

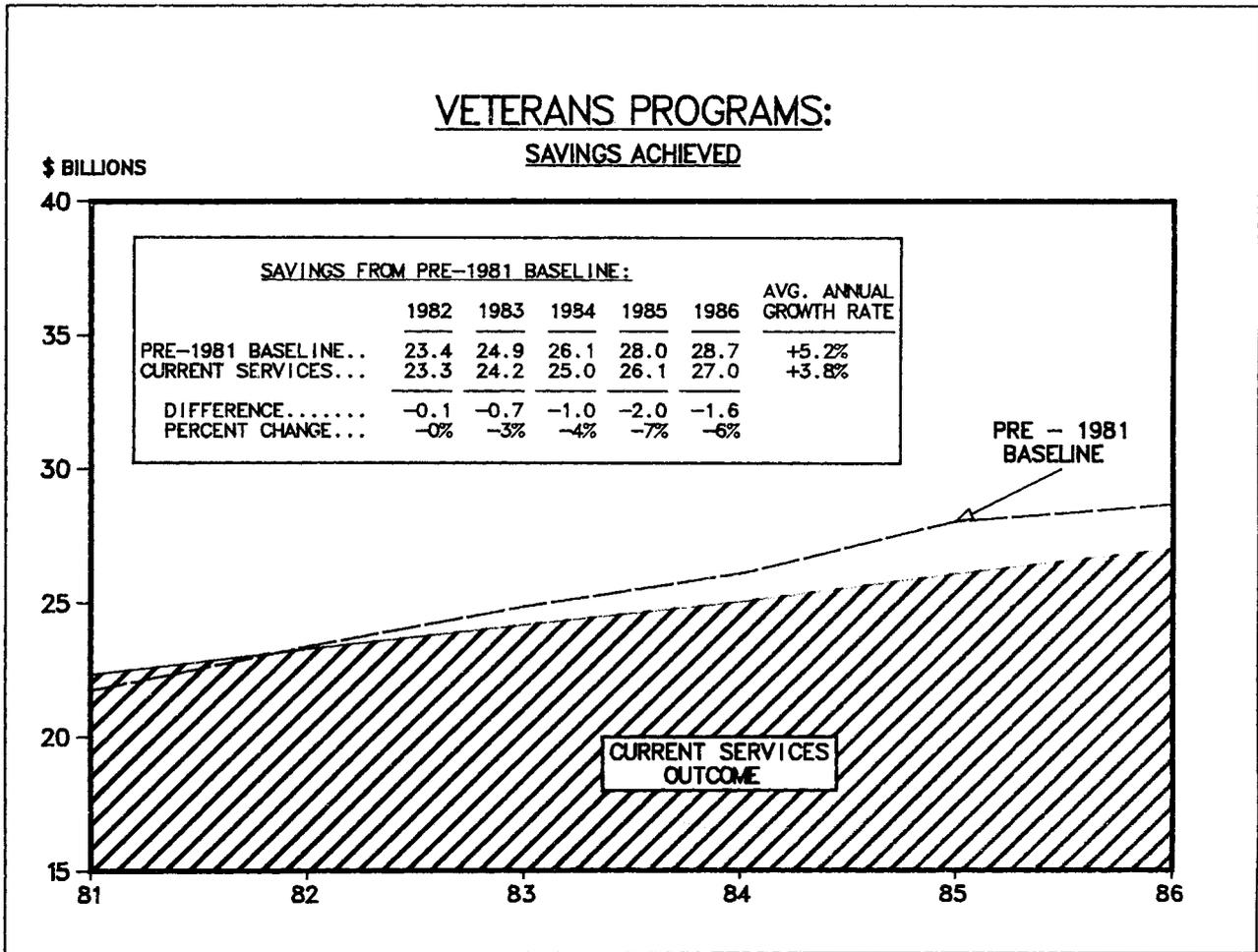
Veterans Programs Overview

The President's 1985 budget for veterans programs, ranging from disability compensation and pensions to the health care system, housing guarantee program, life insurance plans, and GI education benefits, is largely a current services budget. This reflects the Administration's continuing commitment to fulfill the obligations and promises made to America's veterans over many decades. This chapter contains 7 factsheets which describe these programs and the President's budget requirements.¹

Modest increases to the current services level are proposed in two programs. A 15% increase is proposed in education readjustment benefit levels because no increase has been granted since 1980, despite a 20% increase in the cost-of-living, and even greater rises in tuition costs at most qualifying institutions. This program provides a monthly subsistence allowance to eligible veterans and certain survivors while attending college or receiving vocational or on-the-job training. The other increase is for hospital construction which reflects the out-year construction costs of 4 major design projects proposed for 1985—the largest number of new starts in recent times—and numerous nursing home, clinical and ambulatory care additions and renovations. Despite the scarcity of budget resources in the current fiscal environment, the growing number of veterans eligible for health care services and the serious obsolescence and disrepair of many facilities makes these planned increases unavoidable, given existing policy commitments to the veterans population.

