

**STATEMENT OF  
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DEPARTMENT OF VETERANS AFFAIRS  
BEFORE THE  
HOUSE VETERANS' AFFAIRS COMMITTEE  
SUBCOMMITTEE ON DISABILITY ASSISTANCE  
AND MEMORIAL AFFAIRS**

**NOVEMBER 3, 2005**

Mr. Chairman and members of the Subcommittee, thank you for this opportunity to appear before you today to describe the budget formulation process for the Compensation and Pension (C&P) Program. I am pleased to be accompanied by Ms. Renée Szybala, Director of the Compensation and Pension Service, Mr. James Bohmbach, VBA's Chief Financial Officer, and Mr. Michael Walcoff, VBA's Associate Deputy Under Secretary for Field Operations.

In fiscal year 2005, C&P Program obligations were \$32.5 billion in mandatory funds, from which benefits are paid to 3.5 million veterans and dependents, and \$1 billion in general operating expense (GOE) or discretionary funds, which cover the costs of administering the C&P Program (primarily payroll).

In my testimony, I will outline how the Veterans Benefits Administration (VBA) formulates the C&P budget. I will discuss the process by which we project the C&P workload and the resources required to handle the workload. These projections then become the basis for our discretionary budget submission. We use the term "workload" to refer to claims submitted for determination of entitlement to benefits.

I will also describe how we integrate our workload projections into our mandatory budget process. We use the term "caseload" to refer to the number of veterans and dependents presently receiving monthly benefit checks. Just as workload projections

support the GOE budget requirements, caseload projections establish the amount of mandatory entitlement spending that must be included in the budget.

Finally, I will address some of the significant issues that have not only affected our workload and the number of beneficiaries being paid, but have also influenced the way claims are processed.

## **Formulation of the Compensation and Pension GOE Budget**

In 2005, we produced over 763,000 disability determinations. We also performed more than two million award actions of all types to address new claims and to maintain those already on the rolls. Additionally we handled over 6.3 million phone calls; conducted over a million interviews; briefed more than 330,000 service persons; and conducted nearly 70,000 hours of outreach to military members, former prisoners of war, homeless, minorities, women, and other targeted groups. VBA's role in serving the veteran population is extensive and complex. Our discretionary budget formulation process must consider all of these areas and ensure sufficient resources to provide the level of service expected by the American people for those who have sacrificed so much in defense of our freedom.

Payroll funding to support our staffing requirements is the largest component of VBA's GOE budget. It accounts for 71 percent of the C&P discretionary funds. Fixed operating and infrastructure costs, including costs for the C&P contract medical examination initiative, make up most of the rest. New and ongoing initiatives are the third element of the discretionary budget.

Projecting incoming workload (new claims) is the starting point for developing the FTE requirements in the C&P discretionary budget. The number of claims receipts is projected based on historical trends and known or anticipated external factors. Claims that require a disability rating determination are the primary workload component because they are the most difficult, time consuming, and resource intensive. There is

also a strong correlation between the volume of rating-related claims and other workload activities such as appeals, account maintenance actions, and public contact activities.

At the same time we reevaluate the workload projections used in formulating the President's Budget Submission for the immediately upcoming fiscal year, under consideration by the Congress. We make modifications as necessary to these projections based on our most recent experience and the current claims environment. We identify factors that will, in VA's judgment, cause workload in the upcoming fiscal year and the budget formulation year to be greater or less than our previous projections and the historical trends would suggest. We then formulate assumptions related to the impact of these factors on our incoming workload projections.

For example, among the factors for which we developed assumptions in the preparation of the 2006 budget were the ongoing hostilities in Iraq and Afghanistan, the Global War on Terrorism, changes in law related to concurrent receipt and combat-related special compensation, the impact of new presumptive conditions, and recent court decisions. We also made assumptions related to changing trends in particular disabilities, such as diabetes and PTSD. It is important to recognize, however, that development of assumptions is not a precise science. It involves application of our best judgment about what will happen in the future, and how those future events will impact on the delivery of VA benefits and services.

There is particular difficulty in making workload projections two years in advance, as the budget formulation process requires. There are intervening and previously unknown factors that, in our experience, occur virtually every year. Such unknown factors can include court decisions requiring re-adjudication of large numbers of claims, recommendations from Program Outcome Studies, reports by the Government Accountability Office or VA's Inspector General, and new entitlements and outreach activities mandated by statute. We must fulfill our responsibilities in relation to these

unanticipated workloads, even though they were not specifically identified in the budget formulation process.

In order to determine FTE needs, we assess our current performance, establish performance goals and targets, and then also make assumptions relative to our future performance. We measure productive capacity using information from our work measurement system that assigns standard manhours to specific types of completed claims and activities. We also use “output per FTE” as a measure of our productivity. Because rating-related claims are the driver of such a significant portion of our workload, the number of completed rating-related claims (“output”) per each C&P direct labor employee (“FTE”) is a good indicator of changes in our productivity.

