

26. VETERANS BENEFITS AND SERVICES

Table 26-1. FEDERAL RESOURCES IN SUPPORT OF VETERANS BENEFITS AND SERVICES

(In millions of dollars)

| Function 700 | 1996 Actual | Estimate | | | | | |
|---|----------------|----------|--------|--------|--------|--------|--------|
| | | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
| Spending: | | | | | | | |
| Discretionary Budget Authority ¹ | 18,359 | 18,910 | 18,750 | 18,719 | 18,715 | 18,702 | 18,706 |
| Mandatory Outlays: | | | | | | | |
| Existing law | 18,820 | 20,579 | 21,735 | 22,850 | 24,443 | 21,463 | 23,151 |
| Proposed legislation | | | 593 | 294 | 690 | 1,057 | 1,547 |
| Credit Activity: | | | | | | | |
| Direct loan disbursements | 1,442 | 1,933 | 2,189 | 2,249 | 2,273 | 2,287 | 2,269 |
| Guaranteed loans | 28,676 | 30,230 | 28,948 | 25,458 | 25,032 | 24,566 | 24,059 |
| Tax Expenditures: | | | | | | | |
| Existing law | 2,775 | 2,940 | 3,105 | 3,285 | 3,480 | 3,680 | 3,895 |

¹ Proposed legislation will supplement the budget authority with receipts (estimated at \$0.5 billion in 1998).

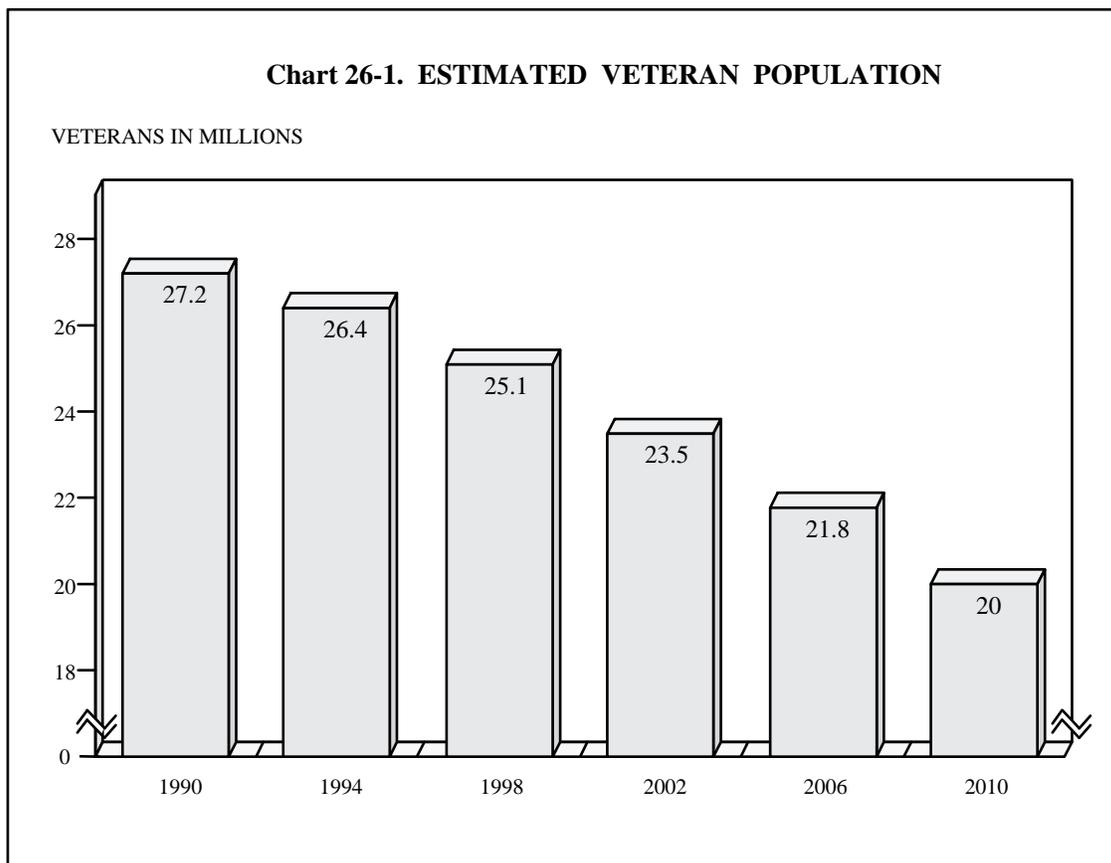
The Federal Government provides a broad range of benefits and services, to veterans (and their survivors) who served in conflicts as long ago as the Spanish-American War and as recent as the Persian Gulf War. In providing these benefits and services, the Government recognizes the sacrifices that wartime and peacetime veterans made during their service in the military. The \$40 billion a year in veterans benefits and services, and \$4.7 billion in tax benefits, compensate for service-related disabilities, provide medical care to low-income and disabled veterans, and help returning veterans prepare for re-entry into civilian life through education and training. In addition, veterans benefits provide financial assistance to needy veterans of wartime service and their survivors.