In 1985, veterans programs will cost \$26 billion and will account for nearly 18% of domestic current services outlays outside of low-income benefits and social insurance. The proposed current services funding level for 1985-89, as noted above, limits the potential for overall budget savings from veterans programs. Nevertheless, it has been possible to achieve some savings since 1981. As the following chart shows, current services for 1982-1986 are about \$5 billion or 4% below the pre-1981 baseline.

¹ A separate factsheet has not been written for miscellaneous veterans programs which include the general operating expense account. These programs are included in Chapter 8 under Departmental Administration and Other Overhead.

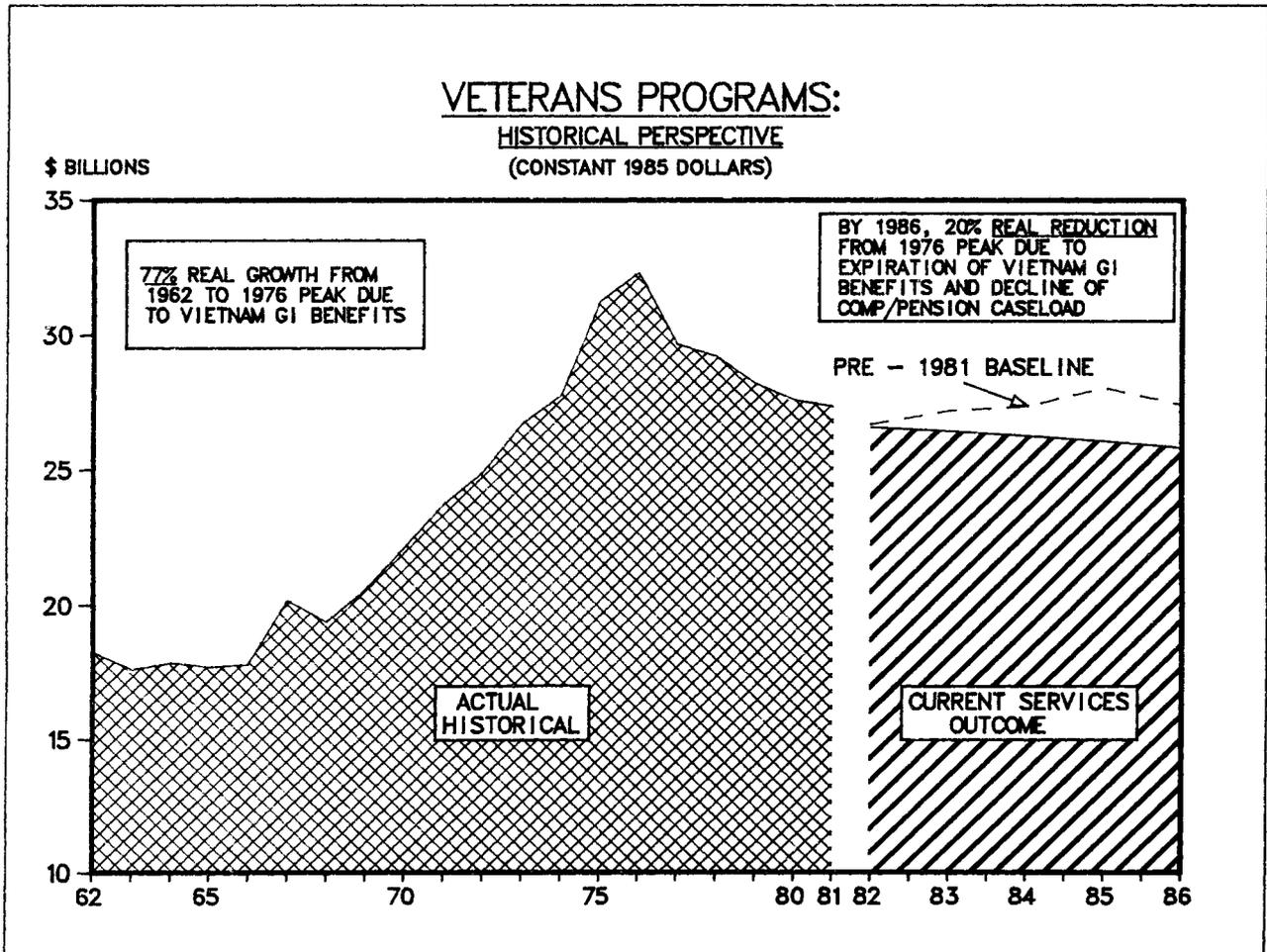


Despite these relatively modest savings, it is also important to note that the real cost of meeting the nation's veterans commitments has declined significantly since the mid-1970's, and will continue to remain stable in constant dollar terms through the 1980's—even with the small increases in GI education benefits and the hospital construction rise proposed in the 1985 budget.

The reason for this declining real cost trend is that the major veterans benefit programs—primarily education readjustment benefits, pensions, and disability compensation—reached a peak constant 1985 dollar cost of \$25.1 billion in 1976 and have subsequently declined to \$16.8 billion in the enacted 1984 budget. This drop is mainly accounted for by the steady decline in the number of Vietnam-era veterans eligible for education benefits. From a peak constant dollar cost of \$10 billion in 1976 for 2,951,000 trainees, education costs for veterans have declined to \$1.7 billion in 1984 for an estimated 724,000 trainees. Smaller declines are attributable to pension program reforms and declining caseloads since the 1970's. Disability compensation costs reached a constant dollar cost of \$10 billion per year in 1981, and are projected to remain stable at this level through the remainder of the decade.

By contrast, the constant dollar cost of health care operations and hospital construction has increased from \$7.0 billion in 1976 to \$9.1 billion in 1984—an increase of nearly 30%. Under the Administration's 1985 budget, constant dollar costs for these activities will rise 22% further to a level of \$11.1 billion by 1989.

