CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

August 3, 2017

S. 1519
National Defense Authorization Act for Fiscal Year 2018

As reported by the Senate Committee on Armed Services on July 10, 2017

SUMMARY

S. 1519 would authorize appropriations totaling an estimated $693 billion for the military functions of the Department of Defense (DoD), for certain activities of the Department of Energy, and for other purposes. In addition, the bill 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 $672 billion over the 2018-2022 period.

If the total amount authorized for 2018 was appropriated, $632.1 billion would count against that year's defense cap set in the Budget Control Act (BCA), as amended; $0.2 billion would count against the nondefense cap for 2018; and $60.2 billion designated for overseas contingency operations would not be constrained by caps.

The bill also contains provisions that would affect the costs of defense programs funded through discretionary appropriations in 2019 and future years. Those provisions mainly would affect force structure, compensation and benefits, the military health system, and various procurement programs. CBO has analyzed the costs of a select number of those provisions and estimates that they would, on a net basis, increase the cost of those programs relative to current law by about $62 billion over the 2019-2022 period. The net costs of those provisions in 2019 and beyond are not included in the total amount of outlays mentioned above because funding for those activities would be covered by specific authorizations in future years.

In addition, CBO estimates that enacting S. 1519 would increase direct spending by $621 million over the 2018-2027 period. That change would comprise a net increase in on-budget direct spending of $526 million and increase in off-budget direct spending of $95 million over that same period. Enacting the bill would have an insignificant effect on revenues. Because enacting S. 1519 would affect direct spending and revenues, pay-as-you-go procedures apply.

CBO estimates that enacting S. 1519 would not increase net direct spending or on-budget deficits by more than $5 billion in any of the four consecutive 10-year periods beginning in 2028.

S. 1519 contains intergovernmental and private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA). CBO estimates that the aggregate cost of the mandates would fall below the annual thresholds established in UMRA for intergovernmental and private-sector mandates ($78 million and $156 million respectively in 2017, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary effects of S. 1519 are shown in Table 1. Almost all of the $693 billion authorized by the bill would be for activities within budget function 050 (national defense).

Some authorizations, however, fall within other budget functions, including, in 2018, $116 million for a medical facility demonstration fund in function 700 (veterans benefits and services); $64 million for the Armed Forces Retirement Home in function 600 (income security); and $7 million for the Centers for Disease Control and Prevention in function 550 (health).

The budgetary effects of provisions that would affect direct spending fall in budget functions 050 (national defense), 550 (health), 600 (income security), 700 (veterans benefits and services, and 800 (general government).

BASIS OF ESTIMATE

For this estimate, CBO assumes that S. 1519 will be enacted near the start of fiscal year 2018 and that the authorized and estimated amounts will be appropriated near the beginning of each fiscal year.

TABLE 1. BUDGETARY EFFECTS OF S. 1519, THE NATIONAL DEFENSE AUTHORIZATION ACT FOR FISCAL YEAR 2018

	By Fiscal Year, in Millions of Dollars					
	2018	2019	2020	2021	2022	2018-2022
INCREASES IN SPENDING SUBJECT TO APPROPRIATION						
Authorization Levels for Appropriations Subject to the BCA Caps						
Defense						
Specified Authorizations for the Departments of Defense and Energy						
Authorization Level[a]	631,793	0	0	0	0	631,793
Estimated Outlays	369,152	147,993	56,908	27,197	11,547	612,797
Estimated Authorization for Additional Accrual Payments[b]						
Estimated Authorization Level	325	0	0	0	0	325
Estimated Outlays	325	0	0	0	0	325
Nondefense						
Estimated Authorizations for Other Departments and Agencies[a,c]						
Authorization Level	187	0	0	0	0	187
Estimated Outlays	147	29	3	1	0	180
Estimated Authorizations for Departments and Agencies[d]						
Estimated Authorization Level	20	31	21	23	23	118
Estimated Outlays	20	30	22	23	23	118
Subtotal						
Estimated Authorization Level	632,325	31	21	23	23	632,423
Estimated Outlays	369,644	148,052	56,933	27,221	11,570	613,420
Specified Authorizations for Defense Appropriations not Subject to the BCA Caps						
Authorization Level[a,e]	60,218	0	0	0	0	60,218
Estimated Outlays	35,809	15,409	5,209	1,673	618	58,718
Total						
Estimated Authorization Level	692,543	31	21	23	23	692,641
Estimated Outlays	405,453	163,461	62,142	28,894	12,188	672,138
INCREASES OR DECREASES (-) IN DIRECT SPENDING						
Estimated Budget Authority	-22	85	63	10	-48	90
Estimated Outlays	-8	108	71	22	-36	159
On-budget	*-8*	*107*	*64*	*13*	*-46*	*132*
Off-budget[f]	*0*	*1*	*7*	*9*	*10*	*27*

(Continued)

TABLE 1. CONTINUED

Notes: Except as discussed in footnotes b and d below, the authorization levels in this table reflect amounts that would be specifically authorized by the bill (as reflected in Table 2). Some provisions in the bill also would affect the costs of defense programs in 2019 and future years; estimates for a select number of those provisions are shown in Table 3, but are not included above because specified authorizations in future NDAAs would reflect funding for those activities.

Numbers may not add to totals because of rounding; BCA = Budget Control Act; MERHCF = Medicare-Eligible Retirement Health Care Fund; NDAA = National Defense Authorization Act.

Enactment of S. 1519 would have an insignificant effect on revenues.

a. Amounts that would be specifically authorized by the bill.

b. CBO's estimate of the added cost of certain accrual payments to the MERHCF required under current law but not fully reflected in the amounts specifically authorized by sections 421 and 1505 of the bill.

c. Authorizations for the Department of Veterans Affairs ($116 million), the Armed Forces Retirement Home ($64 million), and the Centers for Disease Control and Prevention ($7 million).

d. Most of these authorizations reflect costs to various federal departments that would continue to provide services to the Republic of Palau under section 1263, which would amend and approve the agreement signed between the United States and Palau on September 3, 2010, in connection with the Compact of Free Association between the two nations. In addition, an estimated authorization of $10 million in 2019 reflects the cost of extending certain benefits, in section 1113, to federal civilian workers who perform official duties in a combat zone and are employed by departments and agencies other than the Department of Defense.

e. Authorizations of appropriations that would be designated for Overseas Contingency Operations.

f. Changes in health care contributions by the Postal Service are classified as off-budget.

Spending Subject to Appropriation

For 2018, the bill would authorize an estimated $692.5 billion, primarily for defense programs. Nearly all of that amount ($692.2 billion) would be specifically authorized by the bill (see Table 2). The remaining $0.3 billion largely reflects CBO's estimate of the amount not specifically authorized by the bill that would be necessary to fund certain accrual payments required under current law.

Under S. 1519, $631.8 billion specifically authorized for defense programs would, if appropriated, be subject to the 2018 BCA cap for defense. Another $60.2 billion specifically authorized for DoD—for costs related to overseas contingency operations—would not be subject to that cap. For nondefense programs, the bill would specifically authorize $0.2 billion for several departments and agencies.

