



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

November 19, 2010

S. 3517 **Claims Processing Improvement Act of 2010**

*As ordered reported by the Senate Committee on Veterans' Affairs
on August 5, 2010*

SUMMARY

S. 3517 would modify the procedures used by the Department of Veterans Affairs (VA) to process and adjudicate compensation and pension claims. S. 3517 also would make changes to the compensation and pension programs and institute a pilot program for local and tribal governments. CBO estimates that enacting S. 3517 would increase direct spending by \$393 million over the 2011-2015 period and about \$2.1 billion over the 2011-2020 period. CBO also estimates that implementing S. 3517 would add \$5 million in discretionary spending over the 2011-2015 period, subject to appropriation of the necessary amounts. Enacting the bill would not affect revenues.

Pay-as-you-go procedures apply because enacting the legislation would affect direct spending.

S. 3517 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 3517 is shown in the following table. The costs of this legislation fall within budget function 700 (veterans benefits and services).

	By Fiscal Year, in Millions of Dollars										2011-	2011-
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2015	2020
CHANGES IN DIRECT SPENDING												
Private Medical Opinions												
Estimated Budget Authority	5	21	53	102	158	217	278	340	405	472	339	2,051
Estimated Outlays	5	21	53	102	158	217	278	340	405	472	339	2,051
Intermediate Disability Rating												
Estimated Budget Authority	15	16	21	1	1	2	2	2	2	2	54	64
Estimated Outlays	15	16	21	1	1	2	2	2	2	2	54	64
Total Changes												
Estimated Budget Authority	20	37	74	103	159	219	280	342	407	474	393	2,115
Estimated Outlays	20	37	74	103	159	219	280	342	407	474	393	2,115

Note: In addition to the changes in direct spending shown above, S. 3517 also would increase discretionary spending by \$5 million over the 2011-2015 period for a disability compensation pilot program and various administrative provisions, subject to appropriation of the necessary amounts.

BASIS OF ESTIMATE

For the purposes of this estimate, CBO assumes S. 3517 will be enacted by the end of calendar year 2010.

Direct Spending

S. 3517 would make several changes to the VA disability compensation and pensions programs. CBO estimates that enacting S. 3517 would increase direct spending by \$2.1 billion over the 2011-2020 period.

Private Medical Opinions. Section 5 would allow medical opinions from private practitioners to be used to support claims for VA disability ratings. VA would be required to give such medical opinions the same deference as opinions provided by VA physicians. Under current law, a medical examination conducted by a physician is the main factor in assigning a disability rating, though other evidence can be used to support a claim. CBO estimates that enacting section 5 would increase direct spending by \$2.1 billion over the 2011-2020 period.

CBO expects that mental disorders and other disabilities where the diagnosis is in part subjective would comprise the majority of the cases where private medical opinions would be sought by veterans, and that 25 percent of veterans with such disabilities would provide credible private opinions. Based on a review of historical data on disability ratings, CBO

estimates that veterans providing a private medical opinion would see a 10 percentage-point increase in their disability rating—moving from an average disability rating of 40 percent to 50 percent—over what they would have otherwise received. That change would increase a veteran’s monthly benefit by \$250 in 2011. CBO does not expect the number of veterans receiving disability compensation to be significantly affected by this provision.

New Cases. In 2009, VA added 212,000 veterans to the disability compensation rolls. CBO estimates that there will be about 215,000 new accessions in 2011, growing to about 243,000 in 2020. Based on information from VA, mental and other disorders (such as back injuries) where a subjective diagnosis exists account for about 10 percent of the disabilities for which a rating for compensation is provided. Assuming a gradual phase-in of the use of private opinions, CBO estimates that in 2011 about 1,000 new veterans would receive higher disability ratings, and that this number would increase to about 6,100 in 2020. After accounting for mortality and inflation, CBO estimates that section 5 would increase direct spending for new accessions by \$110 million over the 2011-2015 period and \$640 million over the 2011-2020 period.

Veterans Currently On the Rolls. Under section 5, veterans who are currently receiving veterans’ disability compensation also would be eligible for an increase in their disability ratings. About 3.2 million veterans currently receive veterans’ disability compensation and about 15 percent return each year to be re-rated. After accounting for the factors described above, CBO estimates that the population of veterans on the rolls who would receive an increased rating would be about 2,400 in 2011, increasing to about 13,200 in 2020. Therefore, CBO estimates that section 5 would increase direct spending for veterans currently on the rolls by about \$1.4 billion over the 2011-2020 period.

Intermediate Disability Rating. Section 2 would require VA to assign a temporary disability rating to any veteran who submits a claim for multiple disabilities that includes at least one disability that can be rated immediately. VA currently has the authority to assign such partial ratings but because of the large backlog of claims it has used this authority sparingly. Most veterans with multiple disabilities have to wait until their claim is fully adjudicated—often a year or more—before receiving disability compensation. When such veterans begin receiving monthly compensation payments, they also receive a retroactive payment that covers the months back to the date of their application.