We add the projected incoming claims receipts for the budget year to the anticipated pending inventory at the beginning of that year. We then subtract the pending inventory performance target for the end of the budget year to determine the volume of claims to be completed in the budget year. We apply the work rate standards and our measures of output and productivity to the volume of claims to be completed to determine the initial estimate of our direct labor FTE needs.

Adjustments to the direct labor FTE requirements are made based upon performance assumptions and goals, as well as other factors such as anticipated improvements due to process and management efficiencies, new initiatives, training, experience levels of the employees, and anticipated retirements. Adjustments are also made for programmatic changes and assumptions related to our other C&P responsibilities, such as outreach and guardianship activities.

We add the FTE requirements for C&P’s share of management and information technology (IT) support to the projected direct labor FTE requirements. This total then becomes the requested FTE level for the C&P Program budget request. The payroll funding level required to support this FTE level is projected based on current average grade and salary, increases for employees not yet at the journey level, new hiring

initiatives, historic trends in changes to the averages, employee benefits and terminal leave costs, projected cost-of-living and locality pay adjustments, and the impact of programs such as employee skills certification. Overtime needs are also projected and added to our payroll funding requirements.

The C&P discretionary budget request is integrated into VBA's and then VA's total budget request. Adjustments are made throughout the internal budget process, as necessary, in line with the Secretary's priorities and goals for improved service delivery.

## **Compensation and Pensions Mandatory Account Projections**

VA's mandatory benefits budget for the Compensation and Pensions appropriation totaled almost \$32.5 billion in FY 2005. Over the past ten years, payments made from this appropriation have increased \$14.7 billion from the 1995 level of \$17.8 billion, or 83 percent. The greatest increase occurred in veterans' compensation payments, which increased \$13 billion from the 1995 level of \$11.6 billion, an increase of 112 percent. Excluding annual cost-of-living adjustments (COLAs), veterans' compensation obligations increased 49 percent from 1995 to 2005. The increase is reflected in both the total number of veterans receiving compensation and the average annual amount of compensation paid. The compensation caseload (number of veterans on the rolls) increased by almost 368,000 veterans, and the average payment increased from \$5,230 in 1995 to \$9,492 in 2005. This average annual payment includes all recurring and retroactive payments made to compensation beneficiaries. The average recurring benefit payment was \$8,609 in 2005.

<b>Compensation and Pensions Appropriation</b>					
	FY 1995	FY 2005		FY 2015	
	Actual	Estimate	% change	Estimate	% change
Total Obligations (\$ billions)	\$17.8	\$32.5	83%	\$56.7	74%
Veterans Compensation obligations(\$ billion)	\$11.6	\$24.6	112%	\$45.6	85%
Veterans Compensation Caseload	2,225,944	2,593,783	17%	3,490,773	35%
Veterans Average Payment (whole dollars)	\$5,230	\$9,492	81%	\$13,067	38%

To adapt to the changing trends in veterans' compensation benefit payments, VBA developed a benefits budget forecasting model based on detailed historical data to project both the caseload and the average amount of benefits paid for the next ten years.

The model incorporates specific data for approximately 99 percent of beneficiaries dating back to 1992. By comparing data from one year to the next, we are able to distinguish any changes in our recurring caseload and develop trends for both accessions and terminations from the compensation benefit program. It is important to note that 95 percent of compensation payments are issued in recurring monthly payments to veterans; the balance covers retroactive and one-time benefit payments.

To project future compensation obligations, trends in historical data are combined with forecast assumptions. Two of the more important assumptions used to estimate future caseload are projected workload and grant rate. Projected workload comes from the discretionary budget formulation process and is the number of both original and reopened cases expected to be completed each year. The grant rate is the percent of completed cases that are awarded benefits and is applied to projected workload to project accessions to the compensation rolls.

To forecast obligations, we must also estimate the average amount of benefits that will be paid to each beneficiary. Although increases in average payment can be

partially attributed to annual COLAs, we have also seen significant increases in veterans' degree of disability, the number of veterans receiving benefits at 100 percent rate based on individual employability determinations, and veterans receiving Special Monthly Compensation. The average degree of disability for all beneficiaries increased from 30.5 percent in 1995 to 37.2 percent at the end of 2004, causing significant increases in average benefit payments.

Once the mandatory benefits projection is developed, it is adjusted based on any recent program changes including newly enacted legislation, regulations, or court decisions. The most recent ten-year plan projects veterans' compensation payments to increase \$21 billion over the next ten years, continuing the trends seen over the past decade.

## **Influences Impacting Budget Formulation**

As I have described, projections of incoming claims workload are key in the formulation of both our mandatory and discretionary budget requests. The number of veterans filing disability compensation claims has increased every year since 2000. Disability claims from returning war veterans and veterans of earlier periods grew from 578,773 in FY 2000 to 788,298 in FY 2005. For FY 2005, this represents an increase of more than 209,000 claims or 36 percent over the 2000 base year.

