

VETERANS BENEFITS

Congress should

- direct federal actuaries to publish annual present-value estimates of the long-term cost of all veterans-benefits obligations;
- increase military pay to allow all active-duty military personnel to purchase, at actuarially fair rates, a standard package of private life, disability, and health insurance benefits comparable to those the Department of Veterans Affairs provides;
- privatize Veterans Health Administration facilities and physical capital by transferring ownership to veterans; and
- deliver benefits to current VHA-eligible veterans via risk-adjusted payments.

The Department of Veterans Affairs (VA) is never more than a few months away from scandal for the often poor service it provides veterans. Yet the reality of how the VA disserves veterans is far worse than the headlines suggest.

Overview

Veterans benefits are a form of compensation the U.S. government provides to employees of the U.S. armed forces. Benefits include life, disability, and health insurance, as well as assistance with housing, education, training, and rehabilitation. The VA will spend roughly \$274 billion in 2022 to provide benefits to veterans, survivors, and dependents who meet various criteria.

The wars in Afghanistan and Iraq have caused a surge in spending on veterans benefits. “Federal expenditures to care for veterans doubled from 2.4 percent of the U.S. budget in FY 2001 to 4.9 percent in FY 2020, even as the total number of living veterans from all U.S. wars declined from 25.3 million to 18.5 million.”

The VA provides health care directly to beneficiaries through the Veterans Health Administration (VHA). The VHA is an integrated health care delivery

system. The federal government owns or operates “more than 1,700 hospitals, clinics, and other health care facilities,” where it employs 380,000 clinicians and other employees to serve 9.2 million enrollees. (Ironically, at the same time the government suppresses private integrated health systems—see “Health Care Regulation,” “Health Insurance Regulation,” “The Tax Treatment of Health Care,” and “Medicare”—the U.S. government operates the nation’s largest integrated delivery system.) In 2022, the VHA will spend roughly \$104 billion.

Congress determines overall funding for veterans benefits and the allocation of VHA resources.

Quality

The VHA appears to outperform private health care providers on some quality measures. Studies generally find that the VHA does better on process measures of quality (such as providing evidence-based care) but no better on outcomes (such as risk-adjusted mortality). Yet such studies typically compare two types of government-run systems, rather than comparing a government-run system against a market system. The tax code, Medicare, Medicaid, and other government interventions give the government a comparable degree of control over “private” hospitals. Such studies say little about whether a market system would perform better or worse than a government-run system.

The quality of all VA benefits suffers because government administration of those benefits exposes veterans to political risk: veterans can lose benefits at the whim of politicians and bureaucrats. Health coverage cannot be high quality if it is not secure. If Congress adopts various Congressional Budget Office proposals to reduce VA spending, millions of veterans would see their VHA benefits disappear. If and when Congress ever gets serious about reducing federal spending, it could terminate benefits for even more veterans.

An Unresponsive Bureaucracy

The most notorious example of poor quality at the VHA is long waits for care. Wait times for care are longer in some areas and tend to persist because the VHA does not have a price mechanism to move resources from low- to high-value uses. Congress and the VA use a combination of politics and bureaucratic rationing to decide when and where to open and close VHA facilities, or how many clinicians to hire in each region of the country. The result is inevitable and persistent mismatches between demand and supply: shortages in some areas and gluts in others.

In 2014, whistleblowers and watchdogs discovered that 60 percent of VHA facilities were falsifying official records to make wait times appear shorter.

Veterans at one facility in Phoenix were waiting 115 days for appointments. Congress responded with \$5 billion to hire additional clinicians and expand VHA capacity, and \$10 billion to pay for veterans to see private-sector doctors at taxpayers' expense. The additional bureaucracy associated with this option left many veterans waiting even longer than before.

Despite a media firestorm, congressional oversight hearings, numerous VA officials losing their jobs, and federal legislation, in 2021 more than 810,000 veterans waited more than one month for appointments while nearly 197,000 waited more than six months. The problem of shortages and slow service extends beyond health benefits. In 2021, more than 215,000 veterans were waiting more than four months for disability and pension benefits determinations. In addition, the VHA does not yet track appointments and wait times accurately. In 2019, the Government Accountability Office reported that inaccuracies in the VHA's appointment scheduling processes hid the fact that "veterans could potentially wait up to 70 calendar days to see a [non-VHA] provider."