Nevertheless, the actual and projected decline in veterans entitlement costs is more than sufficient to offset the rising cost of the medical care system. As a consequence, 1986 total veterans program costs will be down 20% in real terms from the 1976 peak, and will remain essentially frozen at that level through 1989. The following chart depicts the historical funding pattern of veterans programs in constant dollars.



It is clear that, if overall veterans budget costs are to be reduced in future years, a thorough reappraisal of veterans health care system policy, hospital capacity, and operational methods will be necessary. These issues will be subject to intensive scrutiny by the Administration in preparation for the 1986 budget.

Veterans Income and Adjustment Programs

Veterans Compensation, Pensions, Burial and Other Benefits

[In millions of dollars]

Agency: Veterans Administration

Level	1984	1985	1986	1987	1988	1989	Total 1985-89
Current Services:							
Budget Authority.....	14,146	14,521	15,025	15,592	16,171	16,688	77,997
Outlays.....	14,131	14,490	14,981	15,545	16,122	16,643	77,781
1985 Budget Level:							
Budget Authority.....	14,146	14,521	15,025	15,592	16,171	16,688	77,997
Outlays.....	14,131	14,490	14,981	15,545	16,122	16,643	77,781
Change:							
Budget Authority.....	....	....	....	....	....	....	....
Outlays.....	....	....	....	....	....	....	....

Program Description

Compensation benefits are paid to veterans and their survivors as indemnification for loss of income due to service-connected disability or death, with the rate based on severity of disability. Pension benefits provide income to needy wartime service veterans who have become disabled subsequent to their military service or have reached age 65. Financially needy survivors may also qualify for benefits. Certain veterans and survivors may also receive benefits to defray the cost of burial and funeral expenses.

Current Status

Generally, real growth in these large entitlement programs has slowed in recent years and is expected to slightly decline in the 1980's since there are more veterans leaving the rolls (due to mortality and ineligibility) than there are veterans from more recent war periods gaining access to the programs. The decline is mainly taking place in the pension program, where cost in constant 1985 dollars peaked at \$6 billion in 1972 and has been declining to the 1984 enacted level of \$4.1 billion. Most of this cost reduction is the result of a pension reform law which made the program more purely means-tested by limiting new benefit awards to qualified veterans and survivors below the poverty level. This caseload decline more than offsets the expected doubling of the over-65 veterans population during the 1980's.