Ongoing efforts in Afghanistan and Iraq and the Global War on Terrorism, in general, are expected to continue to increase the compensation workload. As of August 2005, there were over 616,000 veterans of the Gulf War Era receiving benefits. (It should be noted that Gulf War Era veterans include all those who have served in the armed forces since August 1990. Therefore, the compensable conditions for which they receive benefits are not necessarily combat-related injuries or illnesses). VA has committed to increased outreach efforts to active-duty personnel. In 2004, the greatest increase in rating receipts was in original claims – an increase of 17 percent. The increase in original claims for 2005 is an additional 8% over last year's high rate, which combines to

a 26 percent increase over the last 2 years. We believe these increases are directly related to our aggressive outreach programs, and that the increases will continue.

The number of veterans receiving compensation has increased by almost 300,000 since 2000 – from just over 2.3 million veterans to over 2.6 million as of September 2005. Since the addition of Diabetes Mellitus Type II to the list of Agent Orange presumptive conditions in 2001, almost 200,000 veterans have been compensated for diabetes. The increased number of compensation recipients, many of whom suffer from chronic progressive disabilities, will continue to drive more claims for increased benefits in the coming years as veterans age and their conditions worsen.

While these external influences have had an impact on the volume of claims receipts and ultimately on entitlement spending, there are still other changes influencing our resource needs in both the mandatory and discretionary accounts.

The number of disabilities per claim submitted by veterans has increased significantly, making claims more complex. Additional resources are required as the number of directly claimed conditions increases because of the number of variables that must be considered and addressed. Applicability of multiple regulations, multiple sources of evidence, multiple potential effective dates and presumptive periods, and the need to prepare adequate and comprehensive Veterans Claims Assistance Act notices, as well as adequate and comprehensive rating decisions, increase proportionately and sometimes exponentially as the number of claimed conditions increases. Additionally, as the number of claimed conditions increases, the potential for additional unclaimed but secondary, aggravated, and inferred issues increases as well. Since veterans appeal decisions for specific disabilities, the increasing number of claimed conditions significantly increases the potential for appeals.

The number of claims for eight or more disabilities increased from 21,814 in FY 2000 to 43,655 in FY 2005, representing a 100 percent increase over the 2000 base year. At our Benefits Delivery at Discharge (BDD) sites the average number of issues claimed is



6.7, compared to 2.6 in a non-BDD environment. Our experience since 2000 demonstrates that the trend to increasing numbers of conditions claimed is system-wide, not just at special intake locations such as BDD sites.

Combat and deployment of U.S. forces to under-developed regions of the world have resulted in new and more complex disability claims based on environmental and infectious risks, traumatic brain injuries, complex combat injuries involving multiple body systems, concerns about vaccinations, and other conditions. In addition, the aging of the veteran population who are today service connected for diabetes adds to the complexity of claimed disabilities. More than 220,000 veterans are now service connected for diabetes. As veterans with diabetes reach and move past the 10-year point since initial diagnosis, additional secondary conditions tend to become manifest. We are already seeing increasingly complex medical pictures resulting in neuropathies, vision problems, cardio-vascular problems, and other issues directly related to diabetes. Much like original claims with more than eight claimed disabilities, diabetes claims routinely present multiple variables with which the rating specialist must deal. If secondary conditions are not claimed, the rating specialist must be alert to identify them. This increasing complexity of the disabilities adds to the increased complexity of our workload and the resources needed to process it.

The number of veterans submitting claims for PTSD has also grown dramatically and contributes to increased complexity. From FY 2000 through FY 2005, the number of veterans receiving compensation benefits for PTSD increased from 134,000 to nearly 245,000. These cases present unique processing complexities because of the evidentiary requirements to substantiate the event causing the stress disorder.

There has also been significant change in processing requirements since FY 2001, with the enactment of the Veterans Claims Assistance Act (VCAA). The passage of the Veterans Claims Assistance Act reversed the decision of the Court of Appeals for Veterans Claims in *Morton v. West* that held that a veteran must submit a “well grounded claim” before VA could assist the veteran. VCAA has significantly increased

both the length and complexity of claims development. VA's notification and development duties increased, adding more steps to the claims process and lengthening the time it takes to develop and decide a claim. We are also now required to review the claims at more points in the decision process.

## **Conclusion**

The Compensation and Pension budget formulation process is based on a complex combination of historical data, current experience, workload and performance projections and assumptions, external influences, program judgment, and management decisions. The budget evolves as these factors and inputs are refined, revised, and revisited. But, throughout all this complexity and change, the prime motivation is fulfilling our mission to help disabled veterans receive the benefits they deserve.

Mr. Chairman, this concludes my statement. I will be happy to respond to any questions that you or other members of the Subcommittee might have.