The flip side of shortages is gluts. Political and bureaucratic constraints make it difficult for the VHA to shut down, sell, or repurpose facilities. The VHA has increasingly turned to leasing properties, a process that makes it easier to open, close, and repurpose facilities. Yet the VHA's secrecy makes it difficult even to know whether this process is more or less efficient. According to the GAO, the "VA does not . . . assess and provide information to decision makers on how it has benefited from this flexibility. Without transparency on these benefits, VA and congressional decision makers may lack information to understand the need for these leases."

Costs

Idle capital is just one of the costs of the VHA. Supporters claim that for all its faults, the VHA provides care of comparable quality at a lower cost than Medicare or private insurance. The VHA's secrecy makes it difficult to make these comparisons. The Congressional Budget Office has testified to Congress:

With few exceptions, VHA does not make either existing administrative data or clinical records (even with personal identifying information removed) available to researchers in other government agencies, universities, or elsewhere. . . . [I]t would be useful to know the average salaries, performance pay, and other elements of compensation that VHA provides for its physicians in various specialties and for its other clinicians; the number of patients its clinicians treat per unit of time (for example, in a typical week) and the length and intensity of those encounters; and the

average prices it pays for pharmaceutical products—but VHA does not report that information publicly.

Even so, it would not be particularly surprising if a health care system subject to bureaucratic rationing and tolerant of long waits for care had lower per unit costs, given the excessive prices government intervention allows to persist in the private sector (see “Health Care Regulation” and “The Tax Treatment of Health Care”) and Medicare (see “Medicare”).

The VA Abets Unnecessary Wars

The greatest harms the VA inflicts on veterans stem not from the services it provides, but from how it helps Congress and the president start, enter, and perpetuate war.

Veterans benefits are some of the most expensive financial costs of war. The VA reports that the present value of just the compensation and burial benefits that Congress has promised to current veterans reached \$4.5 trillion in 2021, which amounts to 20 percent of U.S. gross domestic product and more than the federal government collected in revenue that year. That figure does not include the accrued liabilities of health care, long-term care, or life insurance benefits.

The majority of spending on veterans benefits occurs decades after Congress incurs those obligations. Disability payments, for example, typically do not peak until 40 or 50 years after the end of a military conflict.

Since the federal government does not fund veterans benefits until they come due, Congress and the president can commit U.S. armed forces to battle without having to pay or even acknowledge those costs. The VA enables elected officials who send U.S. troops to war to pretend that one of the largest financial costs of that decision does not exist.

If Congress funded those obligations as it accrued them, it would have to raise revenue every year to fund future veterans benefits. In years when it was sending troops into battle, Congress would have to raise even more revenue because future veterans benefits claims would be higher. Having to budget for the cost of those additional veterans benefits and weigh those costs against other priorities would make Congress more conservative about starting, entering, or perpetuating wars. When the decision to authorize military force is a close call, having to finance those costs up front could even prevent wars.

Instead, the VA system allows Congress to ignore these costs. It therefore eliminates a constraint that could prevent unnecessary wars. The very agency that exists to care for sick and disabled veterans and their survivors perversely makes it more likely that veterans will end up sick, disabled, or dead.

Report the Cost of Accrued Veterans Benefits

Requiring transparency about the cost of future veterans benefits would be an important step toward improving veterans benefits. Congress should immediately direct federal actuaries, at the GAO, the VA, or other agencies, to project and report regularly on the present-value cost of all veterans benefits obligations, just as the Social Security and Medicare trustees report on those programs' accrued obligations. Simply having better information would improve debates over veterans benefits, the U.S. military, and foreign policy.

Prefund Veterans Benefits

Congress must do more than make the current VA system transparent. Protecting veterans, active-duty personnel, and civilians requires a complete overhaul of veterans benefits.

One reform would deliver better, more reliable benefits for veterans and force Congress and the president to make more careful decisions affecting the lives of active-duty personnel.

Congress should fund veterans benefits in advance by increasing salaries for all active-duty personnel. All service members would receive a pay raise sufficient to allow them to purchase, from private insurers at actuarially fair rates, a statutorily defined package of life, disability, and health care benefits comparable to what the VA offers. Benefits would cover losses related to an enlistment or commission, beginning when they leave active duty. Military personnel would be free to purchase more or less coverage than the standard benefits package. Upon leaving active duty, veterans could receive benefits from the insurance carriers and health care providers of their choice, rather than just a single government-run health system.

Congress should use competitive bidding by insurers to determine the salary increases for active-duty personnel. Bids by insurers would allow Congress to peg pay raises for each job type to the actual premiums that competing insurers charge to cover personnel in each position. (Congress could peg salary increases to the second-lowest, median, or average premium bid.) Since insurers would be free to set actuarially fair premiums, premiums and the corresponding pay raises would be higher for paratroopers than desk jockeys, which would enable all personnel to afford the same package of benefits. The differences in premiums across job types would allow military personnel to compare the relative risks of different military jobs and careers.