The compensation program grew significantly in real costs during the 1970's, a decade of legislative liberalization which increased benefit levels and broadened eligibility, reaching \$10 billion in 1981. The 1980's are expected to be marked by declining caseloads and relatively stable benefit levels. Considerable savings have also been achieved by enactment of proposals in the President's 1984 budget to delay cost-of-living adjustments (COLAs) for each of these programs six months, consistent with Administration and congressional COLA policy for other non-low-income entitlement programs.

1985 Budget Proposals

An estimated 2.6 million veterans and survivors are expected to receive compensation benefits in each of the years 1984 through 1989. The number of pension recipients is expected to decline from 1.6 million in 1984 to 1.5 million in 1985, decreasing further approximately 5% each year through the 1980's.

The 1985 budget would maintain these benefit programs at current services levels, proposing a 4.3% COLA increase for the compensation program, effective in April, 1985 and assumes a 4.3% COLA for the pension program (which is indexed to the Social Security COLA) effective in January, 1985. The increased cost for these programs is nominal since the COLA increase is partially offset by declining caseloads.

Rationale

The 1985 budget assumes that cost-of-living increases for compensation and pension will be provided each year through 1989. This will allow benefit level increases for disabled or needy veterans and survivors of deceased veterans to offset the increase in the Consumer Price Index each year.

Veterans Life Insurance

[In millions of dollars]

Agency: Veterans Administration

Level	1984	1985	1986	1987	1988	1989	Total 1985-89
Current Services:							
Budget Authority	824	865	891	909	917	922	4,504
Outlays	480	566	644	643	684	707	3,244
1985 Budget Level:							
Budget Authority	824	865	891	909	917	922	4,504
Outlays	480	566	644	643	684	707	3,244
Change:							
Budget Authority .....	....	....	....	....	....	....	....
Outlays .....	....	....	....	....	....	....	....

Program Description

Life insurance protection for the Nation's veterans is provided under six separate programs administered by the Veterans Administration (VA). By far the largest VA insurance program is the National Service Life Insurance (NSLI) fund, which provides coverage for World War II veterans. Only one program, Service-Disabled Veterans Insurance (SDVI), is issuing new policies. This program provides insurance coverage for service-disabled veterans at standard rates. Three additional programs are supervised by VA through contractual relationships with private companies and do not require Federal appropriations.

Current Status

The VA life insurance programs will provide an estimated \$28.4 billion of coverage on nearly 4 million policies in 1985. The programs are financed primarily by premiums collected from policyholders and interest earnings on investments in U.S. Treasury securities. Several programs pay dividends to policyholders. Three VA-administered insurance programs, including NSLI and SDVI, are assisted financially by payments from the Veterans Insurance and Indemnities appropriation account.

Veterans are permitted to borrow against the cash value of their policies at favorable interest rates. Over \$130 million in insurance policy loans were made by the VA in 1984.

Receipts and outlays for these programs are driven primarily by the level of interest rates and mortality experience of policyholders. Constant dollar outlays for VA life insurance are expected to increase slightly from \$566 million in 1985 to \$601 million by 1989.

1985 Budget Proposal

No changes are proposed in 1985 for VA life insurance programs.

Readjustment Benefits

[In millions of dollars]

Agency: Veterans Administration

Level	1984	1985	1986	1987	1988	1989	Total 1985-89
Current Services:							
Budget Authority.....	1,573	1,283	996	860	740	621	4,499
Outlays.....	1,410	1,335	955	813	697	578	4,379
1985 Budget Level:							
Budget Authority.....	1,573	1,270	1,163	1,000	856	717	5,006
Outlays.....	1,410	1,325	1,120	953	813	675	4,885
Change:							
Budget Authority.....	....	-12	+167	+140	+116	+97	+507
Outlays.....	....	-10	+164	+140	+116	+97	+507

Program Description

The "GI Bill" provides education and training benefits to post-Korean conflict and Vietnam era veterans and servicepersons (and to their dependents and widows). The Vocational Rehabilitation Program subsidizes the full cost of education and training in addition to a statutory subsistence allowance for up to 48 months. Service-disabled veterans who are in need of assistance to overcome a vocational handicap resulting from a service-connected disability are eligible for assistance. The Post-Vietnam Era Veterans Education program provides educational assistance payments to veterans who entered the service after December 31, 1976; voluntary contributions by servicepersons are matched by funds provided by the Department of Defense and paid to participants pursuing training. In 1984, \$130 million was appropriated for an emergency program of job training for unemployed veterans of the Vietnam or Korean eras.

