

**STATEMENT OF THE HONORABLE ERIC K. SHINSEKI
SECRETARY OF VETERANS AFFAIRS**

**FOR PRESENTATION BEFORE THE
HOUSE COMMITTEE ON VETERANS' AFFAIRS**

**EFFECT OF GOVERNMENT SHUTDOWN ON VA BENEFITS AND SERVICES TO
VETERANS**

OCTOBER 9, 2013

Chairman Miller, Ranking Member Michaud, Members of the House Committee on Veterans' Affairs:

The Committee invited me here today to examine the effects of the government lapse in appropriations on VA benefits and services provided to Veterans, their families, and survivors. It is important for you to know the following:

- When appropriations lapsed, we had to discontinue overtime, slowing our review of benefit claims. This has led to delays for an average of 1,400 Veterans a day. As a result, we are no longer making the significant gains we have made in recent months toward eliminating the backlog in claims.
- Yesterday, we exhausted carryover funds for Veterans Benefits Administration (VBA) employees. Therefore, consistent with our contingency plan, as of October 8th, VBA furloughed more than 7,800 of its employees, half of whom are Veterans.
- The Office of Information and Technology (OIT), as of Monday, has furloughed 2,754 of its employees, approximately 56 percent of whom are Veterans. While support for existing operations continues, all improvements to our systems have

ceased. This threatens to delay updates to the Veterans Benefits Management System (VBMS) that allows us to help take down the backlog and give Veterans quick and accurate decisions.

- If the shutdown continues through late October, claims processing for compensation, pension, education, vocational rehabilitation, and employment benefits will be suspended due to lack of funding. Once mandatory funds are depleted at the end of this month, nearly 5,600 Veterans a day will not receive a decision on their disability claims. We have brought down the backlog by over 30 percent, or 190,000 claims since March. This lapse in funds will likely increase the backlog instead of continuing the progress.
- If the shutdown continues into late October, November compensation payments to more than 3.8 million Veterans will halt. These include thousands of Veterans who have the most severe disabilities. Payments will also stop for over 364,000 survivors and over 1,200 children receiving special benefits, such as children with Spina Bifida born to Vietnam Veterans and certain Korean War Veterans as well as children of women Veterans with birth defects.
- In addition, should the shutdown continue into late October, pension payments will stop for almost 315,000 Veterans and over 202,000 surviving spouses and dependents. As you know, these Veterans have very low incomes and depend heavily upon these benefits.
- If the shutdown continues, education benefits and living stipends under our GI Bill programs will stop for over 500,000 Veterans and Service members.

These are simply the facts. Mr. Chairman, this shutdown could end today if Congress would fully fund government operations so that VA and the rest of the Federal government can get back to work. There are those who have suggested a piecemeal approach, to pick and choose which parts of the government to fund. This is not the best solution for our Veterans or our Nation.

Veterans depend on government services beyond just those provided by VA. First, there are important programs and benefits that are the result of partnerships between VA and other agencies. For example, the Department of Labor (DoL) is a close partner with VA on Veterans jobs programs. However, the shutdown requires the suspension of functions of DoL's Veterans Employment and Training Service (VETS). The work VA does in partnership with the Department of Housing & Urban development (HUD) to end Veteran homelessness has also been impacted by the lapse. Veteran entrepreneurs are impacted by the loss of Veteran programs at SBA, particularly the assistance granted through the Veterans Business Outreach Centers and the Small Business Development Centers. These organizations help Veterans start and build their small businesses, including helping them locate sources of capital. Veterans just leaving the military will not have access to programs intended to educate them about becoming entrepreneurs.

Additionally, service-disabled Veteran-owned small businesses that are involved in status protests in any agency other than VA will not have their protests determined, thus holding up procurement actions at the issuing agency.

Veterans, of course, are affected like other Americans by the government shutdown – more than 600,000 Veterans are employed by the Federal government, many others work for impacted Federal contractors, or work for other businesses that are suffering from the shutdown. They, like other Americans, could be impacted in other ways. For example, they and their families are likely feeling the effects that a shutdown has had on small business loans.

Over the past week the Department of Veterans Affairs has worked to refine and implement closure plans, prepare for multiple contingencies, and communicate with our employees and stakeholders—all while continuing to fulfill our primary mission of serving Veterans and their families.

We are working diligently to keep the delivery of services and benefits seamless for our Veterans to the greatest extent we can in light of the lapse in appropriations. In some areas, like healthcare delivery, there are fewer adverse effects. In others, such as reducing the claims backlog, we have already seen a negative impact due to the lapse in appropriations.

VA's Appropriations Lapse Contingency Plan outlines the activities being undertaken by the Department during the government shutdown. This plan is designed to ensure that VA can perform an orderly suspension of its programs and operations during the shutdown. As the shutdown is a dynamic and evolving process, we continue to evaluate our contingency plan as time passes.