TABLE 2. SPECIFIED AUTHORIZATIONS OF APPROPRIATIONS IN S. 1519

	By Fiscal Year, in Millions of Dollars					
	2018	2019	2020	2021	2022	2018-2022
Specified Authorization Levels for Appropriations Subject to the BCA Caps						
Defense						
Department of Defense						
Military Personnel[a]						
Authorization Level	141,547	0	0	0	0	141,547
Estimated Outlays	131,589	8,058	181	37	0	139,865
Operation and Maintenance						
Authorization Level	229,583	0	0	0	0	229,583
Estimated Outlays	152,713	54,919	11,897	3,364	1,308	224,201
Procurement						
Authorization Level	141,279	0	0	0	0	141,279
Estimated Outlays	26,166	43,926	34,261	18,909	8,391	131,653
Research and Development						
Authorization Level	86,032	0	0	0	0	86,032
Estimated Outlays	42,171	32,513	6,372	3,040	931	85,027
Military Construction and Family Housing						
Authorization Level	10,160	0	0	0	0	10,160
Estimated Outlays	824	2,330	2,939	1,849	919	8,861
Revolving Funds						
Authorization Level	2,153	0	0	0	0	2,153
Estimated Outlays	1,765	320	43	15	8	2,151
General Transfer Authority						
Authorization Level	0	0	0	0	0	0
Estimated Outlays	100	-40	-30	-20	-10	0
Subtotal, Department of Defense						
Authorization Level	610,754	0	0	0	0	610,754
Estimated Outlays	355,328	142,026	55,663	27,194	11,547	591,758
Atomic Energy Defense Activities						
Authorization Level[b]	21,039	0	0	0	0	21,039
Estimated Outlays	13,824	5,967	1,245	3	0	21,039
Subtotal, Defense						
Authorization Level	631,793	0	0	0	0	631,793
Estimated Outlays	369,152	148,993	56,908	27,197	11,547	612,797

(Continued)

TABLE 2. CONTINUED

	By Fiscal Year, in Millions of Dollars					
	2018	2019	2020	2021	2022	2018-2022
Nondefense						
Authorizations for Various Departments and Agencies						
Authorization Level[c]	187	0	0	0	0	187
Estimated Outlays	147	29	3	1	0	180
Subtotal (subject to caps)						
Authorization Level	631,980	0	0	0	0	631,980
Estimated Outlays	369,299	148,022	56,911	27,198	11,547	612,977
Specified Authorization Levels for Defense Appropriations not Subject to the BCA Caps[d]						
Military Personnel[a]						
Authorization Level	4,062	0	0	0	0	4,062
Estimated Outlays	3,760	245	5	1	0	4,011
Operation and Maintenance						
Authorization Level	46,789	0	0	0	0	46,789
Estimated Outlays	28,834	12,143	3,263	926	374	45,540
Procurement						
Authorization Level	8,390	0	0	0	0	8,390
Estimated Outlays	2,766	2,694	1,801	692	223	8,176
Research and Development						
Authorization Level	547	0	0	0	0	547
Estimated Outlays	285	240	49	21	6	601
Military Construction						
Authorization Level	331	0	0	0	0	331
Estimated Outlays	7	102	109	50	24	292
Working Capital Funds						
Authorization Level	99	0	0	0	0	99
Estimated Outlays	69	20	8	1	0	98
Special Transfer Authority						
Authorization Level	0	0	0	0	0	0
Estimated Outlays	88	-35	-26	-18	-9	0
Subtotal (not subject to caps)						
Authorization Level	60,218	0	0	0	0	60,218
Estimated Outlays	35,809	15,409	5,209	1,673	618	58,718
Total Specified Authorizations						
Authorization Level	692,198	0	0	0	0	692,198
Estimated Outlays	405,108	163,431	62,120	28,871	12,165	671,695

(Continued)

TABLE 2. CONTINUED

Notes: This table reflects the authorizations of appropriations explicitly stated in the bill in specified amounts. Various provisions of the bill also would authorize activities and provide authorities that would affect costs in 2019 and in future years. Because the bill would not specifically authorize appropriations to cover those costs, they are not reflected in this table. Rather, Table 3 contains the estimated costs of some of those provisions.

Numbers may not add up to totals because of rounding; BCA = Budget Control Act.

a. The authorizations of appropriations for military personnel in sections 421 and 1505 include $7,820 million for accrual payments to the Medicare-Eligible Retiree Health Care Fund. CBO estimates, however, that amount understates—by $325 million—the amount required for those payments; thus $325 million has been added to the estimated cost of the bill, as reflected in Table 1.

b. These amounts would be primarily for atomic energy defense activities of the Department of Energy.

c. Authorizations include $116 billion for the Department of Veterans Affairs, $64 billion for the Armed Forces Retirement Home, and $7 billion for the Centers for Disease Control and Prevention

d. Under S. 1519, funding provided for 2018 pursuant to the authorizations in titles XV and XXIX would not be subject to the BCA cap on defense appropriations for that year because it would be designated for overseas contingency operations.

The total amount that would be specifically authorized for defense programs is an increase of $66.3 billion (or 11 percent) compared to amounts appropriated for 2017. Procurement would receive the largest increase ($26.1 billion, or 21 percent), followed by operation and maintenance ($16.7 billion, or 6 percent), research and development ($13.5 billion, or 19 percent), military personnel ($6.1 billion, or 4 percent), and military construction and family housing ($2.3 billion, or 29 percent). Authorized funding for all other categories combined would increase by $1.5 billion (or 6 percent).

S. 1519 also contains provisions that would affect the cost of various discretionary programs in future years. Most of those provisions would affect end strength (the size of the military forces at the end of a fiscal year), military compensation and benefits, the military health system, and authorities related to the acquisition of weapons systems. 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.

Force Structure. The bill would affect the force structure of the various military services by setting end-strength levels for 2018.

Under title IV, the authorized end strengths in 2018 for active-duty personnel and personnel in the selected reserves would total 1,320,000 and 823,900, respectively. Of those selected reservists, 78,626 would serve on active duty in support of the reserves. In total, active-duty end strength would increase by 14,100 and selected-reserve end strength would increase by 3,700 when compared with levels authorized under current law for 2018. The specified end-strength levels for each component of the armed forces are detailed below with CBO's estimates of the effects of those changes on DoD's personnel and operation and maintenance costs.

TABLE 3. ESTIMATED COSTS FOR SELECTED PROVISIONS IN S. 1519

	By Fiscal Year, in Millions of Dollars					
	2018	2019	2020	2021	2022	2018-2022
FORCE STRUCTURE						
Active-Duty End Strengths	1,161	2,000	2,037	2,094	2,152	9,444
Selected-Reserve End Strengths	209	423	435	448	461	1,976
COMPENSATION AND BENEFITS						
Lower Pay Raise	-207	-283	-291	-302	-311	-1,394
Housing Allowance for Dual Military Couples	-10	-30	-52	-63	-66	-221
Expiring Bonuses and Allowances	1,510	842	346	265	104	3,067
Separate Moves for Military Families	0	20	21	22	22	85
Civilian Benefits in a Combat Zone[a]	0	45	0	0	0	45
MILITARY HEALTH SYSTEM						
TRICARE Cost Sharing						
Defense Health Program	0	-850	-1,120	-1,010	-1,000	-3,980
Other Agencies	0	80	110	100	100	390
TRICARE Pharmacy Benefit						
Defense Health Program	-68	-121	-141	-176	-211	-717
Accrual Payments to MERHCF	0	-500	-500	-500	-600	-2,100
TRICARE Reserve Select	-8	-42	-87	-119	-136	-392
TRICARE Advantage Demonstration	5	10	20	20	20	75
Contraception Cost Sharing	0	12	13	14	14	53
OTHER PROVISIONS						
Multiyear Procurement Contracts						
Virginia Class Submarines	2,864	7,180	8,870	7,430	7,880	34,224
Arleigh Burke Destroyers	5,538	6,190	6,020	5,830	5,660	29,238
V-22 Osprey Aircraft	473	631	653	796	929	3,482
Amphibious Ship (LPD-30) Construction	1,000	786	0	0	0	1,786

Notes: Amounts shown in this table for 2018 are included in the amounts that would be specifically authorized to be appropriated by the bill (as reflected in Table 2 and summarized in Table 1). Amounts shown in this table for 2019-2022 would not be specifically authorized by the bill (and therefore are not reflected in Tables 1 and 2); rather, nearly all of those amounts would be covered by specified authorizations in future National Defense Authorization Acts.

Numbers may not add to totals because of rounding.

a. This provision also would increase costs in 2019 for departments and agencies other than the Department of Defense by an estimated $10 million. Those costs are included in Table 1 under “Estimated Authorizations for Other Departments and Agencies.”

Active-Duty End Strengths. Compared with end strengths authorized under current law for 2018, section 401 would authorize increases in active-duty personnel for all four services: 5,000 more for the Army, 4,100 more for the Air Force, 4,000 more for the Navy, and 1,000 more for the Marine Corps. CBO estimates that the net growth in active-duty personnel of 14,100 service members would cost $9.4 billion over the 2018 -2022 period, assuming appropriations are increased by that amount.

