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CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

May 15, 2018

H.R. 299

A bill to amend title 38, United States Code, to clarify presumptions relating to the exposure of certain veterans who served in the vicinity of the Republic of Vietnam, and for other purposes

*As ordered reported by the House Committee on Veterans' Affairs
on May 8, 2018*

SUMMARY

H.R. 299 would modify the loan guarantee and disability compensation programs administered by the Department of Veterans Affairs (VA). On net, CBO estimates that enacting the bill would decrease direct spending for those programs by \$271 million over the 2019-2028 period.

In addition, H.R. 299 would expand access to VA medical care for certain veterans and their dependents. In total, CBO estimates that implementing the bill would cost \$136 million over the 2019-2023 period, assuming appropriation of the necessary amounts.

Enacting H.R. 299 would affect direct spending; therefore, pay-as-you-go procedures apply. The bill would not affect revenues.

CBO estimates that enacting H.R. 299 would not increase net direct spending by more than \$2.5 billion or on-budget deficits by more than \$5 billion in any of the four consecutive 10-year periods beginning in 2029.

H.R. 299 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 effect of H.R. 299 is shown in Table 1. The costs of the legislation fall within budget function 700 (veterans benefits and services).

TABLE 1. ESTIMATED BUDGETARY EFFECTS OF H.R. 299, THE BLUE WATER NAVY VIETNAM VETERANS ACT OF 2017

	By Fiscal Year, in Millions of Dollars												
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2019-2023	2019-2028
INCREASES OR DECREASES (-) IN DIRECT SPENDING													
Estimated Budget Authority	0	16	-3	-125	-97	-73	-49	-50	-54	69	91	-280	-271
Estimated Outlays	0	16	-3	-125	-97	-73	-49	-50	-54	69	91	-280	-271
INCREASES IN SPENDING SUBJECT TO APPROPRIATION													
Estimated Authorization Level	0	4	21	34	39	45	46	47	49	50	52	143	387
Estimated Outlays	0	4	19	32	38	43	45	46	48	49	51	136	375

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

BASIS OF ESTIMATE

For this estimate, CBO assumes that the estimated amounts will be appropriated each year, that outlays will follow historical spending patterns for affected programs, and that the bill will be enacted in 2018. The bill specifies that the provisions would take effect on January 1, 2019.

Direct Spending

H.R. 299 would make several changes to VA’s loan-guarantee benefit. It also would increase the disability compensation paid to certain veterans who served in Southeast Asia and Korea and their dependents. On net, enacting the bill would decrease direct spending by \$271 million (see Table 2).

Guaranteed Loans. Section 5 would modify several provisions of current law related to VA’s authority to guarantee certain mortgages provided to veterans. In total, those changes would decrease direct spending by almost \$1.2 billion over the 2019-2028 period.

TABLE 2. ESTIMATE OF THE EFFECTS ON DIRECT SPENDING OF H.R. 299

	Outlays, by Fiscal Year, in Millions of Dollars												
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2019-2023	2019-2028
INCREASES OR DECREASES (-) IN DIRECT SPENDING													
Guaranteed Loans													
Loan Guarantee Fees	0	-140	-171	-156	-141	-124	-106	-109	-112	4	5	-732	-1,050
Jumbo Loans	0	-13	-19	-19	-17	-16	-14	-13	-15	-9	11	-84	-124
Home Loan Appraisals	<u>0</u>	<u>*</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>4</u>	<u>9</u>
Subtotal Guaranteed Loan	0	-153	-189	-174	-157	-139	-119	-121	-126	-4	17	-812	-1,165
Disability Compensation													
Blue Water Navy Veterans	0	169	186	48	59	65	69	70	71	72	73	527	882
Korea DMZ Veterans	0	*	*	1	1	1	1	1	1	1	1	3	8
Spina Bifida Benefits	<u>0</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>2</u>	<u>3</u>
Subtotal Disability Compensation	0	169	186	49	60	66	70	71	72	73	74	532	894
Total Changes in Direct Spending	0	16	-3	-125	-97	-73	-49	-50	-54	69	91	-280	-271

* = less than \$500,000; DMZ = Demilitarized Zone.