This veteran-centered system would provide future veterans with better benefits. Rather than benefits that can disappear at the whim of politicians and bureaucrats, veterans would have a legally enforceable contract. If you

lose your benefits under the current system, the government works against you. If you lost them under a veteran-centered system, the government would work with you to restore those benefits.

If things ever got that far. Private insurers and health care providers would be more responsive to veterans' needs under such a system because if they were not, veterans could fire them. Insurers who developed a reputation for mistreating veterans comparable to that of the VA would have a difficult time enrolling new active-duty personnel. If Congress privatized the VHA system by transferring ownership to veterans themselves (see next section), then veterans would have the option of using an integrated health system run by veterans, for veterans.

Most important, prefunding veterans benefits in this manner would make Congress and the president more cautious about using military force. Military action would cause insurers to increase premiums for life, disability, and health benefits to cover the increased risk. Those higher premiums would trigger mandatory salary increases for military personnel. Not only would this be a more honest and transparent way of providing veterans benefits, but Congress and the president would be more cautious about engaging in military action because they would have to give up more to get it. Revealing the costs of war to policymakers can *only* lead to better decisions about when to begin and end wars.

Putting those funds directly in the hands of military personnel is an indispensable component of a prefunded system. Creating yet another government trust fund would merely allow Congress to continue to hide this cost of war.

A prefunded system of veterans benefits could also aid recruiting. It would give military personnel more information about various jobs and more peace of mind about their veterans benefits. Competition among insurers and providers for cost-conscious active-duty personnel and veterans would help drive inflated private prices downward.

Privatize VHA Facilities

To reward current veterans and to enable even greater competition in the provision of their medical benefits, Congress should privatize VHA facilities by transferring ownership of the VHA to veterans themselves. Privatization would be a large wealth transfer to veterans. The VA estimates the value of its physical capital and investments at \$35 billion in 2021.

Congress should incorporate the VHA and give ownership shares to VHA-eligible veterans on the basis of income, length of service, reliance on VA benefits, or similar criteria. The exact manner in which Congress transfers

ownership of the VHA system to veterans is less important than its doing so as soon as possible.

Veteran-shareholders would then select a management team, perhaps from current VHA personnel, veterans groups, private health systems, and insurers or other financial institutions with a record of serving military personnel. A privatized VHA could continue to serve only veterans or opt to serve nonveteran patients (and thereby enrich its veteran-shareholders). The VHA could pursue different strategies in different parts of the country.

Privatization of the VHA could improve health care for veterans and nonveterans alike. Because the VHA is the largest integrated health system in the nation, privatizing it would force incumbent health care providers to compete with a financing and delivery system that does not exist in most markets.

Choice for Current VHA Enrollees

To maintain benefits for current veterans after privatization, Congress should provide risk-adjusted payments that enable VHA-eligible veterans to purchase a comparable level of health coverage from private providers. This approach could be similar to the salary increases for active-duty personnel or the Medicare reforms in the “Medicare” chapter. With risk adjustment, current veterans could afford to purchase health coverage at actuarially fair premiums.

Liberalizing and privatizing veterans benefits will result in better, more affordable, and more secure health care for veterans. Most important, it would protect active-duty personnel from harm by forcing Congress and the president to make more careful decisions about military conflicts.

Suggested Readings

- Cannon, Michael F. “As Britain Tries to Learn from Iraq Mistakes, so Should the U.S.—by Privatizing the VA.” *The Hill*, July 14, 2016.
- . “Serious VA Reforms Will Make Veterans Healthier, Wealthier—and Fewer.” *Washington Examiner*, January 13, 2017.
- . “The VA Admits It Failed to Protect Veterans from Deadly Doc.” *Cato at Liberty* (blog), June 3, 2021.
- . “The V.A.’s Biggest Problem Isn’t Who’s in Charge—It’s Centralized Government Control.” *Reason*, April 30, 2018.
- Cannon, Michael F., and Christopher A. Preble. “The Other Veterans Scandal.” *New York Times*, June 15, 2014.
- Trivedi, Amal N., Sierra Matula, Isomi Miake-Lye, Peter Glassman, et al. “Systematic Review: Comparison of the Quality of Medical Care in VA and Non-VA Settings.” *Medical Care* 49, no. 1 (January 2011): 76–88.

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