Selected-Reserve End Strengths. Sections 411 and 412 would authorize the end strengths for reserve components, including those who serve on active duty in support of the reserves. Under this bill, five of the six reserve components would experience increases in end strength: 1,000 more for the Navy Reserve, 900 more for the Air Guard, 800 more for the Air Force Reserve, 500 more for the Army Guard, and 500 more for the Army Reserve. End strength for the Marine Corps Reserve would stay the same. As part of those changes, the number of full-time reservists who serve on active duty in support of the reserves would grow by 2,275 compared with current authorized end-strength levels for 2018. CBO estimates that, on net, implementing those provisions would increase costs for selected reservists by $2.0 billion over the 2018-2022 period.

Compensation and Benefits. S. 1519 contains several provisions that would affect compensation and benefits for uniformed personnel and civilian employees of DoD. The bill would specifically authorize regular appropriations of $141.5 billion for the costs of military pay and allowances in 2018. For related costs resulting from overseas contingency operations (primarily in Afghanistan), the bill would authorize appropriation of an additional $4.1 billion for 2018.

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, 2018. Under current law, the across-the-board increase will be 2.4 percent, and CBO estimates the increase will cost about $1.4 billion in 2018 and $9.8 billion over the 2018-2022 period. This section would reduce that pay increase by 0.3 percentage points, to 2.1 percent. CBO estimates that such a change would reduce the cost of the pay raise by $207 million in 2018 and by $1.4 billion over the 2018-2022 period.

Housing Allowance for Dual Military Couples. Section 603 would reduce the housing allowance paid to certain service members who are married to other service members—dual military couples. Under current law, dual military couples with children receive two housing allowance payments—one payment at the with-dependents rate and one payment at the without-dependents rate. Within the United States, housing allowances are calculated based on the cost of housing at each duty location, and are higher for members in higher pay grades and for those with dependents. Section 603 would prohibit dual military couples with children who are assigned duty in the same area from receiving the higher housing allowance at the with-dependents rate. Under section 603, those dual military couples would earn two housing allowances at the lower without-dependents rate.

This change also would affect couples living outside the United States by lowering the maximum amount of the overseas housing allowance that certain dual military couples could receive.

Based on information from DoD, CBO estimates that of the roughly 16,500 dual military couples with dependents as of May 2017, about 11,000 are assigned duty in the same area; those couples would receive about $400 less in monthly housing allowance payments under this provision. That reduction in housing allowance would apply to dual military couples after a move to a new duty location (CBO estimates that about one-third of service members move each year.) On that basis, CBO estimates that implementing section 603 would reduce spending on housing allowances by $221 million over the 2018-2022 period.

Expiring Bonuses and Allowances. Sections 611 through 615 would extend for another year DoD's authority to enter into agreements to pay certain bonuses and allowances to military personnel. This authority is currently scheduled to expire on December 31, 2017. Some bonuses are paid in 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 2018, CBO estimates that extending that authority for one year would cost $3.1 billion over the 2018-2022 period.

Separate Moves for Military Families. Section 556 would authorize higher housing allowances for certain service members during a relocation period that would cover the six months preceding and following the date that a member is ordered to report to a new duty station. During that period, members whose families move before or after the member's reporting date would, for up to six monthis, receive the basic allowance for housing (BAH) for whichever military housing area would be higher—the BAH rate for the prior duty location or the rate for the new duty location—for the period that the family would live separately. Members would be eligible for this benefit if the separate moves assisted the family in matters related to schooling, employment, or health care, starting in fiscal year 2019. Based on analysis of information from DoD, CBO estimates that about 13,000 families a year would receive an incremental BAH payment of roughly $500 a month for three months. On that basis, CBO estimates that providing the higher BAH to those service members would cost $85 million over the 2019-2022 period.

Civilian Benefits in a Combat Zone. Section 1113 would extend for one year the authority to grant certain benefits to federal civilian employees who perform official duty in a combat zone. Those benefits, which expire under current law on September 30, 2018, include death gratuities, paid leave and travel for one trip home, and up to three leave periods per year for rest and recuperation. Based on information from DoD and the Office of Personnel Management, CBO estimates that about 2,400 civilian employees of DoD and 500 employees of other federal agencies will work in a designated combat zone in 2019 and, under this provision, would receive an average benefit that would cost about $18,900 a year. Thus, CBO estimates that in 2019, section 1113 would increase the costs of civilian employees of DoD by $45 million and of other federal employees by $10 million.

Military Health System. Title VII of S. 1519 would make several changes to health benefits for both active and retired military personnel and their families. In general, those changes would increase out-of-pocket costs for some TRICARE beneficiaries, allow additional reserve members to enroll in TRICARE Reserve Select, provide additional health plan options for some Medicare-eligible beneficiaries, and lower the out-of-pocket costs for contraception. In total, CBO estimates that if enacted, those provisions would lower government health care costs by about $6.7 billion over the 2018-2022 period (including lower intragovernmental accrual payments). Many of those provisions also would affect direct spending for health care. Those effects are discussed below under the heading "Direct Spending."

TRICARE Cost Sharing. The National Defense Authorization Act for Fiscal Year 2017 (Public Law 114-328) made several changes to the TRICARE health benefit, including higher annual enrollment fees and co-payments for the households of military retirees.[1] However, those higher out-of-pocket costs will apply only to those retirees who first join the armed forces beginning in 2018; with few exceptions, the higher cost sharing amounts will not occur until the year 2038 or later, when that cohort would begin to retire. Section 707 would amend the law so that the higher enrollment fees and copayments would apply to most new and existing retirees beginning in 2019; the only exception would be those who retired because of disability and certain survivors. Out-of-pocket costs for those households would remain unchanged.[2]

The changes from this section would affect retiree households enrolled in both the TRICARE Prime and TRICARE Select health plans. Currently, about 600,000 retiree households rely on TRICARE Prime as the primary payer for their health care. Of those households, about 200,000 retirees enroll only themselves, and about 400,000 enroll both themselves and their family members. Under current law, CBO estimates that the average out-of-pocket costs for those who enroll only themselves in Prime will be about $530 in

1. TRICARE is the health benefits plan for members and retirees of the armed forces and their dependents. TRICARE benefits are provided through several different plans, of which the most popular are TRICARE Prime—a health maintenance organization—and TRICARE Select—a fee-for-service plan where beneficiaries can manage their own care but pay less out-of-pocket if they use providers that are in the TRICARE network. DoD also has separate benefit plans for members and former members of the Selected Reserve and for retirees, survivors, and their family members who are eligible for Medicare.

2. The language of section 707 sets an effective date of January 1, 2018, but after consulting with DoD, CBO assumes this legislation would not be enacted in time to affect the fees and enrollments for calendar year 2018.

2019 and the average out-of-pocket costs for those who enroll both themselves and their family members will be about $1,270.[3] Under the proposed changes, CBO estimates those costs would increase to about $670 and $1,615, respectively.

Out-of-pocket costs also would increase for those retiree households who currently use TRICARE Select—about 450,000 households. Under current law, CBO estimates that the average out-of-pocket costs for those who use TRICARE Select only for themselves will be about $580 in 2019 and the average out-of-pocket costs for those whose family members also rely on TRICARE Select will be about $1,685. By applying the new fees to all retirees, those costs would increase to about $1,105 and $2,655 per year, respectively.

