



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

October 7, 2008

S. 3001 **Duncan Hunter National Defense Authorization Act** **for Fiscal Year 2009**

As transmitted to the President on October 6, 2008

SUMMARY

S. 3001 would authorize the appropriation of about \$600 billion for fiscal year 2009. Those discretionary costs of implementing the act are not discussed here; this cost estimate addresses only the effects that S. 3001 would have on direct spending and revenues.¹

S. 3001 contains provisions that would both increase and decrease direct spending and revenues, primarily from changes in the TRICARE pharmacy benefit and retirement programs, and from the sale of assets from the National Defense Stockpile. CBO estimates that enacting S. 3001 would, on net, decrease direct spending by \$8 million over the 2009-2013 period and would increase direct spending by \$3 million over the 2009-2018 period. In addition, CBO estimates that enacting S. 3001 would increase revenues by \$8 million over the 2009-2018 period.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

CBO's estimate of the budgetary effects of provisions that affect direct spending (including proceeds from asset sales) and revenues is shown in Table 1. Those impacts fall primarily within budget functions 050 (national defense), 550 (health), 600 (income security), and 700 (veterans benefits and services).

1. For details on discretionary costs associated with earlier versions of the act, see the cost estimate transmitted on May 20, 2008, for H.R. 5658 as reported by the House Committee on Armed Services; the cost estimate transmitted on August 7, 2008, for H.R. 5658 as passed by the House of Representatives; and the cost estimate transmitted on June 13, 2008, for S. 3001 as reported by the Senate Committee on Armed Services. (Those estimates are available at www.cbo.gov.) The earlier versions of the legislation would have authorized a somewhat higher amount for 2009 appropriations.

TABLE 1. SUMMARY OF S. 3001'S EFFECTS ON DIRECT SPENDING AND REVENUES

	By Fiscal Year, in Millions of Dollars											
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2009- 2013	2009- 2018
Changes in Outlays	7	158	-23	-53	-96	24	0	-3	-5	-4	-8	3
Changes in Revenues	8	0	0	0	0	0	0	0	0	0	8	8

Note: Details may not add to totals because of rounding.

BASIS OF ESTIMATE

S. 3001 contains provisions that would both increase and decrease outlays from direct spending, including those from asset sales. In total, CBO estimates S. 3001 would increase direct spending by about \$7 million in 2009 and by about \$3 million over the 2009-2018 period (see Table 2 for details). The act also would increase revenues by about \$8 million in 2009, according to CBO estimates.

The largest effects of S. 3001 on direct spending would result from changes in the TRICARE pharmacy benefit and the sale of assets from the National Defense Stockpile.

Prohibition on Increase in Pharmacy Copayments

Section 702 would prohibit the Department of Defense (DoD) from increasing the cost-sharing amounts that beneficiaries pay for pharmaceutical drugs before 2010. For fiscal year 2009, the Administration is proposing to increase copayments for drugs purchased at retail pharmacies and through its mail order program. Those changes in copayments would apply to dependents of active-duty members and all retirees and their dependents. Medicare-eligible retirees and their dependents are covered by DoD's TRICARE For Life benefit, which is classified in the budget as a mandatory (i.e., direct spending) program.²

2. Section 702 would also increase discretionary costs associated with health care benefits for the dependents of active-duty members and for retirees who are not eligible for Medicare. For additional information on those costs, see CBO's estimate for H.R. 5658, the National Defense Authorization Act for Fiscal Year 2009, as reported by the House Committee on Armed Services on May 16, 2008.