Current Status

Eligibility for the GI Bill was terminated in 1976, the peak year for government spending (Veterans will be able to use the benefit until 1989). With fewer veterans eligible each year as the program nears its termination, the caseload and program costs continue to dwindle. Changes in the education benefits in recent years have focused on special bonus programs in the contributory program for post-Vietnam enlistees.

1985 Budget Proposal

The 1985 budget proposes a 15% rise in education and vocational rehabilitation rates effective in January, 1985 and no additional funds for emergency job training.

Rationale

The requested 15% GI Bill rate increase is appropriate since no increase has been granted since 1980—despite a 20% increase in the cost-of-living and even greater rises in tuition costs.

Even with the rate increase, the real cost of providing the education benefits will—through this decade—continue the significant decline begun in the mid-1970's.

In 1985, nearly 544,000 GI Bill trainees are expected to participate in the program, compared to 642,000 in 1984. This total includes 8,400 new veterans expected to take advantage of the benefit because of the rate increase.

While the Emergency Veterans' Job Training Act of 1983 was authorized as a 2-year program, funding will not be needed in 1985 since the economic conditions the Act proposed to relieve will have been alleviated. The unemployment rate is expected to decline about 2% between 1983 and 1985, and has, in fact, been declining steadily since the last quarter of 1982. The most recent Department of Labor unemployment data (i.e., January, 1984) shows that the unemployment rate for Vietnam era veterans is *not* higher than the unemployment rate for non-veterans.

Veterans Medical Services and Housing

Medical Care and Hospital Service Operations

[In millions of dollars]

Agency: Veterans Administration

Level	1984	1985	1986	1987	1988	1989	Total 1985-89
Current Services:							
Budget Authority.....	8,189	8,939	9,572	10,249	11,020	11,692	51,472
Outlays.....	8,127	8,806	9,437	10,113	10,885	11,556	50,797
1985 Budget Level:							
Budget Authority.....	8,204	8,828	9,585	10,264	11,037	11,723	51,436
Outlays.....	8,142	8,698	9,447	10,129	10,902	11,587	50,761
Change:							
Budget Authority ¹	+15	-111	+13	+15	+17	+31	-36
Outlays ¹	+15	-108	+9	+15	+17	+31	-36

¹ Reduction in 1985 is primarily the result of the Administration's government-wide policy regarding future pay comparability adjustments which would provide a pay adjustment in January, 1985 at a slightly lower level than a current services adjustment. In addition, a portion of this pay raise would be absorbed administratively.

Program Description

The VA provides hospital and medical care to veterans in its nationwide medical system and in non-VA facilities on a reimbursement basis. The VA operates this program in 172 hospitals, 227 outpatient clinics, 103 nursing homes and 16 domiciliary facilities with an average daily patient census of 104,000.

Current Status

The veteran demand for quality health care continues to grow as veterans reaching age 65 become eligible for a wide variety of medical benefits without regard to financial status. Meeting this demand requires improvements and adjustments in health care services to provide the most appropriate type of care necessary in the most cost effective manner. In constant dollars, this program has grown 14% since 1981.

1985 Budget Proposal

The 1985 budget request would provide for the medical needs of veterans by allowing treatment of 1.4 million inpatients and over 18 million outpatient visits in VA and community medical facilities. This proposal would provide increases of \$624 million and 2,747 staff over the 1984 level. These resources would be used for activation of 10 new nursing home care units, 2 new outpatient clinics in Florida and additional clinical services at 4 medical centers. This proposal would also provide for new or expanded initiatives in ADP, establishment of an additional geriatric research, education and clinical center (a program established within a hospital to provide a focus on the medical treatment of older veterans, including research and training of medical personnel) and 6 new Hospital Based Home Care programs (a mobile medical service program designed to meet the medical, nursing, social and rehabilitation needs within the patient's home.)

Rationale

Increases in demand for health care can best be met by the increases and program adjustments proposed in the 1985 budget. The new nursing home care beds, outpatient clinics, clinical improvements, and home care programs will ensure that needy veterans receive quality care in the most appropriate medical setting available. The 1985 budget proposal would provide for the treatment of an additional 5,000 inpatients and 79,000 outpatient visits and the activation of numerous completed construction projects.

