

**STATEMENT OF
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VETERANS BENEFITS ADMINISTRATION
U.S. DEPARTMENT OF VETERANS AFFAIRS**

**FOR PRESENTATION BEFORE THE
SENATE APPROPRIATIONS COMMITTEE
SUBCOMMITTEE ON MILITARY CONSTRUCTION, VETERANS AFFAIRS,
AND RELATED AGENCIES**

**BUDGET REQUEST FOR FISCAL YEAR 2017
March 3, 2016**

Chairman Kirk, Ranking Member Tester, and Distinguished Members of the Senate Appropriations Committee, Subcommittee on Military Construction, Veterans Affairs, and Related Agencies: Thank you for the opportunity to present the President's 2017 Budget and 2018 Advance Appropriations requests for the Veterans Benefits Administration (VBA). I am accompanied today by Mr. Jamie Manker, VBA's Chief Financial Officer.

Summary of 2017 Budget Request

The President's 2017 Budget for the Department of Veterans Affairs (VA) will allow VA to manage the comprehensive array of integrated benefits and services provided for our Nation's Veterans, their families, and survivors, administered through our nationwide network of 56 regional offices (ROs). The 2017 budget request includes \$2.8 billion in discretionary funds and \$103.6 billion in mandatory funds for VBA. The budget also requests 2018 advance appropriations of \$103.9 billion for VBA's three mandatory appropriations: Compensation and Pensions, Readjustment Benefits, and Insurance and Indemnities. With the resources requested in the 2017 Budget, VA will provide:

- Disability compensation for 4.4 million Veterans with service-connected disabilities;
- Dependency and indemnity compensation for 405,000 Veterans' survivors;
- Pension for 297,000 wartime Veterans and almost 210,000 of their survivors;
- Vocational rehabilitation and employment benefits paid for nearly 141,000 disabled Veterans;
- Education and training assistance for nearly 1.1 million Veterans and family members;
- Home loan assistance for over two million Veterans and family members with active VA loans;

- Fiduciary activities providing estate protection services for 224,000 VA beneficiaries unable to manage their own funds; and
- Life insurance programs for over 6 million Veterans, Servicemembers, and their families.

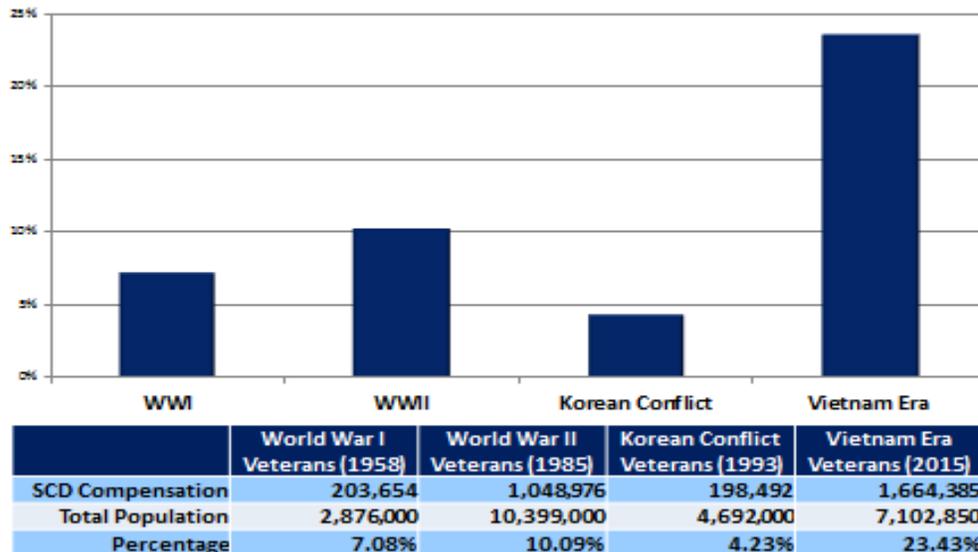
The President's 2017 Budget request also includes funding for technology investments and other initiatives necessary to timely provide Veterans, their families, and survivors with the benefits and services they earned and deserve.