Under section 2, CBO expects that such veterans would begin receiving partial disability compensation payments in the year in which they file a claim. That would increase costs in that first year (because of the earlier payments) and decrease costs in a subsequent year (because of reduced retroactive payments). CBO expects that costs would increase substantially for the first three years, as VA gradually phased in the process of assigning intermediate ratings more widely over that period. Once that process was fully phased in,

CBO expects those increased costs would be largely offset by the reduced retroactive payments.

The population that would generate additional spending would be veterans filing claims for the first time. Based on information from VA, CBO estimates that about 50 percent of all new claims for a disability rating are seeking a rating based on multiple disabilities and that about 25 percent of those cases (12.5 percent of all new claims) have at least one disability that could be decided immediately. In 2007, VA assigned temporary ratings to 33 cases. Under section 2, CBO expects that VA would eventually assign intermediate ratings to half of the eligible population—about 6 percent of new cases each year.

In 2009, there were about 212,000 new accessions to the disability compensation rolls. CBO estimates that there will be about 215,000 new accessions in 2011, growing to about 243,000 in 2020. After accounting for a three-year phase-in and the number of veterans with a disability that could be rated immediately, CBO estimates that about 4,000 new veterans in 2011 would receive an intermediate rating (and, therefore, a payment in 2011), increasing to about 15,000 in 2020. The average disability rating for new cases is 40 percent (about \$600 per month—\$7,200 annually—in 2010) and CBO assumes that these veterans would receive that rating. After accounting for mortality and inflation, CBO estimates that section 2 would increase direct spending by \$64 million over the 2011-2020 period.

Increased Pension for Married Veterans Requiring Aid and Attendance (A&A).

Section 20 would increase the annual pension payable to married veterans when both spouses require regular A&A. Under current law, when two married veterans are in need of regular A&A, they are eligible to receive an annual combined pension of \$30,480. Section 20 would increase that combined annual payment amount to \$31,305.

There are currently about 75 married couples who are both receiving pensions and both in need of regular A&A. Based on information from VA, CBO estimates that the number of eligible couples will decline slightly over the next decade. Therefore, we estimate that enacting section 20 would increase direct spending by less than \$500,000 over the 2011-2020 period.

Automatic Cost-of-Living Adjustment (COLA). Section 21 would automatically increase the amounts payable to veterans for disability compensation and to their survivors for dependency and indemnity compensation by the same COLA payable to Social Security recipients each year. Currently, this increase is authorized on an annual basis. The COLA that would be authorized by this bill is assumed in CBO's baseline, consistent with section 257 of the Balanced Budget and Emergency Deficit Control Act, and savings from rounding it down were achieved by the Balanced Budget Act of 1997 (Public Law 105-33)

as extended by the Veterans Benefits Act of 2003 (Public Law 108-183); therefore, enacting section 21 would have no budgetary effect relative to the baseline.

Spending Subject to Appropriation

S. 3517 includes several provisions that would have a small impact on discretionary spending. CBO estimates that implementing those provisions would cost \$5 million over the 2011-2015 period, subject to appropriation of the necessary amounts.

Pilot Program for Local and Tribal Governments. Section 19 would require VA to conduct a pilot program to determine the feasibility of entering into memorandums of understanding (MOUs) with local and tribal organizations intended to help facilitate the claims application process. VA would be required to enter into such MOUs with at least two tribal organizations. Assuming that VA entered into two such agreements, CBO expects that implementing those agreements would require VA to hire a total of four additional employees to provide on-site assistance—two for each tribal organization. Based on information from VA, CBO estimates that implementing section 19 would cost less than \$500,000 per year and about \$2 million over the 2011-2015 period, subject to the availability of appropriated funds.

Other Provisions. Several sections of S. 3517 would make changes to the claims adjudication process at VA, both in terms of the filing of claims and VA's method for adjudication and the appeals process when a veteran disagrees with a VA decision. While most of those changes would have either an insignificant budget impact or no impact at all, CBO expects that implementing all of them would require VA to hire additional employees. Thus, CBO estimates that those provisions would cost about \$3 million over the 2011-2015 period, subject to the availability of appropriated funds.

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. S. 3517 would increase direct spending by increasing the amount of disability compensation that certain veterans would be eligible to receive. The changes in outlays that are subject to those pay-as-you-go procedures are shown in the following table.

CBO Estimate of Pay-As-You-Go Effects for S. 3517 as ordered reported by the Senate Committee on Veterans' Affairs on August 5, 2010

	By Fiscal Year, in Millions of Dollars										2011-	2011-
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2015	2020
NET INCREASE IN THE DEFICIT												
Statutory Pay-As-You-Go Impact	20	37	74	103	159	219	280	342	407	474	393	2,115

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

S. 3517 contains no intergovernmental mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

ESTIMATE PREPARED BY:

Federal Costs: Dwayne M. Wright

Impact on State, Local, and Tribal Governments: Lisa Ramirez-Branum

Impact on the Private Sector: Elizabeth Bass

ESTIMATE APPROVED BY:

Theresa Gullo

Deputy Assistant Director for Budget Analysis