About six percent of veterans are military retirees. This group of veterans can receive both military retirement from the Defense Department (DOD) and veterans benefits from the Department of Veterans Affairs (VA). Active duty military personnel are eligible for veterans housing benefits, and they can make contributions to the Montgomery GI Bill program for education benefits that are paid later. To deliver these services to veter-

ans, VA employs about 20 percent of the non-Defense workforce of the Federal Government—almost 250,000 people. About 220,000 of these employees deliver medical services to veterans (as described in Chapter 22, Health).

The veteran population is declining, with much of the decline among draft-era veterans, meaning that a rising share of veterans is coming from the All-Volunteer Force (see Chart 26-1). Thus, the types of needed benefits and services likely will change. Further, as the veteran population shrinks and technology improves, access to, and the quality of, service should continue to improve.

The Veterans Benefits Administration (VBA) processes veterans claims for benefits in 58 regional offices across the country. Several factors, including the introduction of judicial review to the claims adjudication process in 1988 and DOD downsizing from 1992 to 1994, significantly increased the claims and appeals workload. Workload peaked in 1993 and 1994, with 500,000 backlogged claims and 214 days needed to process a claim.



But, as the veteran population declines, the number of new claims and appeals will decline with it. At the end of 1996, the backlog shrunk to 346,000 claims, and the number of days needed to process a new claim averaged 150. To further the progress to date, VBA is developing a comprehensive strategic plan that will reengineer the way it processes claims, including the post-decision review process, and integrate information technology into program administration.

The following discussion describes the major components of benefits and services (other than health care) to which veterans are entitled.

Income Security

Along with Federal income security programs for the general population, such as Social Security and unemployment insurance, several VA programs help certain veterans and their survivors maintain their income when the veteran is disabled or deceased.

Spending for this purpose will total an estimated \$19.8 billion in 1998, including the funds that Congress approves each year to subsidize life insurance for certain veterans who are too disabled to get affordable coverage from private insurance.

Service-Connected Compensation: Veterans with disabilities resulting from, or coincident with, military service receive monthly compensation payments scaled to the degree of disability. The payment does not depend on the veteran's income or age, or on whether the disability is the result of combat or a natural-life affliction. The amount depends on the average fall in earnings capacity that the Government presumes for individuals with the same degree of disability. Survivors of veterans who die from service-connected injuries receive payments in the form of dependency and indemnity compensation. Benefits are indexed annually by the same cost-of-living adjustment (COLA) as Social Security, which is 2.7 percent for 1998.

The number of veterans and survivors of deceased veterans receiving compensation benefits will total an estimated 2.6 million in 1998, remaining at that level through 2002. While the overall veteran population will decline, the compensation caseload is expected to remain relatively constant due to changes in eligibility and enhanced outreach efforts. At the same time, mainly due to anticipated COLAs, spending for compensation benefits will rise from an estimated \$16.8 billion in 1998 to \$18.8 billion in 2002.

Non-Service-Connected Pensions: The Government provides pensions to lower-income, wartime-service veterans, or veterans who have become permanently and totally disabled after their military service. Survivors of wartime-service veterans may qualify for pension benefits based on financial need. Veterans pensions, which also increase annually with COLAs, will cost an estimated \$3.2 billion in 1998. The number of pension recipients will continue to fall from an estimated 714,000 in 1998 to 650,000 in 2002, as the population of wartime veterans drops.

Burial and Other Benefits: Families of deceased veterans who received pension or compensation benefits and who are buried in private cemeteries may receive burial benefits to help defray funeral costs. For veterans buried in VA's National Cemeteries, the Government reimburses additional amounts to the National Cemetery System for headstones, markers, and graveliners. Over 90,000 veterans' survivors received a burial allowance in 1996. Spending for these benefits will total an estimated \$119 million in 1998.

Insurance Programs: Because most private insurance excludes coverage of war-time service, the VA administers life insurance programs. Veterans pay the total cost for this insurance through premiums, calculated by assuming that the veteran will see no combat. If insurance claims in any year exceed expectations due to combat, DOD pays the extra cost of coverage. These programs will continue to provide over \$480 billion of coverage to nearly 5.5 million veterans and active duty personnel in 1998.