Hospital Construction

[In millions of dollars]

Agency: Veterans Administration

Level	1984	1985	1986	1987	1988	1989	Total 1985-89
Current Services:							
Budget Authority.....	549	767	764	801	837	872	4,040
Outlays.....	581	634	655	692	709	734	3,425
1985 Budget Level:							
Budget Authority.....	549	857	1,176	1,242	1,309	1,381	5,965
Outlays.....	581	677	940	1,114	1,313	1,405	5,449
Change:							
Budget Authority.....	....	+90	+412	+442	+472	+509	+1,925
Outlays.....	....	+42	+286	+422	+604	+671	+2,024

Program Description

The Veterans Administration (VA) operates the largest Federal medical care delivery system. Two appropriation accounts, one for major projects (\$2 million or more) and one for minor projects, provide for constructing, altering, extending, and improving these and other facilities under the jurisdiction or for the use of the VA. Construction activities include planning, architectural and engineering services, and site acquisition. An additional program provides grants for the construction of state extended care facilities.

Current Status

Changes in medical technology, growth in the outpatient program, and the normal aging process have resulted in deficiencies in VA facilities that impede the delivery of modern health care. Hospital construction activities include major replacement and modernization projects; clinical improvements and additions; electrical, fire, and safety improvements; nursing home construction; and general projects. Ongoing programs include removing harmful asbestos when it is encountered during renovation, correcting seismic deficiencies, and improving the energy efficiency of VA facilities.

1985 Budget Proposal

Budget authority of \$857 million is requested for VA hospital construction in 1985, \$308 million more than the enacted amount for 1984. These large increases recognize the critical need for renovation and modification of many of the aging facilities in which medical services are provided. In constant dollars, the 1985 Administration request for hospital construction is 90% above the 1976 level. The 1989 projection is 236% above the 1976 level.

Design funds are being requested in the 1985 budget for the modernization of VA hospitals in Mountain Home, Tennessee and New York, New York. In addition, design funds are requested for replacement hospitals in Augusta, Georgia and Houston, Texas. These 4 projects represent the largest number of new major starts in any of the last ten years. Site preparation and, if necessary, site acquisition funds are being sought for the future replacement of the Detroit, Michigan hospital. The outyear construction costs for these five projects are estimated at \$706 million. Funding is also included for seven new nursing homes and numerous projects to remedy physical plant and safety deficiencies.

Budget authority of \$34 million for 1985, \$16 million more than enacted for 1984, is requested for grants to States for the construction or repair of State homes for the care of veterans.

Rationale

The 1985 budget request recognizes:

- The critical need for renovation and modification of many of the aging facilities in which VA medical services are provided.
- The need for more nursing homes to serve the increasing number of aged veterans who, under prevailing policy, are eligible for free health care services regardless of financial status.

Veterans Medical Research, Administration and Related Activities

[In millions of dollars]

Agency: Veterans Administration

Level	1984	1985	1986	1987	1988	1989	Total 1985-89
Current Services:							
Budget Authority	285	260	269	285	297	314	1,425
Outlays	250	274	288	294	297	313	1,467
1985 Budget Level:							
Budget Authority	285	268	272	290	305	323	1,458
Outlays	250	283	291	300	304	323	1,500
Change:							
Budget Authority .....	....	+8	+3	+5	+7	+10	+33
Outlays .....	....	+9	+2	+5	+7	+10	+33

Program Description

The main activities included in this category are VA's medical and prosthetic research program and the administrative overhead of the medical administration and miscellaneous operating expenses (MAMOE) account. The research program is conducted in conjunction with the medical care program and focuses on biomedical, rehabilitation and health services problems facing veterans. MAMOE provides for the administration and supervision of all VA medical programs, the conduct of postgraduate and inservice training activities, and scholarship grants to eligible health care professionals, presently limited to nurses. The other programs included here are a grant program to the Philippines to ensure care of veterans in that country and a program which provides assistance to health training institutions.

Current Status

These programs provide support services for the VA's medical care program and have resulted in improvements in the quality of medical and rehabilitative care. Since 1981, there has been an increase of nearly 25% in constant dollars in both the research program and the administrative expenses program, which has been offset by successful reductions in expenditures for assistance to medical schools (funding culminated in 1979 with resulting expenditures continuing through 1985). The 1984 budget level includes \$54 million for a congressionally-mandated epidemiological study of the health effects resulting from exposure to Agent Orange with subsequent funding for continuation of this study at significantly reduced rates.