TABLE 2. ESTIMATED IMPACT OF S. 3001 ON DIRECT SPENDING AND REVENUES

	By Fiscal Year, in Millions of Dollars										2009-	2009-
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2013	2018
CHANGES IN DIRECT SPENDING												
Prohibition on Increase in Pharmacy Copayments												
Estimated Budget Authority	75	230	40	0	0	0	0	0	0	0	345	345
Estimated Outlays	75	230	40	0	0	0	0	0	0	0	345	345
Stockpile Sales												
Estimated Budget Authority	-70	-70	-60	-50	-50	-20	0	0	0	0	-300	-320
Estimated Outlays	-70	-70	-60	-50	-50	-20	0	0	0	0	-300	-320
Delayed Retirement for Military Technicians												
Estimated Budget Authority	-5	-7	-7	-6	-6	-6	-5	-5	-5	-4	-31	-56
Estimated Outlays	-5	-7	-7	-6	-6	-6	-5	-5	-5	-4	-31	-56
Transfer from the National Defense Stockpile Fund												
Budget Authority	-40	0	0	0	0	0	0	0	0	0	-40	-40
Estimated Outlays	0	0	0	0	0	0	0	0	0	0	0	0
Shift of Military Retirement Payments												
Estimated Budget Authority	0	0	0	0	0	0	0	0	0	0	0	0
Estimated Outlays	0	0	0	0	-45	45	0	0	0	0	-45	0
Survivor Allowance												
Estimated Budget Authority	3	3	4	4	5	5	5	2	0	0	19	31
Estimated Outlays	3	3	4	4	5	5	5	2	0	0	19	31
Retirement Age of Certain Reserve Officers												
Estimated Budget Authority	-1	-2	-2	-1	-1	-1	-1	-1	-1	-1	-7	-12
Estimated Outlays	-1	-2	-2	-1	-1	-1	-1	-1	-1	-1	-7	-12
Retirement of Warrant Officers												
Estimated Budget Authority	1	1	*	*	1	1	1	1	1	1	3	8
Estimated Outlays	1	1	*	*	1	1	1	1	1	1	3	8
Skaggs Island Cleanup: Spending of Donations												
Estimated Budget Authority	8	0	0	0	0	0	0	0	0	0	8	8
Estimated Outlays	2	3	2	0	0	0	0	0	0	0	7	7
Insurance Coverage for Deployed Civilians												
Estimated Budget Authority	2	*	*	*	*	*	*	*	*	*	2	2
Estimated Outlays	2	*	*	*	*	*	*	*	*	*	2	2
Education Benefits for Reserve Component Members												
Estimated Budget Authority	*	*	*	*	*	*	*	*	*	*	-1	-2
Estimated Outlays	*	*	*	*	*	*	*	*	*	*	-1	-2

(Continued)

TABLE 2. CONTINUED

	By Fiscal Year, in Millions of Dollars												
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2009-2013	2009-2018	
CHANGES IN DIRECT SPENDING Continued													
Corrections of Military Records													
Estimated Budget Authority	1	0	0	0	0	0	0	0	0	0	1	1	
Estimated Outlays	1	0	0	0	0	0	0	0	0	0	1	1	
Drydock Sale													
Estimated Budget Authority	-1	0	0	0	0	0	0	0	0	0	-1	-1	
Estimated Outlays	-1	0	0	0	0	0	0	0	0	0	-1	-1	
Net Changes in Direct Spending													
Estimated Budget Authority	-27	155	-25	-53	-51	-21	0	-3	-5	-4	-2	-36	
Estimated Outlays	7	158	-23	-53	-96	24	0	-3	-5	-4	-8	3	
CHANGES IN REVENUES													
Skaggs Island Cleanup: Donations	8	0	0	0	0	0	0	0	0	0	8	8	

Note: Details may not add to totals because of rounding; * = less than \$500,000.

Based on data provided by DoD, CBO estimates that by 2009 about 58 million prescriptions will be filled at retail, mail-order, and DoD pharmacies for TRICARE For Life beneficiaries. At the current level of copayments, those prescription drugs will have a net cost to DoD of about \$3.9 billion per year. If implemented, CBO estimates that the Administration’s proposed copayment increases would reduce that cost by almost \$690 million in the first full year. CBO assumes there is a 50 percent probability that DoD will implement its proposed copayment structure in fiscal year 2009 absent any direction from the Congress. Therefore, we estimate that extending the prohibition through September 30, 2009, would increase costs relative to current law by \$345 million—50 percent of \$690 million—over the 2009-2011 period. The one-year prohibition would affect costs over several years because of the time needed to inform beneficiaries of the changes, time lags in claims processing, and gradual shifts in beneficiaries’ behaviors.

Stockpile Sales

Enacting the bill would lead to increased receipts from the sale of material in the National Defense Stockpile. Section 1412 would increase by \$320 million the target contained in the National Defense Authorization Act for Fiscal Year 1999 (Public Law 105-261, as most recently amended by Public Law 110-181) for continual sales from the National Defense Stockpile, and it would extend the authority to sell material through fiscal year 2016. CBO

estimates that the prices of those materials will be sufficiently high that the additional sales authorized in the act would be completed in 2014.

Delayed Retirement for Military Technicians

Dual-status military technicians are civilian employees of DoD who are required to hold concurrent positions in the reserves. Under current law, some technicians in the Air Force Reserve and Air National Guard are forced to retire from their civil service positions because they have both reached the maximum years-of-service for officers in their grade and become eligible for an unreduced civil service retirement, usually at age 55.