The higher out-of-pocket costs that retiree households would face would have several effects. First, because DoD would be allowed to collect and spend the higher enrollment fees without further appropriation, CBO estimates the higher fees would reduce the amount of annual appropriations needed for the Defense Health Program. The change to copayments also would affect the cost of the overall TRICARE benefit. Most directly, higher copayments would result in TRICARE paying a lower amount for each provider claim than is currently the case. In addition, studies have shown that an increase in cost sharing leads to a decrease in the usage of health care.[4]

Higher cost sharing also would cause some retiree households to stop using TRICARE altogether. Many younger military retirees start second careers after they leave the uniformed services and have other options for health insurance. We estimate that by 2021 about 30,000 retiree households would stop using TRICARE because of this proposal. While not large relative to the entire retiree population, their exit from the TRICARE program would result in significant savings for the federal government. CBO estimates that under current law, the weighted average cost to DoD of a typical retiree household enrolled in TRICARE Prime or Select as a "family" in 2019, and for whom TRICARE is their primary payer of health benefits, will total about $19,300. However, some of those who stop using TRICARE as the primary payer for their health care would migrate to other government-funded health care and those costs would partially offset the savings to DoD. Many retirees go on to work for the federal government and have access to the Federal

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3. All of the out-of-pocket costs per household discussed in this estimate represent the total costs faced by a household that uses TRICARE as the primary payer for their health benefits. Costs would be less for those who have other insurance and rely on TRICARE only as a second payer. Those second-payer costs are taken into account for the estimated costs. Likewise, the out-of-pocket costs for a family would vary depending on the size of a family. In the discussion above, the typical family size for a retiree with dependents is just under three individuals, including the retiree or other head of household.

4. CBO consulted several studies on this subject, in particular Joseph P. Newhouse and others, *Free for All?: Lessons From the RAND Health Insurance Experiment* (Harvard University Press, 1996).

Employees Health Benefits Program. Others would increase their reliance on the Veterans Health Administration and a small number would be eligible for Medicaid.

In total, CBO estimates that implementing section 707 would reduce DoD health care costs by about $4 billion over the 2018-2022 period, although that amount would be partly offset by a $400 million increase in costs for other federal agencies.

TRICARE Pharmacy Benefit. Section 706 would increase copayments for those who use either the TRICARE mail-order program or retail pharmacies beginning in 2018. This provision also would allow DoD to discontinue coverage for certain drugs if a less expensive option is available. DoD is currently required to provide access to all drugs approved by the Food and Drug Administration. Pharmaceutical costs for active-duty members and all other beneficiaries who are not eligible for Medicare are paid from discretionary funds.

DoD currently spends about $4 billion each year from discretionary funds on prescription drugs. An increase in copayments would reduce DoD's payments to retail pharmacies and the TRICARE national mail-order pharmacy (TMOP). In addition, CBO expects that the authority to discontinue coverage for certain drugs would cause beneficiaries to stop using more costly drugs in favor of those that are less costly, but have similar therapeutic effects. Based on information from DoD, CBO estimates that implementing section 706 would, on net, reduce DoD's discretionary pharmacy costs by about $720 million over the 2018-2022 period.

Section 706 also would increase pharmacy copayments for TRICARE beneficiaries who are eligible for Medicare. Pharmaceutical costs for those beneficiaries are paid from the DoD Medicare-Eligible Retiree Health Care Fund (MERHCF) and are treated as direct spending in the budget. While spending from the MERHCF is mandatory, the fund is credited with annual accrual payments that are part of DoD's budget and count against the caps on discretionary budget authority set by the BCA. Those accrual payments, made at the beginning of each fiscal year, represent DoD's future costs of providing health care for members currently serving in the military once they retire and are eligible for Medicare. CBO estimates that implementing section 706 would reduce accrual payments to the MERHCF by about $2.1 billion over the 2018-2022 period.[5]

Payments to the MERHCF are intragovernmental transactions and are offset one-for-one by receipts elsewhere in the budget. However, by effectively lowering accrual payments,

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5. 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 706 would ultimately depend on that office's economic and policy assumptions.

the proposal would allow the Congress to reduce discretionary appropriations to DoD without affecting DoD's current level of operations. Alternatively, the Congress could keep the appropriation at the higher level, thus allowing DoD to spend its discretionary appropriations on other things. CBO assumes that section 706 would not be enacted in time to affect the accrual payment for 2018.

TRICARE Reserve Select. Section 703 would allow members of the Selected Reserve who are eligible for the Federal Employee Health Benefits Program (FEHB) to enroll in the TRICARE Reserve Select health benefit (TRS). Those members who are eligible for FEHB are currently prohibited from enrolling in TRS. Based on data from DoD, CBO estimates that about 110,000 members of the Selected Reserve are eligible for FEHB and that about one third would enroll in TRS if given the opportunity, although it would take several years for the full effect of that change to be seen.

On net, CBO estimates that section 703 would save $392 million over the 2018-2022 period because the cost of TRS is less than the government's share of the premiums for FEHB. In 2018, CBO estimates the average cost to the government for a household enrolled in TRS will be about $5,800, whereas the cost for those same households enrolled in FEHB would be about $10,600 (that assumes about 65 percent of the households would enroll as "family" and the remainder would enroll as "self only"). TRS costs less than FEHB because its provider payments are based on Medicare rates and the people enrolled in TRS are younger and healthier than the average person enrolled in FEHB. Because of that difference in age and health status, reservists and their family members who leave FEHB would cause an increase in the premiums for all remaining FEHB beneficiaries. Based on information from the Office of Personnel Management, CBO expects premiums for those enrolled in FEHB would increase by about 0.1 percent. In total, CBO estimates that section 703 would reduce costs associated with FEHB by about $1.5 billion over the 2018-2022 period; those savings would be partially offset by increased costs for TRS of about $1.1 billion over that same period.

TRICARE Advantage Demonstration. Section 701 would require DoD and the Department of Health and Human Services to carry out a demonstration program under which beneficiaries eligible for TRICARE-for-Life would be enrolled in Medicare Advantage (MA) plans.[6] The MA organizations that chose to participate in the demonstration program would be paid a fixed fee per enrollee, could incorporate military treatment facilities into their provider networks, and also use the existing TRICARE pharmacy benefit.

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6. TRICARE-for-Life is a benefit available to all military retirees and their dependents that are eligible for Medicare. Under TRICARE-for-Life, Medicare is the first payer for most health costs incurred by the beneficiary, and TRICARE acts as wrap-around coverage, paying almost all of the remaining costs. The only condition for receiving this benefit is that eligible beneficiaries must enroll in Medicare Part B.

The costs to DoD of administering the demonstration program would be paid for with funds appropriated to the Defense Health Program. Based on the cost of previous demonstration programs, including the TRICARE Senior Prime demonstration, CBO estimates the cost to DoD of administering this program would be about $20 million each year.[7] That includes the cost of contractor support, analytical studies, and obtaining Medicare certification for any military treatment facilities that are incorporated into the provider networks of the participating MA plans. Costs would be less in the first couple years because of the time needed for rule-making and contract negotiations among the various parties. Based on the timeline of the previous TRICARE Senior Prime demonstration, CBO estimates the demonstration sites would be up and running by the start of 2020. CBO estimates that administrative costs would be lower beginning in 2025 because we expect that there is a significant possibility DoD would not continue the demonstration past the initial five-year period required by section 701. In total, CBO estimates this demonstration program would incur administrative costs of about $75 million over the 2018-2022 period.

Contraception Cost Sharing. Section 709 would eliminate all cost sharing for contraceptive pharmaceuticals and devices for females who use TRICARE, beginning in 2019. Based on information from DoD, CBO estimates that females currently pay a total of about $10 million each year for various contraceptive drugs and devices. Under the proposal, that cost would be borne by DoD.

In addition, eliminating cost sharing would cause an increase in the use of brand-name drugs and a corresponding decrease in the use of generic drugs obtained through both retail pharmacies and the TRICARE national mail-order pharmacy, because beneficiaries would no longer face higher copayments for brand-name drugs obtained at those points of service. Currently, TRICARE beneficiaries receive about 900,000 generic prescriptions each year from retail pharmacies or the TMOP (in 30-day equivalents). Based on an examination of various studies, CBO estimates that about 5 percent of those prescriptions would shift towards brand-name drugs under section 709. CBO estimates that the average cost to DoD for a 30-day prescription of a brand-name contraceptive is about $40 higher than the average generic prescription. Therefore, this substitution towards brand-name drugs would increase costs to DoD by about $2 million each year. In total, CBO estimates that eliminating contraceptive cost sharing for female beneficiaries would increase costs to DoD by $53 million over the 2019-2022 period.