Rising Demand for Disability Benefits

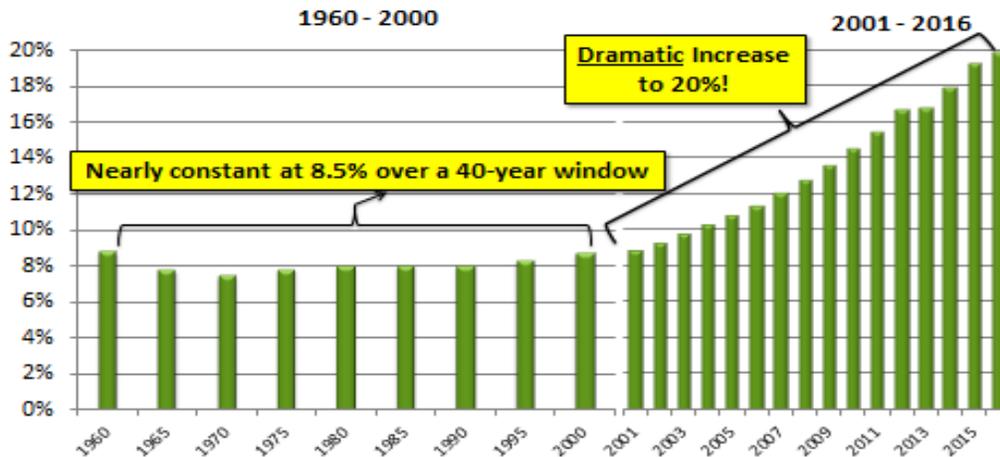
As VBA becomes more productive through our implemented people, process, and technology initiatives, the demand for benefits and services from Veterans of all eras continues to increase, exceeding our capacity to meet it. This increased demand is fueled by more than a decade of war, Agent Orange-related disability claims, a disjointed and redundant claim appeal process, demographic shifts, increased medical issues claimed, and other factors. In addition, VBA is providing services to an older Veteran population with more chronic conditions.

Veterans' benefit requirements continue to increase decades after conflicts end, which is a fundamental, long-term challenge for VA. Even though the Vietnam War ended 40 years ago, the number of Vietnam Era Veterans receiving disability compensation has not yet peaked. We anticipate a similar trend for Gulf War Era Veterans, of whom only 26 percent have been awarded disability compensation. For the past 15 years, the percentage of the Veteran population receiving disability compensation increased to 20 percent from 8.5 percent where it had remained steady for over 40 years. Moreover, the total number of service-connected disabilities for Veterans receiving disability compensation grew from 11.8 million in 2009 to 19.7 million in 2015, an increase of more than 67 percent in just 6 years. This dramatic growth, along with estimates based on historic trends, predicts an even greater increase in claims for more benefits as Veterans' age and disabilities become more acute.

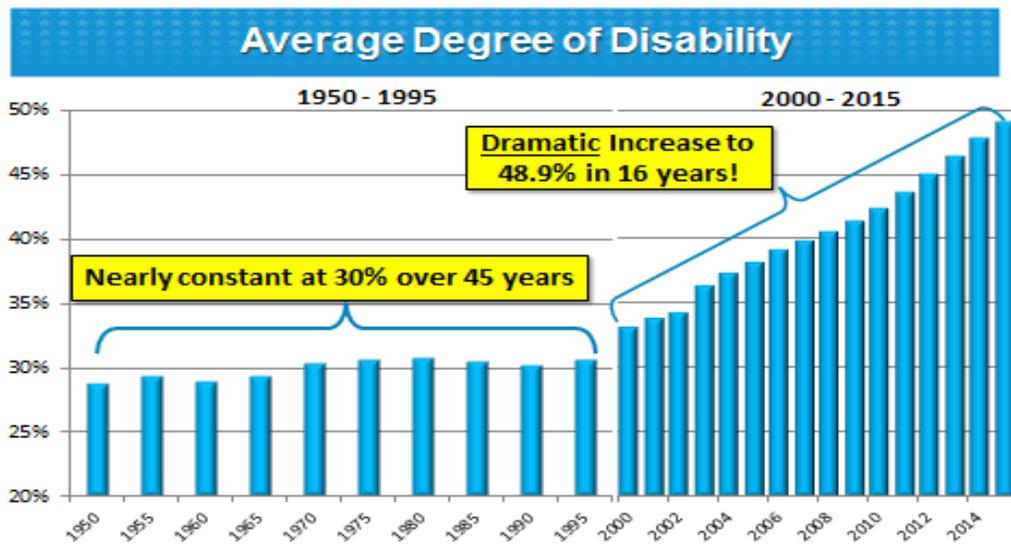
Veterans Receiving Service Connected Disability Compensation – 40 Years After Conflict Ends



Percent of Veterans Receiving Compensation



Along with the increase in the number of Veterans receiving disability compensation, there has been a significant rise in the average degree of disability compensation granted to Veterans. For 45 years, from 1950 to 1995, the average degree of disability held steady at 30 percent. But, since 2000, the average degree of disability has risen to 49 percent. VBA's mandatory request for 2017 is \$103.6 billion, twice the amount spent in fiscal year (FY) 2009.