Under applicable law, VA has a limited ability to continue “excepted functions” under a lapse in appropriations to “protect life and property” or that are a “necessary implication” of functions that are funded. An example of an excepted function is the work performed by personnel from the Office of Information and Technology, who support the provision of health services at Veterans Health Administration (VHA) facilities. VA functions and offices not funded by advanced appropriations will have to operate with very few excepted employees, as set forth in detail in the VA shutdown planning materials available on our website. VA does have the flexibility to use a very limited amount of unexpended fiscal year 2013 funds to continue some offices’ operations for a limited time. For some offices, such as OIT, VBA, and the Office of Inspector General, those limited funds have already been exhausted and non-excepted employees furloughed. For those remaining, it is a day to day determination.

Following is a brief status update from each of our Administrations and major offices.

Veterans Benefit Administration (VBA)

During the last six months, VBA had made significant progress in executing its Transformation Plan to improve the speed and accuracy of disability claims processing. Between March and September, VBA reduced the claims backlog from a high point of 611,000 down to 418,000 – a drop of approximately 31 percent. As of October 8th, claims processors had completed approximately 99 percent of claims over two years old, and nearly 81 percent of all claims pending over one year – from 333,000 to less than 68,000 – giving Veterans who have waited the longest a decision on their claim.

Most importantly, while increasing productivity, VBA also increased the quality of claims decisions. In June 2011, processing of disability claims was approximately 83 percent accurate. By August 2013, VBA's three-month average for claims accuracy had risen eight percentage points to approximately 91 percent. When measuring accuracy at the individual medical issue level – which is a truer measure of VA's proficiency because it captures how well employees rate each condition in a Veteran's claim – the rating accuracy is approximately 96.7 percent.

The momentum achieved over the past six months has now stalled with the government shutdown. Since October 1st, claims production has slowed by an average of 1,400 per day, and it may slow further as support personnel began their furloughs on October 8th. VBA currently has enough unobligated FY 2013 funds available in its mandatory account to pay benefits and continue to process claims until about the end of October, assuming current year spending mirrors prior years. With no further appropriations, however, VBA will not be able to pay Veterans, their families or survivors on November 1st for all our benefit programs including compensation, pension, Dependence and Indemnity Compensation (DIC), fiduciary, education, and Vocational Rehabilitation and Employment. Quite simply, without the passage of appropriations soon, Veterans won't be paid their earned benefits on November 1st.

On October 1st, when the lapse in appropriations began, VBA had roughly five days of carry over funding available in its General Operating Expense (discretionary) account for staff and operating expenses. Discretionary funding was exhausted on October 7th,

requiring the furlough of over 7,800 VBA employees on Tuesday, October 8th, leaving 13,097 excepted and funded employees across all VBA programs to process claims and provide other benefits activities.

The remaining claims processing operations and staffing have been reduced to the minimum levels necessary to continue mandatory payment processing. Consequently, VBA's progress in reducing the claims inventory and backlog is now stalled. The duration of the shutdown is directly impacting VA's ability to eliminate the backlog. Once the mandatory appropriations are exhausted near the end of the month, there will be 1,100 excepted personnel to staff VBA's 56 Regional Offices and National Call Centers to date stamp incoming claims receipts. As a result of the exhaustion of available funding, VA will not be able to pay the on average \$6.25 billion in monthly compensation, pension, education, and vocational rehabilitation benefits to over four million Veterans, Service members, and Survivors. This includes the following, specific impacts:

- Over \$4.5 billion in recurring monthly compensation benefits payments will not get paid to 3.8 million Veterans, including an estimated 433,000 service-connected 100 percent disabled Veterans.
- Over \$514 million monthly compensation benefits will not be paid to over 360,000 surviving spouses and children of wartime service Veterans.
- Over \$304 million monthly pension benefits will not get paid to nearly 315,000 wartime low-income Veterans who are permanently and totally disabled or who are over the age of 65.

- Over \$132 million monthly pension benefits will not get paid to over 200,000 low-income Survivors.
- No tuition, fees, or housing allowance benefits will be paid for Veteran education programs - impacting 500,000 Veterans, Service members, survivors and their designated beneficiary.
- Over \$65 million in monthly Survivors and Dependents Educational Assistance will not be paid to an estimated 60,000 eligible spouses and children of Veterans.
- Over \$42 million in Vocational Rehabilitation and Employment Program subsistence allowances will not be paid to 41,000 service-connected disabled Veterans.
- All Volunteer Force Educational Assistance: Nearly \$77 million in All Volunteer Force Educational Assistance benefits will not be paid to 35,000 Veterans and Active Duty personnel.
- Over \$12 million in Specially Adapted Housing and Auto Equipment Grants will not be provided to over 2,000 severely disabled Veterans for home and automobile adaptations.

Even though most VBA funding is 'mandatory' (connected with cash payments established by eligibility for programs), almost all of the funding for VBA-administered benefits has to be approved in annual appropriations. Areas continuing to fully operate throughout the lapse in appropriations are the VA Home Loan Guaranty program and the self-supporting Insurance program that operates through trust funds. VBA Compensation & Pension and Readjustment Benefits accounts are entitlement

accounts requiring annual appropriations from Congress. The FY 2014 VA request of \$86.1 billion included \$84.4 billion to pay Compensation & Pension and Readjustment mandatory benefits.