Integrated Delivery Systems. Section 725 would require DoD to establish a five-year pilot program to test the integration of care among DoD, the Veterans Health Administration,

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7. TRICARE Senior Prime was a demonstration program created by the Balanced Budget Act of 1997 (Public Law 105-33), whereby Medicare-eligible military retirees and their dependents could choose to forgo their regular Medicare benefit and participate in a health plan administered by DoD and centered around military treatment facilities. The demonstration was active from approximately 1998 until 2001, when it was superseded by the creation of the TRICARE-for-Life benefit.

and other federal and private health care providers. The pilot would require the use of value based payment designs, case management for high-cost beneficiaries, and the use of real-time data sharing and predictive modeling. The ability to carry out this pilot program would require the use of integrated information technology systems among the various health providers. However, based on information from DoD, such systems do not currently exist. There are efforts underway to develop health information exchanges and common electronic health records that could eventually produce systems that could be modified for use in this pilot program; but whether or not that technology will be mature enough to meet the needs of such a program in the near future is not clear. If such technology is deemed ready, CBO expects there would be a considerable cost to modify it for use among the various health care providers involved in the pilot. Based on information from DoD, CBO believes that DoD is unlikely to implement the pilot program in the manner required by section 725 within the next five years. However, if and when the pilot program is implemented, the costs to carry it out could be in the hundreds of millions of dollars over the length of the program.

Other Provisions

Multiyear Procurement Contracts. The bill would authorize the Navy to enter multiyear procurement contracts for four major programs. Multiyear procurement is a special contracting method authorized in current law that permits the government to enter into contracts covering acquisitions for more than one year but not more than five years, even though the total funds required for all years are not appropriated at the time the contracts are awarded.

- Section 121 would authorize the Navy to enter a multiyear contract to purchase up to 13 Virginia-class submarines beginning in 2019 and make advance purchases of equipment for those vessels beginning in 2018. On the basis of information from the Navy, CBO estimates that under that authority the Navy would purchase 10 submarines over the 2019-2022 period and that those submarines would cost about $34 billion over the 2018-2022 period. (The remaining three submarines would be purchased in 2023 at a cost of roughly $9 billion.) Currently, the Navy is constructing Virginia-class submarines under a multiyear contract, but that authority will expire in 2018. (The Navy estimates that buying the submarines under a multiyear contract lowers costs by about $300 million for each submarine when compared to five annual contracts.)

- Section 122 would authorize the Navy to enter a multiyear contract to purchase up to 15 Arleigh Burke-class destroyers beginning in 2018. On the basis of information from the Navy, CBO estimates that under that authority the Navy would purchase 15 destroyers over the 2018-2022 period and that those ships would cost about

$29 billion. Currently, the Navy is buying those destroyers at a rate of two ships a year under a multiyear contract, but that authority will expire in 2017. (The Navy estimates that buying the destroyers under a multiyear contract lowers costs by about $200 million a ship when compared to single year purchases.)

- Section 123 would authorize the Navy to enter a multiyear contract beginning in fiscal year 2018 to purchase V-22 Osprey aircraft. The V-22 is a tiltrotor aircraft that can take off and land vertically and is capable of carrying personnel and equipment. On the basis of information from the Navy, CBO estimates that under such a contract the service would buy 40 of those aircraft over the 2018-2022 period at a cost of $3.5 billion. (The service estimates that a single multiyear contract would cost about $330 million less than five annual contracts.)

- Section 1048 would authorize the Navy to enter a multiyear contract for up to six polar icebreaking vessels on behalf of the Coast Guard. The Congress appropriated $150 million in 2017 for the design of the first new icebreaker. The Coast Guard plans to award a contract for that effort in 2019 and expects construction of the vessel to begin after 2020 once the detailed designs are substantially complete. The Coast Guard's preliminary estimate for the cost of a new icebreaker is about $1 billion. Construction of the first vessel would take approximately three years. Because multiyear procurement contracts are typically not awarded until several production lots have been completed, CBO does not expect that the Coast Guard will use the multiyear contract authority in section 1048 until after 2022.

Amphibious Ship (LPD-30) Construction. Section 124 would allow the Navy to enter into a contract beginning in fiscal year 2018 either to build the lead ship of a new class of dock landing ships (designated the LX(R) that would replace the existing LSD class of dock landing ships or to build a 14th LPD-17 amphibious ship (designated LPD-30). The bill would authorize the appropriation of $1 billion in 2018 for that purpose and would allow the Navy to use incremental funding for construction of either ship. Currently, the Navy plans to buy the first LX(R) ship in 2020. The Navy has indicated that due to design issues the LX(R) construction start date could not be accelerated to 2018, but an LPD-17 class amphibious ship could be built. CBO estimates that the LPD-30 would cost about $1.8 billion. CBO expects that the Navy would build an LPD-30 ship starting in 2018 using the incremental funding authority provided in this bill, and that the ship would cost $1 billion in 2018 and about $800 million in 2019.

Direct Spending and Revenues

CBO estimates that enacting S. 1519 would increase net direct spending for the unified budget by $621 million over the 2018-2027 period (see Table 4). That estimate reflects an increase in on-budget spending of $526 million and off-budget spending of $95 million over that period. In addition, changes that would be made to the Uniform Code of Military Justice would have an insignificant effect on revenues.

TRICARE Pharmacy Benefit. By modifying the pharmacy benefit, enacting section 706 would reduce net health care spending for TRICARE beneficiaries who are eligible for Medicare by $3.3 billion over the 2018-2027 period. Pharmacy spending for those beneficiaries is paid from the DoD Medicare-Eligible Retiree Health Care Fund, a mandatory account. Spending on pharmacy benefits for all other beneficiaries of the Military Health System is discretionary, and is discussed above under the heading "Spending Subject to Appropriation."

Section 706 would make the following changes to the TRICARE pharmacy benefit.

- The copayment for generic medications would gradually increase over the 2018-2026 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. Copayments for generic medications are currently $10 for drugs purchased through the retail network; there is no copayment for generics if they are purchased through TMOP.

- Copayments for preferred brand-name drugs would gradually increase to $45 by 2026 for both a 30-day supply from retail pharmacies and up to a 90-day supply from TMOP. Copayments for those medications are currently $24 for drugs purchased through the retail network and $20 for drugs purchased from TMOP.

- Copayments for nonpreferred brand-name drugs would increase from $49 to $90 by 2026.

- 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 increases in copayments. Pharmacy copayments for those beneficiaries would remain at 2017 levels indefinitely.

- DoD would have the authority to discontinue coverage for certain drugs if DoD determined those drugs had little or no value.

TABLE 4. CHANGES IN DIRECT SPENDING UNDER S. 1519

	By Fiscal Year, in Millions of Dollars											
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018-2022	2018-2027
TRICARE Pharmacy Benefit												
Estimated Budget Authority	-182	-293	-334	-399	-461	-300	-272	-319	-376	-422	-1,669	-3,358
Estimated Outlays	-148	-269	-325	-386	-449	-333	-278	-310	-365	-414	-1,577	-3,277
TRICARE Reserve Select[a]												
Estimated Budget Authority	0	3	17	23	25	28	31	35	38	41	68	241
Estimated Outlays	0	3	17	23	25	28	31	35	38	41	68	241
On-budget	*0*	*2*	*10*	*14*	*15*	*17*	*19*	*21*	*23*	*25*	*41*	*146*
Off-budget[a]	*0*	*1*	*7*	*9*	*10*	*11*	*12*	*14*	*15*	*16*	*27*	*95*
TRICARE Advantage Demonstration												
Estimated Budget Authority	0	0	10	15	15	15	15	15	10	10	40	105
Estimated Outlays	0	0	10	15	15	15	15	15	10	10	40	105
TRICARE Cost-Sharing												
Estimated Budget Authority	0	-2	-2	-2	-3	-3	-3	-3	-3	-4	-9	-25
Estimated Outlays	0	-2	-2	-2	-3	-3	-3	-3	-3	-4	-9	-25
Contraception Cost-Sharing												
Estimated Budget Authority	*	*	*	*	*	*	*	*	*	*	1	2
Estimated Outlays	*	*	*	*	*	*	*	*	*	*	1	2
Special Survivor Indemnity Allowance												
Estimated Budget Authority	85	267	278	289	297	306	315	324	332	341	1,216	2,834
Estimated Outlays	64	266	277	288	297	305	314	323	331	340	1,192	2,805
Special Immigrant Visas												
Estimated Budget Authority	27	73	67	60	55	53	52	52	51	50	282	540
Estimated Outlays	27	73	67	60	55	53	52	52	51	50	282	540
Workers in H-2B Status												
Estimated Budget Authority	*	*	*	*	1	1	1	1	*	0	1	4
Estimated Outlays	*	*	*	*	1	1	1	1	*	0	1	4
Palau Compact of Free Association												
Estimated Budget Authority	45	23	17	14	12	9	4	0	0	0	111	124
Estimated Outlays	45	23	17	14	12	9	4	0	0	0	111	124
Utilities Privatization												
Estimated Budget Authority	0	10	10	10	10	10	10	10	10	10	40	90
Estimated Outlays	0	10	10	10	10	10	10	10	10	10	40	90
National Defense Stockpile												
Estimated Budget Authority	1	2	2	2	2	0	0	0	0	0	9	9
Estimated Outlays	1	2	2	2	2	0	0	0	0	0	9	9

