CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Douglas W. Elmendorf, Director

July 24, 2014

Honorable Jeff Miller
Chairman
Committee on Veterans' Affairs
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

The Congressional Budget Office has prepared an updated and complete estimate of H.R. 3230, the Veterans Access to Care Act of 2014, as passed in the House of Representatives on June 18, 2014. That version of H.R. 3230 would authorize the appropriation of whatever sums are necessary for the Department of Veterans Affairs (VA) to expand, for two years, its use of non-VA health care providers to provide medical services to veterans. VA also would be authorized to use funds that were previously appropriated but have not yet been used to undertake that expansion. The agency would be required to arrange for independent assessments of the performance of the Veterans Health Administration and would face new limits on the amount of awards and bonuses it could pay certain VA employees.

Effects of Sections 2 and 3

Most of the costs of implementing H.R. 3230 would stem from the provisions of sections 2 and 3. Those sections would expand, for two years after the date of enactment, the VA's current authority to provide medical services to veterans through agreements with non-VA health care providers, and would require VA to use that authority to ensure that all eligible veterans receive requested health care in a timely fashion. (For the purpose of this estimate, CBO has assumed that the legislation would be enacted by early in August 2014.) Under the version of the bill that was passed by the House, the waiting times would generally have to be 14 days or less (under the goals specified by VA as of June 1, 2014).

Discretionary Costs. Assuming appropriation of the necessary amounts, CBO estimates that implementing sections 2 and 3 would lead to a net increase of $42 billion in VA's discretionary spending over the 2014-2017 period (see attached table).[1] This estimate reflects CBO's expectation that veterans' utilization of contracted care under this act would ramp up over time; of the potential annual increase in the use of such care, we estimate about 30 percent would occur in 2015 and 60 percent in 2016. If instead the program established under sections 2 and 3 was fully phased in and in effect for all of 2016 (an outcome we think is very unlikely), CBO anticipates that if the necessary funds were appropriated, VA's discretionary spending would increase by $51 billion in that year.

Effects on Direct Spending. To cover the costs of implementing the act, VA also would be authorized to use certain funds that have already been appropriated but have not yet been used. Because some of those funds would otherwise not have been spent, CBO estimates that allowing VA to use those funds to implement sections 2 and 3 would increase direct spending by $620 million. Finally, VA would collect payments from other health insurance plans for certain care provided to veterans and would collect a variety of fees and copayments from veterans. CBO expects that in 2015, VA would collect an additional $700 million, decreasing direct spending by that amount. (Because appropriations have not yet been provided for 2016 and 2017, additional collections projected in those years are treated in this estimate as offsets to future discretionary spending.)

Other Budgetary Effects. If, as a result of implementing H.R. 3230, the use of contracted care by VA increased by the amounts CBO estimates, spending in the Medicare and Medicaid programs would be reduced by an estimated $7.2 billion over the fiscal years 2015 through 2017. Those effects would arise because some of the health care services that would otherwise have been financed by Medicare and Medicaid would now be paid for by VA using appropriated funds.

1. On June 17, 2014, CBO published a preliminary estimate for sections 2 and 3 of the House amendment to the Senate amendment to H.R. 3230, as posted on the Rules Committee website on June 16, 2014. Since then, CBO has received additional and updated information from VA and has considered additional factors that affected the preliminary estimate—some of which decreased the estimated costs and some of which increased the estimated costs. Those changes reduced CBO's estimate of the budgetary effect of those two sections of the legislation from $51 billion (offset in part by $7 billion in Medicare and Medicaid savings) over the 2014-2019 period to $42 billion (offset in part by $7 billion in Medicare and Medicaid savings) over that period. In addition, CBO has now estimated an increase in federal tax revenues stemming from a shift in costs from employer-sponsored insurance to VA.

