

HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

B-71 Cannon HOB ■ Washington, DC 20515 ■ 202-226-7200 ■ www.house.gov/budget_democrats

June 25, 2004

The Administration's Programmed Budget Cuts in 2006 Will Mean Reduced Health Care Services for Veterans

Dear Democratic Colleague:

The Office of Management and Budget memorandum of May 19, 2004, confirmed that, despite previous denials, the Administration plans to make deep cuts in many key government services after 2005. The attached report by the House Budget Committee and Veterans' Affairs Committee Democratic staffs reveals that veterans' health care is one program that will be hit particularly hard. The Administration's plan will cut \$910 million from the Department of Veterans Affairs (VA) discretionary budget in 2006, which currently provides funds allowing about 7 million veterans to enroll in the VA's health program. The cut will mean that the VA will be unable to provide the current level of health care services to all of its enrolled veterans.

After taking into account the Congressional Budget Office's inflation projections, the Administration's planned 2006 budget is \$1.6 billion short of what is needed to provide services at the 2005 requested level. However, the full impact of the cut is only revealed when factoring in that the Administration underfunded the veterans' health care budget in 2005. The President's budget request for 2005 was \$1.2 billion short of the amount the Secretary of Veterans Affairs said is needed and \$2.5 billion short of the amount the Veterans' Affairs Committee recommended, on a bipartisan basis, to maintain current services. Consequently, the shortfall is considerably more to maintain current services.

While it remains to be seen what the actual impacts of these cuts will be, it is certain that they will be significant and could mean a reduction in the number of veterans that can be treated or a reduction in the level of health care services that veterans receive.

We hope you find the attached report useful. Please do not hesitate to contact us or our staffs, Scott Russell (House Budget Committee, 6-7200) and Susan Edgerton (House Veterans' Affairs Committee, 5-9756), if you have further questions.

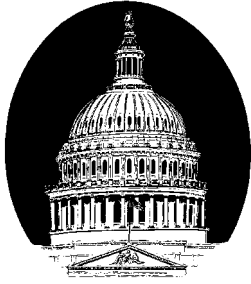
Sincerely,

/s

John M. Spratt, Jr.
Ranking Democratic Member
Budget Committee

/s

Lane Evans
Ranking Democratic MemberHouse
House Veterans' Affairs



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The Office of Management and Budget memorandum of May 19, 2004, confirmed that, despite previous denials, the Administration plans to make deep cuts in many key government services after 2005. Veterans' health care is one program that will be hit particularly hard. The Administration's plan will cut \$910 million from the Department of Veterans Affairs (VA) discretionary budget in 2006, which currently provides funds allowing about 7 million veterans to enroll in the VA health care program. The cut will mean that the VA will be unable to provide the current level of health care services to all of its enrolled veterans – those who have served and sacrificed for our country. This is all the more troubling because servicemen and servicewomen returning from the war in Iraq and the global war on terrorism will be depending on these services.

Analysis of 2006 Underfunding

After taking into account a modest level of inflation (2.3 percent – the Congressional Budget Office [CBO] inflation projection, which is far less than the 7 to 8 percent at which the cost of medical care is currently growing¹), the Administration's planned 2006 budget is \$1.6 billion short of what is needed to provide services at its 2005 requested level. Using the higher medical care inflation rates, the VA would be \$3 billion short of maintaining services at the President's requested level for 2005.

While it remains to be seen how the 2006 cut would be implemented, it is clear that a cut of this magnitude would have a substantial negative impact on veterans' health care. For example, underfunding veterans' health care in 2006 by \$1.6 billion could mean any of the following:

- Disenrolling about 240,000 veterans from medical care services.² The VA also may not be able to accommodate the thousands of veterans who will eventually return from the wars in Iraq and Afghanistan. To date, approximately 25,000 Iraq and Afghanistan war

¹ Estimate of the current rate of medical care inflation is based on pricing data the Bureau of Labor Statistics collected on the Consumer Price Index subcategory, Hospital and Related Services, through May 2004.

² Estimate based on average 2005 obligations per unique veteran projected by the VA. VA FY 2005 budget submission, volume 2, p. 2C-2.

veterans have sought health care from the VA.³ The VA must prepare to care for thousands more seeking its services beyond 2005.

- Raising the cost of veterans' health care by imposing new enrollment fees or increasing co-payments for drugs and primary care for certain veterans. The Administration already has proposed similar increases in co-payments in its budget requests for 2003, 2004, and 2005, indicating its willingness to increase the financial burden on veterans.⁴
- Cutting up to 18,000 full-time employees for veterans' medical care. (\$1.6 billion equates to 70 percent of VA's physician payroll, or, alternatively, about 40 percent of VA's payroll for nurses.)⁵ Personnel reductions could result in fewer veterans getting treatment, a decrease in the quality of health care services, and an increase in waiting periods for veterans seeking care.
- Eliminating new construction projects (including any new projects under Capital Assets Realignment for Enhanced Services for which the VA plans to request about \$1 billion per year for the next 5 years⁶). Reductions for these projects would delay or halt the initiative to modernize the VA's aging health care infrastructure.
- Eliminating the entire medical and prosthetic research enterprise – which is becoming all the more important as our troops return from Iraq with extensive injuries requiring improved, state-of-the-art medical devices that are developed as a result of this research. The President requested \$770 million for this important research in 2005, which is already \$50 million below the 2004 level.

The Administration's Request for 2005 is Already Low

Taking into account the fact that the Administration underfunded the veterans health care budget in 2005, the overall effect of the Administration's 2006 funding level will be even worse. The President's budget request for 2005 was \$1.2 billion short of what the Secretary of Veterans Affairs said is needed and \$2.5 billion short of the amount the Veterans' Affairs Committee recommended, on a bipartisan basis, to maintain current services.

³ Estimate from VHA Office of Public Health and Environmental Hazards, Analysis of VA Health Care Utilization, May 19, 2004, Reports 3 and 6.

⁴ As part of the 2005 budget request, the Administration proposed increasing co-payments for prescription drugs from \$7 to \$15 and imposing a new \$250 enrollment fee for priority 7 and 8 veterans.

⁵ Estimates based on VA estimates for 2005 medical care payroll obligations per Full Time Equivalent and obligations by object classification. VA FY 2005 budget submission, volume 2, pp. 2C-6, 2C-10.

⁶ CARES Decision, Statement of the Secretary, chapter 1, p. 5.

Summary of the Department of Veterans' Affairs Discretionary Budget

Department of Veterans Affairs - Discretionary Funding Level Comparison (Budget Authority in Billions of Dollars)

	<u>2004</u>	<u>2005</u>	<u>2006</u>
President's 2005 Budget	29.1	29.7	28.7
Amt. to maintain purchasing power at the President's 2005 level ⁷			30.3
<i>Shortfall</i>			<i>1.6</i>

⁷ An inflation rate of 2.3 percent, CBO's rate, is used to calculate how much is needed to maintain purchasing power in 2006 at the President's 2005 requested level.