The provisions of H.R. 299 would take effect on January 1, 2019; Details may not add to totals because of rounding. Budget authority equals outlays.

Loan Guarantee Fees. Most significantly, section 5 would change the fees that VA charges veterans for providing loan guarantees under its home loan program. Under that program, VA provides lenders a payment of up to 25 percent of the outstanding mortgage balances (subject to some limitations on the original loan amounts) in the event that a veteran defaults on a guaranteed loan. The guarantees enable veterans to get better loan

terms, such as lower interest rates or smaller down payments. Increasing the fees would lower the subsidy cost of the guarantees by partially offsetting the costs of subsequent defaults.¹ Reducing the fees would have the opposite effect. The subsidy cost of VA loan guarantees are paid from mandatory appropriations. Hence, changing the subsidy cost would affect direct spending.

Under current law, the up-front fee varies on the basis of the size of the down payment and whether the veteran has previously used the loan-guarantee benefit. Borrowers who are members of the reserve component pay an additional fee of 0.25 percent of the loan amount. Veterans who receive compensation for service-connected disabilities are exempt from paying the fee. The fees that would be affected by section 5 are currently set as follows:

- 2.15 percent of the loan amount for loans with no down payment on the first use of the guarantee benefit,
- 3.30 percent of the loan amount for loans with no down payment on subsequent uses of the guarantee benefit,
- 1.50 percent of the loan amount for loans with a 5 percent down payment, and
- 1.25 percent of the loan amount for loans with a 10 percent down payment.

Section 5 would increase those fees to 2.40 percent, 3.80 percent, 1.75 percent, and 1.45 percent, respectively. The fees would rise on January 1, 2019; they would decline to the current levels after September 30, 2026. The provision also would permanently eliminate the additional 0.25 percent fee charged to reservists. On the basis of our analysis of information from VA on the number and size of loans guaranteed in recent years, the default rate for those loans, and the amount of fees collected, CBO estimates that the net effect of enacting those fee changes would be to decrease direct spending by \$1.1 billion over the 2019-2028 period.

Jumbo Loans. Section 5 also would increase the maximum loan level for which VA can provide a full guarantee. The guaranteed payment from VA is generally capped at 25 percent of the initial loan balance, up to the limit on loan size established by the Federal Home Loan Mortgage Corporation Act. That limit is currently \$453,100. (Loans

1. Under the Federal Credit Reform Act of 1990, the subsidy cost of a loan guarantee is the net present value of estimated payments by the government to cover defaults and delinquencies, interest subsidies, or other expenses, offset by any payments to the government, including origination fees, other fees, penalties, and recoveries on defaulted loans. Such subsidy costs are calculated by discounting those expected cash flows using the rate on Treasury securities of comparable maturity. The resulting estimated subsidy costs are recorded in the budget when the loans are disbursed.

at or below that level are known as conforming loans; loans in excess are called jumbo loans. Exceptions are made to the conforming limit for certain high-cost areas.) Under this provision, the cap would be eliminated as of January 1, 2019, allowing VA to provide a 25 percent guarantee on the full amount of loans. In the event that a veteran defaulted on a jumbo loan, guarantee payments by VA would be greater than they would under current law. Also, CBO expects that more veterans would use the loan benefit if VA could guarantee the full amount of all loans. Thus, raising the amount guaranteed would increase direct spending.

However, the provision also would eliminate the fee exemption for most disabled veterans if they take out a jumbo loan. (Totally disabled veterans would still be exempt from paying the fee.) Also, fees on jumbo loans would be higher as a result of the temporary increase in loan fees discussed above. The additional fee income from those two sources would reduce direct spending by an amount that would more than offset the higher guarantee payments for any loans made up to September 30, 2027. At that time, under current law, the loan fees decline to 1.4 percent, 1.25 percent, 0.75 percent, and 0.50 percent, respectively. As a result of those lower fees, the additional guarantees for jumbo loans would increase subsidy costs for such loans made after that date.