1985 Budget Proposal

The Administration's proposal would provide for a 12% increase in funding and a 3% increase in staffing for the research and MAMOE programs, excluding funding for the major Agent Orange study. These increases would provide for continued and expanded research in such high priority areas as alcoholism, cancer, aging, health problems of former prisoners of war and female veterans, spinal cord injury and prosthetic/sensory aids, Agent Orange and delayed stress disorders. The MAMOE request would provide for a staff increase of 16 for the administration and supervision of VA's complex and rapidly changing health care system, a 19% increase in postgraduate and inservice training to a level of \$13.3 million, and a health professional scholarship program of \$4.6 million to support 187 full-time and 200 part-time scholarship awards to nursing students in baccalaureate and masters degree programs.

Rationale

These 1985 budget proposals would allow a continued and increased focus on clinical answers to medical problems, improvements in the effectiveness and efficiency of delivering high quality medical care, and better administration of the medical program. Increases in these areas are proposed for evaluation of alternatives and implementation of improvements to minimize the high cost of medical care and to assure the availability of qualified health professionals.

Veterans Housing

[In millions of dollars]

Agency: Veterans Administration

Level	1984	1985	1986	1987	1988	1989	Total 1985-89
Current Services:							
Budget Authority.....	-67	-75	-76	211	213	199	473
Outlays.....	19	-72	10	183	338	199	658
1985 Budget Level:							
Budget Authority.....	-67	-75	-76	211	213	199	473
Outlays.....	19	-72	10	183	338	199	658
Change:							
Budget Authority.....	....	....	....	....	....	....	....
Outlays.....	....	....	....	....	....	....	....

Program Description

The purpose of the Veterans Administration (VA) home loan guaranty program is to facilitate the extension of mortgage credit on favorable terms by private lenders to eligible veterans. The loans are used for the purchase, construction, repair, or refinancing of homes to be occupied by veterans and their families. In the event of default, the Federal guaranty protects lenders against losses up to a maximum of the lesser of 60% of the mortgage amount or \$27,500. A much smaller program provides direct loans to severely disabled veterans who require specially adapted housing assistance. VA mortgage loan guarantee and direct loan programs are expected to assist 240,000 veterans in obtaining mortgages in 1985.

Current Status

When a VA guaranteed loan goes into foreclosure, VA has the option of paying the lender's claim or buying the property. In the past, VA has fulfilled its responsibilities as guarantor, in about 95% of cases, by acquiring and reselling properties in foreclosure. As a result of the dramatic increase in foreclosures in recent years, VA currently has nearly 22,000 properties in its inventory. The Federal Government incurs substantial costs in purchasing, managing, improving, and selling these properties. Direct program costs are borne by VA's loan guaranty revolving fund, while administrative costs are charged to VA's operating expenses and the cost of borrowing funds to buy the properties are borne by Treasury.

Most of these properties are sold with VA financing to veterans and nonveterans alike. Since no downpayment is required, no "points" are charged, and the interest rate is often below the market rate, these "vendee loans" provide substantial subsidies to nonveterans. These loans are then sold, usually at a discount, to private investors with repurchase agreements that require VA to repurchase any loans that go into default.

1985 Budget Proposals

The President's 1985 Budget announced three major changes for this program that would require VA to:

- stop bidding on properties at foreclosure of VA guaranteed loans and instead pay the amount of the lender's claim;
- stop making vendee loans and instead sell all properties in its inventory for cash or with private financing; and
- sell all loan assets without a repurchase agreement.

The original target date for implementation of these changes, which do not require legislation, was March 1, 1984. The Administration has now delayed them until October 1, 1984. Representatives of the VA, Federal Housing Administration (FHA), and Farmer's Home Administration (FmHA) are working to develop uniform regulations and administrative procedures for implementing the new policies.

Rationale

These policy changes will have no effect on a veteran's entitlement to a VA guaranteed loan. Reducing property acquisitions will reduce VA's real estate operations. These operations disguise the true costs of the loan guaranty program and provide substantial subsidies to nonveterans. VA's inventory of properties represents an investment of over \$700 million and is expensive to maintain. The Federal guarantee protecting lenders against losses and the Government National Mortgage Association's mortgage-backed securities program, which provides an unusual degree of liquidity for VA and FHA mortgages, should continue to make VA mortgages attractive to private lenders.