(Continued)

TABLE 4. CONTINUED

	By Fiscal Year, in Millions of Dollars											
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018-2022	2018-2027
Disability Compensation Claims for Mustard Gas or Lewisite												
Estimated Budget Authority	4	4	*	*	*	*	*	*	*	*	9	9
Estimated Outlays	4	4	*	*	*	*	*	*	*	*	9	9
Order to Active Duty												
Estimated Budget Authority	-2	-2	-2	-2	-1	-1	1	1	1	1	-9	-6
Estimated Outlays	-1	-2	-2	-2	-1	-1	*	1	1	1	-8	-6
Total Changes												
Estimated Budget Authority	-22	85	63	10	-48	118	154	116	63	27	90	569
Estimated Outlays	-8	108	71	22	-36	84	146	124	73	34	159	621
On-budget	*-8*	*107*	*64*	*13*	*-46*	*73*	*134*	*110*	*58*	*18*	*132*	*526*
Off-budget[a]	*0*	*1*	*7*	*9*	*10*	*11*	*12*	*14*	*15*	*16*	*27*	*95*

Notes: Other provisions in S. 1519 would have insignificant effects on direct spending. Those provisions will be described in the full estimate. Enactment of S. 1519 would have an insignificant effect on revenues.

Numbers may not add up to totals because of rounding; * = less than $500,000.

a. The provision would affect health care contributions by the Postal Service, which are classified as off-budget.

Prescription medications obtained at military treatment facilities would continue to be offered at no charge and DoD would maintain authority to increase the pharmacy copayments after 2026 to reflect inflation in pharmacy ingredient and dispensing costs.

CBO estimates that the increased copayments discussed above would reduce direct spending for pharmacy benefits by about $3.5 billion over the 2018-2027 period. The largest part of the estimated savings—about two-thirds—would occur because the higher copayments would reduce DoD's net costs for each affected prescription. In 2016, DoD paid for about 60 million prescriptions for TRICARE beneficiaries who were eligible for Medicare at a cost of about $4 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 as it deems appropriate. Because CBO estimates there is a 50 percent probability that the higher copayments authorized by the bill would occur after 2022 under current law, the savings attributed to section 706 are lower beginning in 2023.

Various studies have shown that higher copayments lead to lower use of prescription drugs. In CBO's estimate, that lower demand accounts for the other third of the $3.5 billion in savings. However, changes in prescription drug use can also affect the use of inpatient and outpatient medical services.[8] Thus, even though the higher copayments may deter some beneficiaries from filling prescriptions they no longer need or use, those higher copayments also could cause some chronically ill beneficiaries to stop taking their medications, resulting in more doctor visits and hospitalizations. As a result, CBO estimates that the $3.5 billion in direct pharmacy savings would be offset by a $0.5 billion increase in other federal spending for medical services (mostly from Medicare).

In addition to increasing the copayments, section 706 would give DoD the authority to discontinue paying for certain drugs if the department determines that they have little or no value. Current law requires DoD to cover the cost (subject to copayments) of all drugs approved by the Food and Drug Administration. Because of this, DoD is required to pay for costly prescription drugs even if another drug provides similar therapeutic value at a lower cost.

To estimate the savings from this provision, CBO examined a list of drugs currently excluded from the formularies of commercial insurance plans. DoD currently spends about $70 million per year to provide those same drugs to Medicare-eligible beneficiaries. If DoD discontinued coverage for those drugs and beneficiaries thus used less expensive substitutes, CBO estimates the department could reduce spending for drugs by as much as $50 million per year. However, because how DoD would ultimately use this authority is unclear, we estimate the annual savings would be only half that amount (or, $25 million per year) and would total $0.3 billion over the 2018-2027 period.

TRICARE Reserve Select. Section 703 would allow members of the selected reserve who are eligible for the Federal Employee Health Benefits Program to enroll in the TRICARE Reserve Select health benefit. Because members of the selected reserve are younger and healthier than the average federal employee, reservists and their family members who leave FEHB would cause an increase in the premiums for all remaining FEHB beneficiaries, including annuitants and active postal employees, whose premiums are paid from mandatory accounts. Based on information from the Office of Personnel Management, CBO expects premiums for those enrolled in FEHB would increase by about 0.1 percent under section 703, which would increase direct spending by $241 million over the 2018-2027 period. Of that amount, $95 million would be related to premium contributions for annuitants and active employees of the Postal Service, which are classified as off-budget.

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

Implementing section 703 also would affect discretionary spending. Details of those effects, as well as additional details about the estimates in general, are discussed above, under the heading “Spending Subject to Appropriation.”

TRICARE Advantage Demonstration. Section 701 would require DoD and the Department of Health and Human Services to carry out a demonstration program under which beneficiaries eligible for TRICARE-for-Life (TFL) would be enrolled in Medicare Advantage plans. The MA organizations that chose to participate in the demonstration program would be paid a capitation rate—a fixed pre-negotiated fee for each enrollee. The MA plans could incorporate military treatment facilities into their provider networks and also use the existing TRICARE pharmacy benefit. Beneficiaries who live in a selected region would automatically be enrolled in the demonstration although they would be given an opportunity to opt out.

This demonstration would affect direct spending from the DoD Medicare-Eligible Retiree Health Care Fund and the Medicare Trust Funds, which provide the source of funds for the health expenses of TFL beneficiaries. Because how the demonstration would unfold is not clear, the potential costs or savings are difficult to estimate. On one hand, TFL beneficiaries currently have little or no out-of-pocket costs after they pay their Medicare Part B premiums. Thus, an introduction of copays or other means to encourage more efficient use of health services could create opportunities for savings. On the other hand, calculating an appropriate per capita premium for TFL beneficiaries would be difficult, and could lead to the government paying more to the MA organizations than the current cost of benefits under Medicare and TFL. Because TFL beneficiaries have little or no out-of-pocket costs, they would probably have to be offered some incentives to remain in the demonstration plan. Also, TFL beneficiaries receive some of their care from military treatment facilities and might continue to do so under the demonstration, and assigning a value to such care in contract negotiations with an MA organization may be difficult. (Military treatment facilities have limited ability to process claims and bill third-party insurers and have no authority to accept payments from Medicare plans.)

After examining several possible scenarios, CBO expects that the government would probably pay the MA plans more than the cost of the benefit under Medicare and TFL. CBO estimates that the incremental cost of health benefits for those participating in the demonstration would be about $200 per beneficiary. Based on an analysis of prior demonstration programs, CBO estimates that the demonstration area would encompass about 125,000 TFL beneficiaries, and that about half would choose to opt out of the demonstration program.[9] In total, CBO estimates that section 701 would increase direct

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9. 125,000 was the approximate size of the population eligible for the TRICARE Senior Prime demonstration. The 50 percent opt-out rate is based on an analysis of enrollment statistics for some of the ongoing demonstration programs managed by the Centers for Medicare and Medicaid Services that are examining ways to reduce costs for those eligible for both Medicare and Medicaid. We focused specifically on enrollment statistics for those demonstration plans that automatically enrolled beneficiaries and provided them the option to opt out.

spending by about $15 million per year and by $105 million over the 2018-2027 period. Our estimate shows the annual costs decreasing beginning in 2024 because of the probability that DoD would not continue the demonstration past the initial five-year period required by section 701.