Over the 2008-2011 period, VA was authorized to provide a full guarantee on loans of up to \$729,750. On the basis of information regarding the number and value of jumbo mortgages VA guaranteed during that period, CBO estimates that VA would guarantee about \$3 billion worth of additional loans a year under this provision. On net, however, that change and the changes to fees would decrease direct spending by \$124 million over the 2019-2028 period.

Home Loan Appraisals. Home appraisals for loans guaranteed by VA must be performed by a provider that has been approved by the department. The cost of those appraisals is paid by the borrowers. VA reports that a shortage of approved appraisers in some areas of the country has increased the cost of appraisals and the time it takes to complete them. Section 6 would permit VA-approved appraisers to base their estimates of home values solely on information provided by third parties. That change would allow appraisers to estimate home values without visiting the property through the use of information from property tax records, real estate listings, and similar sources.

On the basis of the number and the average amount of loans that VA guarantees, CBO expects that streamlining the process and reducing closing costs for borrowers would increase the number of loans guaranteed by VA by a few hundred each year. The average subsidy cost of VA loan guarantees, which are paid from mandatory appropriations, is about \$3,000. Thus, increasing the number of loans would increase direct spending by about \$1 million each year and \$9 million over the 2019-2028 period, CBO estimates.

Disability Compensation. Sections 1 and 2 would increase compensation benefits for certain veterans who served in Southeast Asia or Korea. In total, those changes would increase direct spending by \$894 million over the 2019-2028 period. Those changes also would affect medical care provided to disabled veterans and certain dependents. Those effects are discussed below in the section on “Spending Subject to Appropriation.”

Blue Water Navy Veterans. Section 1 would provide disability compensation to certain veterans who served in the territorial seas of Vietnam during the Vietnam War. It also would provide certain benefits to dependents or survivors of those veterans. Prospective and retroactive payments arising from section 1 would increase direct spending by \$169 million in 2019, and by \$882 million over the 2019-2028 period, CBO estimates.

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

VA does not currently presume that veterans who served in the territorial seas of Vietnam, commonly referred to as the “Blue Water Navy,” have been exposed to Agent Orange. Section 1 would make those veterans eligible for a presumption of Agent Orange exposure for purposes of disability compensation. On the basis of information from the Department of the Navy, VA, and other sources, CBO estimates that about 174,500 service members served offshore during the Vietnam War. Of those personnel, CBO estimates about 122,500 are already be eligible for Agent Orange presumption based on information from VA regarding ships that the agency has determined were exposed to Agent Orange. The remainder, about 52,000 personnel, are not currently eligible for a presumption of exposure to Agent Orange. Under H.R. 299, those additional veterans would be presumed to have been exposed to Agent Orange and would be eligible for increased disability compensation if they have one of the conditions VA has determined to be related to that exposure.

CBO estimates that about 60 percent, or 30,000, of the 52,000 offshore personnel are still living. VA reports that about 15 percent of Vietnam veterans have service-connected disabilities (SCD) and roughly 45 percent of those veterans have a disease that VA considers to be caused by exposure to Agent Orange. On that basis, CBO expects that

about 2,000 veterans would have their current disability rates raised; as a result, their disability compensation would increase by about \$8,000 per veteran in 2019. After accounting for cost-of-living adjustments, CBO estimates that disability compensation for veterans with existing SCDs would increase by \$152 million over the 2019-2028 period.

The remaining group of living veterans would be newly eligible to have disabilities considered service-connected as a result of exposure to Agent Orange. CBO expects that half—roughly 5,700—of newly eligible veterans with related diseases would apply to VA for a disability rating on a continuous basis over the 2019-2023 period. New disability payments would average \$8,200 in 2019. Those payments would total \$400 million over the 2019-2028 period.

Survivors of veterans who die as a result of a SCD are eligible to receive dependency and indemnity compensation (DIC). Because more veterans would be designated as having SCDs, additional survivors would receive DIC payments. On the basis of information about the number of DIC beneficiaries, CBO estimates the bill would result in roughly 120 additional DIC beneficiaries by 2028. New DIC payments would total \$10 million over the 2020-2028 period, CBO estimates.

