

Other Discretionary Spending

CBO anticipates that more veterans would file new or revised claims for disability compensation as a result of H.R. 299. Additionally, VA would be required to review claims it had previously denied because the veterans had not served in areas where they would be presumed to have been exposed to Agent Orange. CBO expects VA would take certain steps to avoid an increase in the backlog of disability claims that would result from those new and revised claims. On the basis of information about the current workload of claims processors, CBO estimates that VA would hire 450 more people in 2019 to handle the initial influx of claims. That number of additional personnel needed would fall to about 10 by 2023. In addition, CBO expects VA would purchase additional computers and other resources for those new processors. In total, personnel and other resources would cost \$82 million over the 2019-2023 period, assuming appropriation of the necessary amounts.

Section 4 would provide additional health care and other benefits for children of veterans who served in Thailand if they were born with spina bifida. The estimated cost of \$4 million over the 2019-2023 period is unchanged from CBO's previous estimate.

Uncertainty

The cost of the bill would change if the number of veterans who would be newly eligible for a presumption of exposure to Agent Orange differs from the population used for this estimate. To illustrate that uncertainty, CBO has estimated the budgetary effects of section 2 under two scenarios. In the first scenario, 25 percent (47,500 veterans) of Blue Water Navy veterans would be newly eligible under the legislation. In the second scenario, 75 percent (142,500 veterans) of those veterans would be newly eligible.

In the first scenario, direct spending would increase by \$1,260 million over the 2019-2028 period and discretionary costs would increase by \$149 million over the 2019-2023 period. In the second scenario, direct

Honorable Mike Enzi

Page 8

spending would increase by \$3,782 million, and discretionary costs would rise by \$440 million over the same time periods. (See Table 5.)

Other inputs, such as the number of Blue Water Navy veterans who already have a SCD rating, could vary. Changes in those inputs also would affect the cost estimate but to a much smaller degree than the amounts described in the two scenarios above.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Logan Smith.

Sincerely,

A handwritten signature in black ink, appearing to read "Keith Hall".

Keith Hall
Director

Attachment

cc: Honorable Bernie Sanders
Ranking Member

TABLE 1. ESTIMATED BUDGETARY EFFECTS OF H.R. 299, THE BLUE WATER NAVY VIETNAM VETERANS ACT OF 2018, AS PASSED BY THE HOUSE OF REPRESENTATIVES ON JUNE 25, 2018

| | By Fiscal Year, in Millions of Dollars | | | | | | | | | | | 2019- | 2019- | |
|---|--|------|------|------|------|------|------|------|------|------|------|-------|-------|--|
| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2023 | 2028 | | |
| INCREASES OR DECREASES (-) IN DIRECT SPENDING | | | | | | | | | | | | | | |
| Estimated Budget Authority | 375 | 299 | -10 | 19 | 46 | 71 | 71 | 69 | 70 | 180 | 731 | 1,193 | | |
| Estimated Outlays | 375 | 299 | -10 | 19 | 46 | 71 | 71 | 69 | 70 | 180 | 731 | 1,193 | | |
| INCREASES IN SPENDING SUBJECT TO APPROPRIATION | | | | | | | | | | | | | | |
| Estimated Authorization Level | 65 | 54 | 58 | 62 | 68 | 69 | 71 | 74 | 77 | 79 | 307 | 677 | | |
| Estimated Outlays | 63 | 51 | 54 | 60 | 66 | 68 | 70 | 73 | 76 | 78 | 294 | 659 | | |

Provisions of H.R. 299 would take effect on January 1, 2019. Details may not add to totals because of rounding.

TABLE 2. ESTIMATE OF THE EFFECTS ON DIRECT SPENDING OF H.R. 299, AS PASSED BY THE HOUSE OF REPRESENTATIVES ON JUNE 25, 2018