Implementing section 701 also would affect discretionary spending. Details of those effects are discussed above, under the heading "Spending Subject to Appropriation."

TRICARE Cost Sharing. Beginning in 2019, section 707 would make several changes to the TRICARE health benefit, including higher enrollment fees and copayments for current retirees and their families. Health benefits for retirees of the other uniformed services (Coast Guard, National Oceanic and Atmospheric Administration, and Public Health Service) and their family members are paid from mandatory appropriations, so any change to their benefits would affect direct spending. CBO estimates that because of those changes, government spending on health care for those beneficiaries would be reduced by $188 million over the 2019-2027 period. However, those savings would be partially offset by the costs associated with beneficiaries of DoD and the other uniformed services leaving TRICARE and using other mandatory federal health programs, including FEHB and Medicaid. On net, CBO estimates that enacting section 701 would reduce spending by $25 million over the 2019-2027 period.

Implementing section 707 also would affect discretionary spending. Details of those effects, as well as additional details about the estimates in general, are discussed above, under the heading "Spending Subject to Appropriation."

Contraception Cost Sharing. Section 709 would eliminate all cost sharing for contraceptive pharmaceuticals and devices for female TRICARE beneficiaries, beginning in 2019. Implementing this section would increase direct spending because it would lower the out-of-pocket costs for retirees of the other uniformed services and their dependents, whose health benefits are paid from mandatory appropriations, and instead shift those costs to the government. In total, CBO estimates that section 709 would increase direct spending by $2 million over the 2019-2027 period.

Implementing section 709 also would affect discretionary spending. Details of those effects, as well as additional details about the estimate in general, are discussed above, under the heading "Spending Subject to Appropriation."

Special Survivor Indemnity Allowance. Surviving spouses who receive both an annuity as a beneficiary of the Survivor Benefit Plan (SBP) as well as Dependency and Indemnity Compensation (DIC) from the Department of Veterans' Affairs have their SBP payments reduced by the amount of DIC. The Special Survivor Indemnity Allowance (SSIA) is a payment made to such surviving spouses to offset, at least in part, that reduction. SSIA is limited to the lesser of $310 or the amount of the SBP reduction. The authority for SSIA expires after May 2018. Section 638 would permanently extend that authority and increase the monthly benefit amount by the annual cost-of-living adjustment that applies to military retirement benefits beginning in calendar year 2019.

Based on information from the Statistical Report of the Military Retirement System, CBO expects that nearly 69,000 surviving spouses will receive SSIA in fiscal year 2018. On that basis, CBO estimates that section 638 would increase direct spending for SSIA by $2.8 billion over the 2018-2027 period.

Special Immigrant Visas. Section 1217 would amend the Afghan Allies Protection Act of 2009 to increase by 4,000 the number of Special Immigrant Visas (SIVs) that could be issued to any qualified applicant who applied before the end of calendar year 2020. Afghans who would be eligible under this provision are those who were employed by or on behalf of the U.S. government or the International Security Assistance Force (or any successor name for such force) at some point since 2001 and are experiencing an ongoing serious threat as a consequence of that employment. (Additional SIVs, not subject to limitation, are available to certain relatives of those employees who receive SIVs.)

CBO estimates that approximately 16,000 people would receive SIVs under section 1217. Like refugees (but unlike most other categories of aliens), these Afghan special immigrants would be eligible for federal benefits if they met the other eligibility standards for those programs. Thus, they could receive subsidies through health insurance marketplaces established by the ACA and benefits from Medicaid, nutrition programs, and the Supplemental Security Income program upon arrival in the United States. CBO uses a variety of administrative and survey data to estimate Afghan special immigrants' usage rates and per-capita costs for those benefit programs. On that basis, CBO estimates that direct spending for those benefits would increase by $540 million over the 2018-2027 period.

Workers in H-2B Status. Section 1264 would change the time when H-2B nonimmigrant (or temporary) workers hired in Guam or the Northern Marianas begin to count against the annual nationwide that on H-2B workers. Under current law, newly hired H-2B workers in both territories are exempt from the nationwide cap until January 1, 2020. Section 1264 would eliminate that exemption for H-2B workers hired in the Northern Marianas beginning 120 days after enactment. It would extend that exemption for H-2B workers hired in Guam until January 1, 2024. Thus, the provision would change the number of aliens receiving H-2B status and working in one of the 50 states or Washington, D.C., where they can receive emergency Medicaid benefits and health insurance subsidies under the Affordable Care Act, if they otherwise qualify.

On the basis of information from DoD, the Department of Homeland Security, and Guam's Department of Labor, CBO expects that section 1264 would reduce the number of H-2B workers in the states and Washington D.C. by fewer than 500 during fiscal years 2018 and 2019, and then increase their numbers by up to 4,000 over the following seven years. On the basis of information from the Department of Health and Human Services, CBO expects that the annual per capita cost to the federal government of the health benefits that those H-2B workers would use would average around $300 over the 2018-2026 period. On that basis, CBO estimates that direct spending health benefits would increase by $4 million, on net, over the 2018-2027 period.

Palau Compact of Free Association. Section 1263 would amend and approve the agreement signed between the United States and the Republic of Palau on September 3, 2010, in connection with the Compact of Free Association between the two nations. The compact, agreements, and appendices were approved in 1994 and govern the political, economic, and military relationships between the United States and Palau. Financial assistance through the compact expired in 2009. The funds authorized in the agreement would be aimed at assisting the island with major infrastructure improvements and economic development. CBO estimates that enacting this section would increase direct spending by $124 million over the 2018-2024 period.

Utilities Privatization. Section 2814 would add storm water collection and treatment systems to the list of utility systems that DoD is authorized to privatize. Under current law the department can privatize through sale or conveyance utilities such as electrical generation and transmission systems, natural gas lines, water supply systems, or sewage collection and treatment systems. Storm water systems are not eligible for privatization. When it privatizes utility systems, DoD enters contracts for periods of up to 50 years with utility companies or other entities. Those entities make capital improvements and repairs to the system both at the start of the contract and in later years. They also perform the ongoing operation and maintenance of the conveyed utility systems. Under those contracts, DoD incurs binding commitments to making annual payments for the capital improvements and repairs that are typically made by the new owner at the start of the contract term.

Thus, the government effectively commits to making payments to utility companies in future years before having appropriations to cover all of the resulting costs; in CBO's view, the authority to enter into such contractually binding agreements without appropriations for that purpose is a form of direct spending. Making storm water systems similarly eligible for privatization would increase that direct spending.

DoD has privatized about 20 percent of the 2,500 utility systems on military installations. While the department does not collect data on the value of privatized systems or the costs of the privitization contracts, the Army reports that it has privatized 144 utility systems, including 33 waste water treatment systems, valued at $20 billion. On the basis of that information and a review of a contract to privatize an installation's waste water and storm water systems, CBO estimates that the average value of a privatization contract for storm water systems would be $10 million.

CBO expects that, on average, DoD would award one new privatization contract each year beginning in 2019. Those commitments would increase direct spending by $90 million over the 2019-2027 period.

National Defense Stockpile. Section 1411 would expand the authority under which the National Defense Stockpile acquires materials by authorizing the purchase of antimony and manganese metal. The bill would allow the stockpile manager to spend up to $9 million from the balances in the National Defense Stockpile Transaction Fund (a mandatory account known as the T-Fund) to purchase those materials over the 2018-2027 period. The T-Fund pays for the operation of the stockpile, including purchases to increase current inventory levels of authorized materials. On the basis of information from DoD, CBO expects that the T-Fund will have sufficient balances to cover the costs of those purchases. Thus, CBO estimates that enacting the new purchasing authority of section 1411 would increase direct spending by a total of $9 million over the 2018-2022 period.