In addition, shifting some health care costs to VA would reduce the amounts that employers would pay for their employees' insurance. Those reductions would lead to an increase in wages and other taxable forms of compensation, CBO estimates, boosting federal tax revenues by an estimated $2.5 billion over the 2015-2017 period.

These other budgetary effects would not be directly attributable to enactment of this legislation because they would depend on future appropriation actions. Hence, they are shown in a memorandum line of the attached table.

Basis of Estimate for Sections 2 and 3. Sections 2 and 3 of H.R. 3230, as passed by the House, are similar in many respects to the provisions of title III of H.R. 3230 as that legislation was passed by the Senate. Consequently, CBO's analysis of the House version is similar to its analysis of the Senate version, and reflects many of the same considerations laid out in the estimate for the Senate version that was issued by CBO on July 10, 2014. In particular, veterans enrolled in the VA system currently receive a large amount of health care from sources other than VA and both versions of the legislation would give many veterans a financial incentive to seek VA payment in order to reduce their cost-sharing obligations.

For reasons explained more extensively in that analysis, but with some differences that reflect the differing provisions of the two versions of the bill, CBO estimates that:

- Current enrollees would seek to increase the share of their health care provided by VA from about one-third under current law to about 60 percent because of shorter waiting times and the availability of contracted care; their increased use of VA-financed services would rise by an additional 20 percent because of lower out-of-pocket expenses.

- About 600,000 veterans in 2015 and 1.1 million in 2016 who, under current law, will be eligible but not enrolled for VA health care would choose to enroll and receive benefits if H.R. 3230 was enacted.

- Contracted care would be authorized in the vast majority of cases when demand for VA-financed care increased, but some areas do not have and are unlikely to develop problems in providing timely care at VA facilities and thus would not use contracted care.

- Additional administrative costs would total about $300 each year for each veteran receiving contracted care as a result of this act.

Most of the projected costs of sections 2 and 3 would stem from an increase in the utilization of VA-financed health care services by veterans who will be enrolled in the VA health care system under current law. CBO estimates that the additional costs to VA for those veterans would total $34 billion from 2015 through 2017, and that savings to Medicare and Medicaid would offset about $6 billion of that cost. Veterans who will not be enrolled in the VA health care system under current law but would choose to enroll under H.R. 3230 would account for another $9 billion in costs to the VA over the 2015-2017 period and would generate savings of less than $1 billion to Medicare and Medicaid. Of that spending, CBO estimates that about $620 million would come from already appropriated funds; thus, implementing sections 2 and 3 would require $42 billion in additional appropriations. Those amounts do not include the increase in tax revenues (shown in the memorandum) that would result if appropriations were provided to implement the legislation.

Effects of Other Sections

Section 4 would require VA to arrange for independent assessments of the performance of the Veterans Health Administration. CBO estimates that those assessments would cost $2 million over the 2014-2015 period, assuming appropriation of the necessary amounts.

Section 5 would impose limitations on the VA's ability to provide bonuses and awards to certain of its employees. Abiding by the limitations would lead to discretionary savings totaling about $870 million through 2016, CBO estimates.

Differences from CBO's Estimate for the Senate Version

The Senate version of H.R. 3230 would authorize and appropriate such sums as may be necessary to carry out a similar expansion of health care services. That version of the legislation differs from the House version in a number respects with regard to the expansion of services. The differences that had the greatest effects on CBO's cost estimate are the following:

- Under the Senate bill, most of the costs of improving veterans' access to health care provided or paid for by VA would be direct spending, whereas most of those costs under the House bill would be subject to future appropriation action.

- The Senate version would allow for longer waiting times (typically 30 days), in CBO's judgment, which would result in currently enrolled veterans using less contracted health care and would make the VA system less appealing to potential enrollees. Relative to the House version, those provisions decrease the estimated cost by about 25 percent.