| | By Fiscal Year, in Millions of Dollars | | | | | | | | | | | 2019- | 2019- | |
|--|--|------|------|------|------|------|------|------|------|------|-------|--------|-------|--|
| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2023 | 2028 | | |
| INCREASES OR DECREASES (-) IN DIRECT SPENDING | | | | | | | | | | | | | | |
| Blue Water Navy Veterans^a | | | | | | | | | | | | | | |
| Estimated Budget Authority | 530 | 489 | 164 | 176 | 185 | 190 | 193 | 195 | 198 | 200 | 1,544 | 2,520 | | |
| Estimated Outlays | 530 | 489 | 164 | 176 | 185 | 190 | 193 | 195 | 198 | 200 | 1,544 | 2,520 | | |
| Korean War DMZ Veterans | | | | | | | | | | | | | | |
| Estimated Budget Authority | * | * | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 3 | 8 | |
| Estimated Outlays | * | * | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 3 | 8 | |
| Spina Bifida | | | | | | | | | | | | | | |
| Estimated Budget Authority | * | * | * | * | * | * | * | * | * | * | * | 2 | 3 | |
| Estimated Outlays | * | * | * | * | * | * | * | * | * | * | * | 2 | 3 | |
| Loan Guarantee Fees^b | | | | | | | | | | | | | | |
| Estimated Budget Authority | -155 | -191 | -176 | -159 | -141 | -121 | -124 | -128 | -130 | -22 | -822 | -1,347 | | |
| Estimated Outlays | -155 | -191 | -176 | -159 | -141 | -121 | -124 | -128 | -130 | -22 | -822 | -1,347 | | |
| Home Loan Appraisals | | | | | | | | | | | | | | |
| Estimated Budget Authority | * | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 4 | 9 | |
| Estimated Outlays | * | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 4 | 9 | |
| Total Changes in Direct Spending | | | | | | | | | | | | | | |
| Estimated Budget Authority | 375 | 299 | -10 | 19 | 46 | 71 | 71 | 69 | 70 | 180 | 731 | 1,193 | | |
| Estimated Outlays | 375 | 299 | -10 | 19 | 46 | 71 | 71 | 69 | 70 | 180 | 731 | 1,193 | | |

The provisions of H.R. 299 would take effect on January 1, 2019.

Details do not add to totals because of rounding; * = less than \$500,000; DMZ = Demilitarized Zone.

- a. Provisions affecting disability compensation were amended prior to enactment in the House of Representatives. This estimate includes the effects of those changes. It also incorporates new information CBO has received since the enactment of the legislation.
- b. Provisions affecting the VA loan guarantee program were amended prior to enactment in the House of Representatives. This estimate includes the effects of those changes.

**TABLE 3. SUMMARY OF DIRECT SPENDING FOR BLUE WATER NAVY VETERANS OVER
THE 2019-2028 PERIOD**

| | <u>Outlays, in Millions of Dollars</u> |
|--|--|
| Payments for Veterans with Existing Disability Ratings | 965 |
| Payments for Veterans with New Disability Ratings | 410 |
| Payments for Disability Indemnity Compensation | 290 |
| Retroactive Payments to Veterans and Survivors | <u>855</u> |
| Total Payments | 2,520 |

Provisions of H.R. 299 would take effect on January 1, 2019. Details may not add to totals because of rounding.

TABLE 4. ESTIMATE OF THE EFFECTS ON SPENDING SUBJECT TO APPROPRIATION OF H.R. 299, AS PASSED BY THE HOUSE OF REPRESENTATIVES ON JUNE 25, 2018

| | By Fiscal Year, in Millions of Dollars | | | | | 2019- 2023 |
|---|--|------|------|------|------|---------------|
| | 2019 | 2020 | 2021 | 2022 | 2023 | |
| INCREASES IN SPENDING SUBJECT TO APPROPRIATION | | | | | | |
| Health Care for Veterans | | | | | | |
| Estimated Authorization Level | 13 | 31 | 53 | 59 | 65 | 221 |
| Estimated Outlays | 11 | 28 | 49 | 57 | 63 | 208 |
| Claims Processing | | | | | | |
| Estimated Authorization Level | 52 | 22 | 4 | 2 | 2 | 82 |
| Estimated Outlays | 52 | 22 | 4 | 2 | 2 | 82 |
| Spina Bifida | | | | | | |
| Estimated Authorization Level | * | 1 | 1 | 1 | 1 | 4 |
| Estimated Outlays | * | 1 | 1 | 1 | 1 | 4 |
| Total Changes in Spending Subject to Appropriation | | | | | | |
| Estimated Authorization Level | 65 | 54 | 58 | 62 | 68 | 307 |
| Estimated Outlays | 63 | 51 | 54 | 60 | 66 | 294 |

Provisions of H.R. 299 would take effect on January 1, 2019.

* = less than \$500,000.

TABLE 5. EFFECTS OF UNCERTAINTY ON DIRECT SPENDING AND SPENDING SUBJECT TO APPROPRIATION IN SECTION 2 OF H.R. 299

| Increases in Direct Spending Over the 2019-2028 Period (Estimated Outlays, in Millions of Dollars) | |
|---|-------|
| 25 Percent Newly Eligible | 1,260 |
| 50 Percent Newly Eligible (Scenario Used) | 2,520 |
| 75 Percent Newly Eligible | 3,782 |

| Increases in Spending Subject to Appropriation Over the 2019-2023 Period (Estimated Outlays, in Millions of Dollars) | |
|---|-----|
| 25 Percent Newly Eligible | 149 |
| 50 Percent Newly Eligible (Scenario Used) | 294 |
| 75 Percent Newly Eligible | 440 |

Provisions of H.R. 299 would take effect on January 1, 2019.