Veterans Education, Training, and Rehabilitation

Several Federal programs support job training and finance education for veterans and others. The Labor Department runs several programs exclusively for veterans. In addition, several VA programs provide education, training, and rehabilitation benefits to veterans and military personnel who meet specific criteria. The programs include the Montgomery GI bill (the largest of them), the post-Vietnam-era education program, the Vocational Rehabilitation program, and the Work-Study program. Spending for all VA programs in this area will total an estimated \$1.4 billion in 1998.

The Montgomery GI Bill (MGIB): The Government created MGIB as a test program, with more generous benefits than the post-Vietnam-era education program, to help veterans move to civilian life as well as to help the armed forces with their recruitment. The President and Congress made the program permanent in 1987. Service members electing to enter the program have their pay reduced by \$100 a month during their first year of military service. The VA administers the program and pays the costs of basic benefits once the service-member leaves the military. Basic benefits now total about \$15,000 (about 12 times the original reduction in the service members' pay).

MGIB beneficiaries receive a monthly check based on whether they are enrolled in school on a full- or part-time basis. They are entitled to 36 months worth of payment, but they must certify monthly that they are in school. DOD may provide additional benefits to help recruit certain specialties and critical skills. Nearly 350,000 veterans and service members will use these benefits in 1998. The MGIB also provides education benefits to reservists while they are in service. DOD pays these benefits, and the VA administers the program. In 1998, over 80,000 reservists are expected to use this program. Over 90 percent of MGIB beneficiaries use their benefits to attend a college or university.

Veterans Housing

Along with the mortgage assistance available to veterans through the Federal Housing Administration (FHA) insurance program, VA-guaranteed and direct loan programs will help an estimated 280,000 veterans get mortgages in 1998. Guaranteed commitments for mortgage loans in 1998 are expected to reach almost \$29 million. The \$192 million in estimated spending in 1998 reflects the estimated Federal subsidies that are implicit in the veterans' home loans issued during the year. Slightly over 40 percent of veterans who have owned homes have used the VA loan guaranty program. In 1996, 56 percent of all guaranteed loans went to first-time home buyers.

National Cemetery System

The VA provides burial in its National Cemetery System for eligible veterans, active duty military personnel, and their dependents—with the VA managing over 100 national cemeteries across the country. Spending for VA cemetery operations, excluding reimbursements from other accounts, will total an estimated \$84 million in 1998. Over 70,000 veterans and their family members were buried in National Cemeteries in 1996.

Related Programs

Many veterans get help from other Federal income security, health, housing credit, education, training, employment, and social service programs that are available to the general population. A number of these programs have components specifically designed to assist veterans. Some veterans also receive preference for Federal jobs. In addition, starting in 1998, the children of Vietnam veterans will receive compensation if they are afflicted with spina bifida, which the Government will presume was caused by a veteran parent's exposure to herbicides.

Military Retirement

About 1.6 million military retirees and survivors will receive an estimated \$28 billion

in retirement benefits in 1988. Normal retirement eligibility occurs after 20 years of service. The initial annuity base for most current retirees is 2.5 percent of final pay for each year of service—50 percent at 20 years—up to a maximum 75 percent of final pay at 30 years. For those entering between September 1980 and July 1986, the Government will use the average of the highest three years of basic pay to calculate the annuity base, instead of final basic pay. Benefits for both groups are fully indexed to the Consumer Price Index (CPI).

Members entering military service after August 1, 1986 face a cut in their initial retirement benefit if they retire before age 62 with less than 30 years of service. The initial formula for their annuity remains at 2.5 percent per year of service, but this multiplier is cut by one percent for each year of service below 30. The cut ends when the member reaches age 62. Also, benefits for these retirees rise at the rate of the CPI minus one percent, with a one-time catch-up at age 62 to restore the full purchasing power of the annuity. After age 62, the benefit is again adjusted by CPI minus one percent. In addition, to help shrink the size of the military forces, the Government has provided temporary authority for certain military members to retire with as little as 15 years of service.

Tax Incentives

Along with direct Federal funding, certain tax benefits help veterans. The law keeps all cash benefits that the VA administers (disability compensation, pension, and GI bill benefits) free from tax. Together, these three exclusions will cost about \$3 billion in 1998. The Federal Government also helps veterans obtain housing through veterans bonds that State and local governments issue, the interest on which is not subject to Federal tax. In 1998, this provision will cost the Government an estimated \$35 million.