Disability Compensations Claims for Mustard Gas or Lewisite. Section 1084 would require the Department of Veterans Affairs (VA) to reconsider certain denied claims for veterans' disability compensation because of exposure to mustard gas or lewisite during World War II, and to make any resulting payments retroactive to the original date of the claim.

According to information from DoD, about 4,500 individuals were potentially exposed to mustard gas agents, including lewisite, through testing during World War II. VA reports that about 40 veterans are currently receiving disability compensation for exposure to mustard gas agents, and that it has denied about 90 percent of all claims for disability compensation related to such exposure. Therefore, CBO estimates that about 360 veterans were denied compensation for exposure to mustard gas agents.

On the basis of information from VA regarding the likelihood of previously denied veterans becoming eligible for a rating for mustard gas under this provision, CBO estimates that of the 360 veterans denied compensation for exposure to mustard gas agents, about 270 (or 75 percent) would have received a compensation rating under this provision. After accounting for mortality rates, CBO estimates that about 135 veterans who were previously denied would be alive in 2018 and receive a compensation rating (and thus a retroactive payment) for exposure to mustard gas agents; additionally, about 35 dependents would qualify for dependency and indemnity compensation (including a retroactive payment). On average, CBO estimates that veterans and survivors qualify for 10 years and 8 years of retroactive payments, respectively.

CBO expects that the vast majority of veterans who were denied a rating would already be receiving disability compensation from VA, and further expects that because of the advanced age of the eligible population (roughly 90 years old), those currently receiving disability compensation have a high level of disability. Thus, CBO estimates that the 135 veterans who would qualify under this provision would receive an increase in their disability rating from 80 percent to 90 percent, or roughly a $3,600 annual increase, on average, over the 10-year period. CBO further estimates that the 35 surviving dependents would become eligible for an average annual benefit of $18,520. On that basis, CBO estimates that section 1084 would increase direct spending for veterans and survivors by about $9 million over the 2018-2027 period for both retroactive and prospective compensation payments.

Order to Active Duty. Section 510B would reestablish the authority of the armed services to order to active duty retired members who agree to serve in an assignment that would help alleviate a substantial personnel shortage. That authority would not limit the time that the retired member may serve on active duty, unlike other existing authorities. While serving on active duty, the retired member does not receive retired pay. Upon finishing that service, the member's retired pay is recalculated to include the additional service time.

On the basis of information from the Department of the Air Force, CBO expects that the Air Force would use the authority to order 50 retired pilots to active duty between 2018 and 2022 (some of those pilots would remain on active duty after 2022). Those pilots would forego monthly retired pay of around $5,000 during their return to active duty, which CBO expects would last three years on average. CBO estimates their monthly retired pay would be boosted by about 20 percent after they complete their service. On that basis, CBO estimates that direct spending for retired pay would decline by $9 million on net over the 2018-2023 period, but would increase in years after 2023. On net, the provision would reduce direct spending by $6 million over the 2018-2027 period.

Other Provisions. Other provisions in S. 1519 would have effects on direct spending or revenues, but those effects would be insignificant, generally because very few people would be affected or because the proposal would allow the spending of newly collected receipts so that the net effect would be small.

- Section 505 would eliminate the requirement that a service specify in advance the number of officers to be recommended for early retirement or discharge by a selection board. In certain circumstances, that could have a small effect on the number of former officers drawing retired pay in a given year.

- Section 506 would extend DoD's authority to allow general or flag officers to retire in a grade despite having served fewer than three years in that grade. In certain circumstances, that change could have a small effect on the number of former general or flag officers drawing retired pay in a given year.

- Sections 521 and 532 would establish specified offenses under the military justice system that would prohibit individuals from wrongfully broadcasting or distributing intimate visual images; any penalties collected under those provisions would be classified as revenues.

- Under the revised retirement system that begins in January 2018, service members can elect to reduce their monthly retired pay by 25 percent or 50 percent so they can receive a lump-sum payment upon retirement. Section 631 would direct DoD to ignore that reduction when calculating monthly premiums and survivor benefits under the Survivor Benefit Plan. Few service members will retire under the new system and receive lump-sum payments during the 2018-2027 period; monthly premium payments by those members would increase slightly.

- Section 705 would allow certain TRICARE beneficiaries under the age of 21 to receive curative medical treatment and hospice care at the same time. This would increase mandatory health spending for dependents of retirees of the other uniformed services, although the number of affected children would be very small.

- Section 819 would authorize DoD to enter into up to five multiyear contracts for services for terms of up to 10 years. Under current law, such contracts are limited to a maximum term of five years. Using that authority, DoD sometimes incurs obligations to make payments in subsequent years, without having appropriations available for the costs at the time it incurs the obligation.

- Sections 1204 and 1211 would extend the authority to accept and spend contributions to assist foreign countries with emergent security-related needs and to support the Commanders' Emergency Response Program in Afghanistan, respectively.

- Section 2821 would authorize the Army to sell certain real property near U.S. Army Natick Soldier Systems Center and use the proceeds to build new housing at that installation.

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. Only on-budget changes to outlays or revenues are subject to pay-as-you-go procedures. The net changes in direct spending that are subject to those pay-as-you-go procedures are shown in the following table.

PAY-AS-YOU-GO EFFECTS FOR S. 1519 AS REPORTED BY THE SENATE COMMITTEE ON ARMED SERVICES ON JULY 10, 2017

	By Fiscal Year, in Millions of Dollars												
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2017-2022	2017-2027
NET INCREASE OR DECREASE (-) IN THE ON-BUDGET DEFICIT													
Statutory Pay-As-You-Go Impact	0	-8	107	64	13	-46	73	134	110	58	18	132	526

Source: Congressional Budget Office.

INCREASE IN LONG-TERM DIRECT SPENDING AND DEFICITS

CBO estimates that enacting S. 1519 would not increase net direct spending or on-budget deficits in any of the four consecutive 10-year periods beginning in 2018.

PREVIOUS CBO ESTIMATE

On July 10, 2017, CBO transmitted a cost estimate for H.R. 2810, the National Defense Authorization Act for Fiscal Year 2018, as reported by the House Committee on Armed Services on July 6, 2017.

S. 1519 would authorize the appropriation of an estimated $692.6 billion, or $3.6 billion more than H.R. 2810. Most of that difference is because S. 1519 would authorize $149.7 billion for procurement programs, or $2.9 billion more than the $146.8 billion that would be authorized by H.R. 2810.

Enactment of S. 1519 would increase direct spending by $621 million over the 2018-2027 period, while H.R. 2810, if enacted, would have an insignificant effect on direct spending. Both bills would have an insignificant effect on revenues.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

S. 1519 contains intergovernmental and private-sector mandates as defined in UMRA. CBO estimates that the aggregate cost of the mandates on public and private entities would fall below the annual thresholds established in UMRA for intergovernmental and private-sector mandates ($78 million and $156 million respectively in 2017, adjusted annually for inflation).

Increasing the End Strength of Active-Duty Forces

Section 401 would increase the costs of complying with existing intergovernmental and private-sector mandates by increasing the number of service members on active-duty by about 14,000 relative to currently authorized levels. Those additional service members would be eligible for existing protections under the Servicemembers Civil Relief Act (SCRA). Protections under SCRA require public and private entities to grant active-duty personnel various allowances for business and tax transactions and court procedures.

For example, SCRA allows service members to maintain a single state of residence for paying state and local personal income taxes and to request deferrals for certain state and local fees. CBO estimates that the additional cost of those mandates on state and local governments would be small.

SCRA also requires creditors to charge no more than 6 percent interest rate on service members' loan obligations when the acquisition of such obligations predates active-duty service, and it allows courts to temporarily stay certain civil proceedings, such as evictions, foreclosures, and repossessions. The act also precludes the use of a service member's personal assets to satisfy the member's trade or business liability while he or she is in military service.

Under the bill, the number of active-duty service members covered by SCRA would increase by about 1 percent, CBO estimates. Service members' utilization of the various provisions of SCRA depends on a number of uncertain factors, including how often and how long they are deployed. However, the increase in the number of active-duty service members covered by SCRA would be small, so CBO estimates that the incremental cost of compliance for private entities also would be small relative to the annual threshold for the private sector.

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