Section 1 also would authorize retroactive payments to Blue Water Navy veterans who have previously been denied a claim for an eligible condition that is presumed to be caused by exposure to Agent Orange. On the basis of information from VA about the number of veterans and survivors denied a SCD rating for Agent Orange exposure, CBO estimates that about 3,400 veterans and about 1,330 survivors would receive retroactive payments under this provision. Those retroactive benefits would be paid in a lump sum for the amount of disability compensation due to the veteran or survivor for the period between when they first applied for compensation or DIC and the date on which the SCD rating is approved. CBO estimates that period would average 10 years for veterans and 8 years for survivors. Retroactive payments would be made in 2019 and 2020 totaling nearly \$320 million, CBO estimates.

Korea Demilitarized Zone Veterans. Section 2 would require VA to provide disability compensation to certain veterans who served at the Korea Demilitarized Zone (DMZ) at any time during the period between September 1, 1967, and August 31, 1971. Payments also would be made to certain survivors of those veterans.

Under current VA regulations, veterans who served along the Korea DMZ at any time from April 1, 1968, to August 31, 1971, are presumed to have been exposed to Agent Orange. The bill would extend the period for which exposure is presumed to have occurred by seven months.

According to VA, about 1,000 veterans who served outside of Vietnam are receiving compensation for service-connected exposure to Agent Orange. In addition to service in Vietnam and along the Korea DMZ, VA presumes exposure to Agent Orange if the veteran served near the perimeter of military bases in Thailand during the Vietnam era, at locations where Agent Orange was tested or stored outside of Vietnam, and in a few other locations. The agency cannot identify by specific location the number of disability claims for Agent Orange exposure that occurred outside of Vietnam. CBO estimates that 70 percent of those 1,000 veterans are receiving compensation payments as a result of service along the Korea DMZ.

Because the bill would extend the eligibility dates for service along the Korea DMZ by 13 percent, CBO estimates a corresponding increase in the number veterans who would receive disability compensation for exposure to Agent Orange. Those 90 veterans would receive an annual payment of about \$8,200 in 2019. Additional DIC costs for survivors of those veterans would be insignificant. In total, after accounting for inflation, section 2 would increase direct spending by \$8 million over the 2019-2028 period, CBO estimates.

Spina Bifida Benefits. VA provides monetary allowances, vocational training, rehabilitation services, and VA-financed health care benefits to the biological children of certain Korea and Vietnam veterans if those children have been diagnosed with spina bifida. Section 3 would expand eligibility for those benefits to the children of certain veterans who served in Thailand between January 9, 1962, and May 7, 1975. On the basis of information from VA about the current population of children receiving benefits for spina bifida and the number of military personnel who served in Vietnam or Thailand, CBO estimates that about 20 individuals per year would receive a monetary allowance under this provision. With an average allowance of \$1,100 per month, CBO estimates that enacting section 3 would increase direct spending by \$3 million over the 2019-2028 period.

Section 3 also would provide health care benefits for those eligible individuals. The cost of that care is discussed in the “Spending Subject to Appropriation” section of the estimate.

Spending Subject to Appropriation

CBO estimates that implementing H.R. 299 would increase spending on VA medical care by a total of \$136 million over the 2019-2023 period, assuming appropriation of the necessary amounts (see Table 3).

TABLE 3. ESTIMATE OF THE EFFECTS ON SPENDING SUBJECT TO APPROPRIATION OF H.R. 299

	By Fiscal Year, in Millions of Dollars						2019-2023
	2018	2019	2020	2021	2022	2023	
INCREASES IN SPENDING SUBJECT TO APPROPRIATION							
Health Care for Veterans							
Estimated Authorization Level	0	4	20	33	38	44	139
Estimated Outlays	0	4	18	31	37	42	132
Spina Bifida Benefits							
Estimated Authorization Level	0	*	1	1	1	1	4
Estimated Outlays	0	*	1	1	1	1	4
Total Changes in Spending Subject to Appropriation							
Estimated Authorization Level	0	4	21	34	39	45	143
Estimated Outlays	0	4	19	32	38	43	136

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

Enacting H.R. 299 would increase spending subject to appropriation by \$375 million over the 2019-2028 period.