National Cemetery Administration (NCA)

The National Cemetery Administration has sufficient funding to continue regular operations through late October. After available funds are exhausted, NCA will implement its lapse in appropriations shutdown plan. Of the 1,802 NCA employees, 1,046 will be non-excepted and subject to furlough. NCA employs the highest percentage of Veterans in the Federal workforce. Of the 1,046 non-excepted employees in NCA who may be furloughed, 757, approximately 72 percent, are Veterans. Many of them are disabled Veterans, who will also lose their disability compensation from VBA, if the shutdown continues.

There will be 756 excepted employees, approximately 91 percent of whom are located in the field. Each national cemetery will conduct a reduced number of burials each day. This could cause some families to pay for storage of their loved ones' remains until burials can be scheduled. Although there may be possible delays in scheduling internments, NCA will continue to provide services to our Veterans and their families during their time of need with the utmost dignity, respect and compassion.

Administrative and maintenance operations beyond emergency or essential functions will cease until the government reopens, and this reduced support may impact cemetery

appearance. Requests for Presidential Memorial Certificates will not be processed. Several burial benefits are funded from the Compensation and Pension account. When these mandatory funds are exhausted, NCA will not be able to provide headstones, markers, medallions and outer burial receptacles to Veterans and eligible family members.

Veterans Appeals Processing

Based on applicable legal standards, the processing of appeals will be suspended once funding is exhausted as of October 7th. The Board of Veterans Appeals (the Board) estimates that FY 2013 funds for its staff will be expended in early November, while funding for VBA's regional offices and AMC has already been exhausted. Employees who process appeals at VBA's 56 Regional Offices and the AMC have already been furloughed, and Board employees will be put into furlough status when remaining funds are expended. Once this funding is exhausted, all but one member of the Board staff will be furloughed. Hearings in Veterans' appeals are being cancelled each week, and appeals decisions will not be issued, leading to longer wait times for Veterans.

Office of Information Technology (OIT)

The Office of Information and Technology provides critical support to VHA, VBA, NCA, and Central Office staff that ensures the delivery of benefits and health services to our Nations' Veterans.

As of Monday, October 7th, 2,754 OIT employees were furloughed. About 551 OIT employees are paid from a revolving fund with a capital reserve; these positions are fully funded for approximately 3 months. An additional 4,670 employees are excepted to provide support for healthcare delivery and for benefits determination and delivery, support for staff offices, and ensuring our Veterans information continues to be protected. This number will decrease as the shutdown continues and additional staff members are furloughed. Most, if not all, improvements to our existing IT systems, as well as implementations of new capabilities, are suspended. Specific examples include; the Veterans Benefits Management System, the Veterans Relationship Management (VRM) Initiative, the Integrated Electronic Health Record (iEHR) IOC 2014, the Internal Classification of Diseases-10 (ICD-10), and Personal Identify Verification (PIV)-only Authentication rollout.

While these IT systems will be maintained, no new development upgrades will occur after October 7th. One system, VBMS, is one of the critical initiatives to reducing the backlog of disability claims over the next several years. On Monday, October 7th, all VBMS development ceased.

Veterans Health Administration

Advanced appropriations have allowed VHA to continue its operations with its fiscal year 2014 funding in place, with some exceptions, such as funding for medical research and prosthetics, and operation of the Lovell VA-DoD joint facility. Lovell is fully

operating with all staff on excepted status. Advanced appropriations only apply to selected VHA accounts.

Staff Offices

In most VA staff offices there is a limited pool of FY 2013 funds to support a short period of continued operation. After this short period, the majority of the functions will no longer be performed as a result of the majority of the employees being non-excepted.

In other offices, there are revolving fund programs that will continue to operate. Staff offices also have personnel who provide support to VHA and are reimbursed by VHA with advance appropriations. These staff will continue to work and perform their regular duties as “fully funded” staff. Finally there are some staff who will continue to work, due to “necessary implications” or “protection of life and property.” Details by staff office are provided on the VA webpage in our VA Contingency Plan, Advance Operation in the Absence of Appropriations.

Summary

While VA planned for an orderly shutdown in the event of a lapse in appropriations, a government shutdown of this scale is a new responsibility with unprecedented legal and programmatic questions. VA depends on coordination and synchronization with other Federal departments and agencies. There are functions in other agencies impacted by the shutdown that, in turn, impact our plan in unanticipated ways. Every department and agency is doing the best they can to deal with this evolving situation. With the

predicted uncertainty that accompanies this lapse in appropriations, VA will do its best to keep this Committee informed. However, un-forecasted impacts of the shutdown are difficult to predict.

President Lincoln's charge, to care for those who "shall have borne the battle," remains clear and undiminished. Congress must resolve this fiscal impasse so that VA and our partners can fully deliver its mission of caring for and serving our Nation's Veterans.