Claims Processing Transformation

VBA underwent the largest transformation in its history by modernizing the delivery of VA benefits and services. To achieve VA's goal of processing all claims within 125 days with improved accuracy, VBA aggressively implemented its transformation plan – a set of actions targeted to reorganize and retain its people, streamlined its processes, and deployed technology – and, as of January 31, 2016, VBA has achieved the following results:

- VBA is reducing the pending disability claims inventory.
 - Peak: 884,000 claims in July 2012
 - Now: 352,554 claims – Improvement: 60 percent.
- Rating accuracy has improved.
 - 12-month claim-based accuracy increased from 83 percent in 2011 to 90 percent – Improvement: 6 percentage points.
 - 12-month issue-based accuracy increased from 95 percent in FY 2013 to 96 percent – Improvement: 1 percentage point.
- Veterans are waiting less time for decisions and benefits.
 - The average time to decide a Veteran's disability claim was reduced from 218 days in FY 2014 to 128 days – Improvement: 90 days.
 - The average age of pending disability claims:
 - Peak: 282 days in March 2013
 - Now: 94 days – Improvement: 188 days
- Despite the challenges of an increase in disability claims workload as well as increased complexity of workload, VBA has made major strides in increasing its productivity
- The number of claims pending over 125 days and considered part of the claims backlog has decreased.
 - Peak: over 611,000 claims in March 2013
 - As of January 31, 2016: 79,106 claims – Improvement: 87 percent

MyVA Transformation – Meeting Veterans’ Needs

In addition to improving the quality and timeliness of disability claim decisions through our transformative people, processes, and technology initiatives, VBA is working to further improve services to Veterans in alignment with the Secretary’s MyVA vision: to become the Number 1 customer-service agency in the Federal government. We are putting the needs and interests of Veterans and their families foremost in all that we do.

VBA has realigned its ROs into 5 districts under the MyVA framework that simplifies internal coordination, facilitates partnering, enhances customer service, and allows Veterans to more easily navigate VA. As the districts continue to mature, there is increased coordination and collaboration among VA entities, Veterans, community partners, and stakeholders to transform our agency into a more customer-centric organization. VA has enabled 36 Community Veterans Engagement Boards, a national network designed to leverage all community assets, not just VA assets, to meet local Veteran needs. VBA ROs actively participate and engage with communities and Veterans Service Organizations (VSO) to focus on identifying solutions for Veterans in the local communities and to establish the foundation for a strong MyVA community.

VA launched the Veterans Economic Communities Initiative (VECI) in May 2015 to complement the goals of MyVA and VA’s Transition Assistance Program, promoting local collaboration, dialogue, and partnerships among organizations that serve transitioning Servicemembers, Veterans, and their families. Economic liaisons in each VECI community collaborate and partner with government leaders, businesses, policy experts, educational institutions, and non-profit organizations to build an integrated network of support and resources and to maximize impact to improve outcomes for Veterans and their families. We are expanding to 25 new VECI communities in early 2016, bringing the total to 50 U.S. metropolitan statistical areas.

One of VA’s MyVA 12 breakthrough priorities is focused on improving Veterans’ experiences in the compensation and pension examination process. We are working to help Veterans better understand the exam process as it relates to their claims. We are enhancing procedures for examination scheduling to facilitate Veterans’ direct involvement and providing training to ensure VA employees understand how their role directly impacts Veterans’ experiences and perceptions of VA.

We are also working collaboratively with our partners on the MyVA breakthrough priority to simplify the appeals process. Our goal is to provide Veterans with a simple, fair, and streamlined appeals procedure in which they would receive a final appeals decision within 365 days from the filing of an appeal by FY 2021. This goal would require Congress’ continued support through legislative action and additional funding. The 2017 Budget supports this simplified appeals process, which is explained in more detail later.

Transformation Initiatives in the President's 2017 Budget Request

The MyVA transformation will ensure that VA is a sound steward of taxpayers' dollars as a result of instituting operational efficiencies, cost savings, and service innovations to support this and future budget requests. Few realize that when it comes to the general operating expense of delivering over \$100 billion in benefits to over 5.3 million Veterans and survivors, VBA spends only 3 cents on the dollar. To boost efficiency and employee productivity, VBA moved to paperless claims processing from its historically manual, paper-intensive process. Modernizing to an electronic claims processing system helped VBA increase claim productivity per claims processor by 25 percent since 2011 and medical issue productivity by 82 percent per claims processor since 2009. This significant productivity increase helped mitigate the effects of the 131-percent increase in workload between 2009 and 2015, when the number of medical issues rose from 2.7 million to 6.4 million. The President's 2017 Budget will allow VBA to continue building on the success of these initiatives.