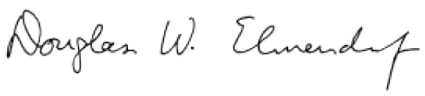
- However, CBO judged that the Senate version would put the VA in a somewhat weaker bargaining position when setting payment rates for non-VA providers of health care. As a result, CBO estimated that payment rates under the Senate version would be about 10 percent above Medicare's rates, on average, whereas payment rates under the House version would be equivalent to Medicare's rates, on average. Relative to the House version, that consideration raised the estimated costs of the Senate version by about 10 percent.

The main reasons for the differences between CBO's preliminary and final estimates for the two versions are substantially similar.

Each version of the bill includes other provisions that would have much smaller budgetary effects. All told, in its estimate issued on July 10, 2014, CBO estimated that enacting the Senate version of H.R. 3230 would result in additional direct spending totaling $35 billion and an increase of $2.5 billion in federal revenues over the 2014-2024 period, and a discretionary cost of $1.8 billion over the 2014-2019 period.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Ann Futrell, who can be reached at 226-2840.

Sincerely,



Douglas W. Elmendorf
Director

Attachment

cc: Honorable Mike Michaud
Ranking Member

ESTMATED BUDGETARY EFFECTS OF H.R. 3230 AS PASSED BY THE HOUSE

	By Fiscal Year, in Millions of Dollars						
	2014	2015	2016	2017	2018	2019	2014-2019
CHANGES IN SPENDING SUBJECT TO APPROPRIATION							
Expanded Access to Medical Care[a]							
Estimated Authorization Level	200	15,300	26,900	-400	0	0	42,000
Estimated Outlays	200	13,800	25,700	2,300	0	0	42,000
Independent Assessment of Veterans Health Administration Performance							
Estimated Authorization Level	2	0	0	0	0	0	2
Estimated Outlays	2	*	0	0	0	0	2
Limitation on Awards and Bonuses							
Estimated Authorization Level	-66	-401	-405	0	0	0	-872
Estimated Outlays	-66	-401	-405	0	0	0	-872
Total Changes in Spending Subject to Appropriation							
Estimated Authorization Level	136	14,899	26,495	-400	0	0	41,130
Estimated Outlays	136	13,399	25,295	2,300	0	0	41,130
CHANGES IN DIRECT SPENDING							
Expanded Access to Medical Care–Spending of Previously Appropriated Funds							
Estimated Budget Authority	0	0	0	0	0	0	0
Estimated Outlays	310	280	30	0	0	0	620
Expanded Access to Medical Care–Payments From Veterans and Insurance Plans							
Estimated Budget Authority	0	-700	0	0	0	0	-700
Estimated Outlays	0	-700	0	0	0	0	-700
Total Changes in Direct Spending							
Estimated Budget Authority	0	-700	0	0	0	0	-700
Estimated Outlays	310	-420	30	0	0	0	-80
Memorandum: Direct Spending and Revenue Effects Not Attributable to this Act (Subject to Future Appropriation Acts)							
Changes in Direct Spending[b]							
Estimated Budget Authority	0	-2,200	-4,500	-500	0	0	-7,200
Estimated Outlays	0	-2,200	-4,500	-500	0	0	-7,200
Changes in Revenues[c,d]	0	600	1,400	500	0	0	2,500

(Continued)

Table Continued.

Source: Congressional Budget Office.

Notes: Numbers may not sum to totals because of rounding; * = less than $500,000.

a. If the Department of Veterans Affairs (VA) was to provide health care to the new enrollees that joined the VA health care system as a result of expanded contracted care, additional discretionary funding would be necessary after the program expires in 2016.

b. Some health care services that would otherwise have been financed by Medicare and Medicaid would instead be paid for by VA. These savings would result only if appropriations were provided to expand access to medical care, as estimated above.

c. Shifting some health care costs to VA would reduce the amounts that employers would pay for their employees' insurance. CBO anticipates that those reductions would lead to an increase in wages and other taxable forms of compensation, keeping total compensation about the same, and boosting federal tax revenues.

d. Positive numbers indicate an increase in revenues.