Health Care for Veterans. As discussed above in the section on “Direct Spending,” sections 1 and 2 would increase the disability ratings of certain veterans who served in Southeast Asia or Korea. Additionally, Blue Water Navy veterans who are not determined to have a disability connected to exposure to Agent Orange would become eligible to receive a higher priority for care or become newly eligible for care in the VA health care system. As a result, some of those veterans and certain dependents would receive additional health care benefits from VA.

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

On the basis of data regarding participation rates in the VA health care system, CBO estimates that under the bill about 7,400 veterans who are already enrolled in the VA health care system would be moved to a higher priority group over the next five years. Those veterans would receive an average of \$2,600 in additional care each year. In total, health care costs for existing enrollees would increase by \$62 million over the 2019-2023 period, CBO estimates.

In addition, CBO expects that about 4,800 veterans would newly enroll in the VA health care system as a result of new eligibility or heightened priority for health care over the next five years. On the basis of health care costs for existing enrollees, CBO estimates that those veterans would receive an average of \$4,600 in health care each year. Over the 2019-2023 period, CBO estimates that increases in health care costs for new enrollees would total \$70 million.

DIC recipients are eligible for health care through the Civilian Health and Medical Program of the Department of Veterans Affairs (CHAMPVA) program. CHAMPVA is an insurance program run by the VA for dependents and survivors of certain disabled veterans. Because the number of new DIC beneficiaries would be small, the costs of their CHAMPVA benefits would be insignificant.

In total, CBO estimates that, under sections 1 and 2, spending for VA health care would increase by \$132 million over the 2019-2023 period, assuming appropriation of the necessary amounts.

Spina Bifida Benefits. As discussed above in the section on “Direct Spending,” section 3 would extend eligibility for benefits related to spina bifida to include the children of veterans who served in Thailand between January 9, 1962, and May 7, 1975. Those children would be eligible for health care and certain other benefits from VA similar to those provided to children with spina bifida of veterans who served in Vietnam.

On the basis of information from VA about the current population of children receiving health benefits for spina bifida relative to the number of service members who served in Vietnam and information about the number of veterans who served in Thailand, CBO estimates that roughly 20 people per year would take advantage of the health care benefits, at an estimated cost of \$41,000 per beneficiary in 2019. Adjusting for inflation, CBO estimates that providing health benefits to this population would cost \$4 million over the 2019-2023 period. The other benefits provided under this provision are discussed in the section of the estimate titled “Direct Spending.”

PAY-AS-YOU-GO CONSIDERATIONS

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending or revenues. The net changes in outlays that are subject to those pay-as-you-go procedures are shown in the following table.

CBO Estimate of Pay-As-You-Go Effects for H.R. 299 as ordered reported by the House Committee on Veterans' Affairs on May 8, 2018

	By Fiscal Year, in Millions of Dollars											2018-	2018-
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2023	2028
NET INCREASE OR DECREASE (-) IN THE DEFICIT													
Statutory Pay-As-You-Go Impact	0	16	-3	-125	-97	-73	-49	-50	-54	69	91	-280	-271

INCREASE IN LONG-TERM DIRECT SPENDING AND DEFICITS

CBO estimates that enacting H.R. 299 would not increase net direct spending by more than \$2.5 billion or on-budget deficits by more than \$5 billion in any of the four consecutive 10-year periods beginning in 2029.

MANDATES

H.R. 299 contains no intergovernmental or private-sector mandates as defined in UMRA.

ESTIMATE PREPARED BY

Federal Costs: Ann E. Futrell, David Newman, and Logan Smith

Mandates: Andrew Laughlin

ESTIMATE REVIEWED BY

Sarah Jennings

Chief, Defense, International Affairs, and Veterans Affairs Unit

Leo Lex

Deputy Assistant Director for Budget Analysis