Section 511 would direct the Secretary of the Air Force to allow those technicians to remain in the reserves until they reach age 60, thus allowing them to continue in their civil service positions. Under this section, some technicians who would otherwise retire at age 55 would instead choose to delay their retirements by one or more years, reducing direct spending for civil service retirement and retirees' health care. (Because military retirement benefits for reservists do not begin until they reach age 60, there would not be a similar reduction in spending for military retirements.)

Based on information from DoD, CBO estimates that in 2009, about 90 military technicians would delay their retirements by one or more years. Each year, a new cohort of technicians could choose to stay in the civilian workforce and delay retirement, eventually resulting in about 250 fewer retirees at any point in time. Although delaying retirement reduces retirement costs in the near term, the extra years worked would entitle technicians to a larger annuity once they did retire, partially offsetting those savings. CBO estimates that this section would result in a net reduction in direct spending for civil service retirement annuities and retirees' health care benefits of \$56 million over the 2009-2018 period.

Transfer from the National Defense Stockpile Fund

Section 1002 would require the Secretary of Defense to transfer \$40 million from the unobligated balances of the National Defense Stockpile Transaction Fund to the U.S. Treasury, where they would be deposited as miscellaneous receipts. CBO estimates that the transfer would not affect federal spending over the 2009-2018 period because, under current law, those balances are unlikely to be spent over the next 10 years.

Shift of Military Retirement Payments

Section 1002 also would reduce by 1 percent all payments scheduled to occur in September 2013 from the Military Retirement Fund. Annuitants would be reimbursed for this one-time reduction in October 2013. Based on the amounts of current outlays from the fund, and taking into account expected inflation and changes in the number of retirees, CBO estimates that this provision would shift about \$45 million in outlays from fiscal year 2013 to 2014, but would not affect total spending over the 2013-2018 period.

Survivor Allowance

The National Defense Authorization Act for Fiscal Year 2008 (Public Law 110-181) authorized a monthly allowance to be paid to those recipients of Survivor Benefit Plan (SBP) payments who have their annuities reduced dollar-for-dollar by the amount of Dependency and Indemnity Compensation they receive from the Department of Veterans Affairs. The amount of that monthly allowance will be \$50 in fiscal year 2009, increasing by \$10 each year until it reaches \$100 per month in 2014. The allowance is scheduled to be terminated five months into fiscal year 2016. Public Law 110-181 excluded the survivors of members who died on active duty from receiving the allowance. Section 631 would eliminate this exclusion. Based on data from DoD's Office of the Actuary, CBO estimates that almost 4,500 additional survivors would receive the allowance under this section, which would increase direct spending for military retirement benefits by \$31 million over the 2009-2016 period.

Retirement Age of Certain Reserve Officers

Section 514 would allow officers serving in the National Guard in state headquarters positions to remain in an active status until age 62. Currently, they must retire at age 60. CBO estimates that this change would decrease spending from the Military Retirement Fund because some officers would begin receiving retirement annuities at a later date than they otherwise would have. Based on information from DoD, we estimate that, under section 514, about 25 officers each year would delay their retirements by one year and would forgo about \$70,000 in annuities, reducing retirement expenditures by about \$2 million annually. The annual savings would decrease over time however, as those officers would receive larger annuities when they do retire. In total, CBO estimates this section would reduce net direct spending for military retirements by \$12 million over the 2009-2018 period.

Retirement of Warrant Officers

Section 501 would allow the Navy and Marine Corps to require warrant officers who have at least 30 years of active-duty service to retire. This provision would increase spending from the Military Retirement Fund in two ways. First, CBO estimates it would result in the retirement of an additional 30 warrant officers in 2009 who would otherwise not have retired, based on data from the Defense Manpower Data Center. Also, since most warrant officers with over 30 years of service are in the grade of W-5, it would open up the ranks and allow more officers in the grade of W-4 to receive a promotion to W-5 before they retire. A retirement annuity for a member who retires at W-5 is about \$15,000 per year higher than an annuity for a member who retires at W-4. In total, CBO estimates this section would increase outlays from the Military Retirement Fund by \$8 million over the 2009-2018 period.

Skaggs Island Cleanup

Section 2842 would authorize the Navy and the Department of the Interior to accept donations from the state of California and other entities, and to spend those donations to perform various clean-up activities at the former naval facility on Skaggs Island, California. Donations are recorded in the budget as revenues and the authority to spend donations constitutes direct spending. Based on information from the California Department of Transportation, CBO estimates that donations under this provision would total \$8 million in 2009. As a result, CBO estimates that enacting this provision would increase revenues by \$8 million in 2009 and would increase direct spending by \$2 million in 2009 and by \$7 million over the 2009-2013 period.

Insurance Coverage for Deployed Civilians

Section 1103 would allow federal civilian employees who are deployed in support of a contingency operation and who had previously waived automatic coverage under the Federal Employees Group Life Insurance program to elect automatic coverage upon notification of deployment. In addition, those employees, as well as DoD employees designated as “emergency essential” would be allowed to elect optional insurance coverage or increase their optional coverage amount upon notification of deployment.

The larger number of deployed civilians in the insured population would slightly raise the overall risk. CBO expects that DoD would increase premium payments to cover the expected growth in outlays that would arise from that somewhat greater level of risk. That increase, however, would not go into effect until 2010. As a result, CBO estimates that enacting

section 1103 would increase direct spending by \$2 million in fiscal year 2009 and over the 2009-2018 period.

Education Benefits for Reserve Component Members

Section 546 would limit the use of education benefits by members of the selected reserve who separate from the reserves after serving on active duty in support of a contingency operation. Those individuals would have to complete their service contract under honorable conditions to remain eligible to receive benefits after they separate. Under current law, such reservists are eligible to receive benefits if they separated “under other than dishonorable” conditions, a less restrictive standard. That change would limit participation in the Reserve Educational Assistance Program, but would not affect reservists receiving benefits under the Post-9/11 GI Bill program, which already requires an honorable discharge. CBO estimates that enacting this section would decrease the number of reservists receiving education benefits by about 20 per year, thereby reducing direct spending for veterans’ education benefits by \$2 million over the 2009-2018 period.

Correction of Military Records

Section 592 would authorize the Secretary of Defense to pay interest on certain financial awards arising from the correction of military records. That section would provide retroactive authority to pay interest on claims for lost pay, allowances, and other pecuniary benefits awarded by a Correction Board ruling on or after October 1, 2007, to set aside a prior court-martial conviction. According to DoD, four individuals have received such rulings since that date. Those cases were from a 1944 mass court-martial that resulted in 31 convictions.

Based on information from DoD, CBO assumes the department would pay interest on those awards at an interest rate of 10 percent and estimates that each of these four veterans would receive roughly \$350,000. Because these payments are mandatory, enacting this section would increase direct spending by about \$1 million in 2009.

Drydock Sale

Section 1011 would allow the Navy to sell a floating drydock located in Aransas Pass, Texas, to Gulf Copper Ship Repair for an amount equal to the drydock’s fair-market value. Based on information from the Navy, CBO estimates that the sale of this drydock would generate about \$1 million in offsetting receipts in 2009.

PREVIOUS CBO ESTIMATES

On May 20, 2008, CBO transmitted a cost estimate for H.R. 5658, the National Defense Authorization Act for Fiscal Year 2009, as reported by the House Committee on Armed Services on May 16, 2008. CBO estimated that provisions in that bill would have increased direct spending by \$2 million in 2009, but would have decreased such spending by \$75 million over the 2009-2018 period.

On June 13, 2008, CBO transmitted a cost estimate for S. 3001, the National Defense Authorization Act for Fiscal Year 2009, as reported by the Senate Committee on Armed Services on May 12, 2008. CBO estimated that S. 3001 would have increased direct spending by \$83 million in 2009, and by \$6.4 billion over the 2009-2018 period, primarily as a result of a provision authorizing the purchase of synthetic and alternative fuels through multiyear contracts. That provision is not included in the version of S. 3001 that was cleared by the Congress.

On August 7, 2008, CBO transmitted a cost estimate for H.R. 5658 as passed by the House of Representatives. CBO estimated that provisions in that act would have increased direct spending by \$4 million in 2009, but would have decreased such spending by \$68 million over the 2009-2018 period. Also, enacting that legislation would have increased revenues by \$8 million in 2009. Many direct spending provisions in the version of S. 3001 that cleared the Congress are identical to or very similar to provisions in the earlier version of the legislation. Differences between H.R. 5658 as passed by the House of Representatives and S. 3001 as cleared include a reduction in the proceeds from stockpile sales, and the elimination of a provision that would have increased retired pay for reserve personnel who are wounded in action.

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