Veterans Claims Intake Program (VCIP). VBA shifted to electronic claims processing by converting paper files to eFolders through VCIP, which streamlined processes for receiving digital records and data into the Veterans Benefits Management System (VBMS) and other VBA systems. VCIP scans paper claims, converts them into digital format, and extracts important data for input into electronic folders. VBMS has also expanded document conversion services to include centralized mail processing. More than 1.9 billion images have been converted from paper, and over 99.8 percent of compensation claims are now being electronically processed in VBMS. In addition to supporting scanning operations and centralized mail processing, VBA's 2017 request of \$142.9 million will sustain current operations, support future conversion efforts, and enable the disposition of paper materials.

Centralized Mail Initiative (CMI). CMI consolidates inbound paper mail from VA's ROs to a centralized intake site, expands VBA's capabilities for scanning and conversion of claims evidence, increases electronic claims processing capabilities; and assists in converting 100 percent of received source materials to an electronic format. VBA has already deployed centralized inbound mail for all ROs. When coupled with VBA's contract examination vehicle, this will enable VBA to improve and enhance the speed and consistency for requesting VA examinations. The 2017 Budget request of \$26.7 million provides resources to sustain operations and expand this initiative to include in-bound and out-bound mail for all benefits through FY 2020.

Veterans Benefits Management System (VBMS). VBMS is a web-based, paperless claims process solution complemented by improved business processes. As the cornerstone of VBA's claims transformation strategy, VBMS serves as enabling technology to provide Veterans and their dependents with timely, high-quality decisions. VBA's shift to electronic folders in VBMS addressed the inefficiencies of the paper folders and the problems of misplaced files and records. Through a web-based application, multiple, geographically separated users can view the electronic folders simultaneously, thereby minimizing the need for sequential processing and eliminating

the delays of receipt of paper folders at ROs. VBMS also provides automation of processes, such as the receipt of evidence, movement of claims to the next stage, and updates to the claims status, which means more Veterans are receiving faster decisions. As of January 31, 2016, VBA completed over 4.2 million rating decisions and processed over 2.4 million claims end-to-end in VBMS.

Under the VBMS initiative, we will continue to reduce our reliance on legacy systems with planned improvements to the electronic folder, such as adding a unique identifier on VA correspondence. When Veterans return information with the identifier, it will automatically upload the information in the Veteran's electronic folder. Both this fiscal year and in FY 2017, VBMS enhancements will focus on delivering key functionality that enables quicker, more accurate, and integrated claims processing while laying the foundation for future, Veteran-centric enterprise business capabilities. These include the delivery of electronic service treatment records, establishing one authoritative source for Veteran contact information, and collaborating with the Board of Veterans' Appeals (Board) to define the appeals functionality needed both at the ROs and as part of the broader appeals modernization efforts. The 2017 Budget request for \$37.4 million for VBA and \$143 million for the Office of Information & Technology (OI&T) provides resources to sustain operations and expand future enhancements and initiatives.

National Work Queue (NWQ). In conjunction with VBMS, VBA is implementing a national workload strategy through NWQ, which will provide greater flexibility in management of workload and performance by enabling automated distribution of claims across VBA. NWQ prioritizes and distributes our claims inventory at a national level and further standardizes claims processing. NWQ will distribute claims electronically from a centralized queue based on RO capacity, so that Veterans' claims will be automatically directed across all ROs to efficiently match claim demand with available expertise and processing capacity regardless of RO jurisdiction. Generally, the Veteran's state of residence will continue to be the first filter for assigning claims, thereby increasing the likelihood that the RO in the Veteran's state of residence will process the claim. Veterans are still able to receive assistance with their claims by visiting their RO for personal assistance at the public contact sites, going online through eBenefits, and utilizing VBA's National Call Centers. Veterans, Congressional staff, and VSO representatives will continue to have access to claim status and information through current venues. The electronic inventory provides real-time updates, no matter where the claim is assigned for processing. The 2017 Budget request of \$3.3 million provides resources to fully implement the NWQ to all ROs and will expand this initiative to include electronically routing non-rating claims (claims that in most cases do not require a rating decision but directly impact benefits, such as survivors pension, burial claims, dependency claims, income adjustments, and drill pay adjustments).

New Agency Priority Goal to Improve Dependency Claim Processing

As VA continues to improve timeliness of disability claim decisions, VA is now also focusing on the dependency claims that are the direct result of the dramatic increase in completed disability rating decisions and the growth in the number of

Veterans receiving compensation at the higher disability evaluation levels (30 percent and above). VA has established as one of its Agency Priority Goals (APGs) to reduce the overall inventory of dependency claims to 100,000 and improve the average days to complete (ADC) dependency claims to 125 days by the end of FY 2017. Our improvement efforts include expansion of rules-based processing, promotion of online dependency claim submission, and streamlining of policies and procedures. The new dependency claims APG represents a 56-percent improvement from the FY 2015 baseline of 227,000 pending dependency claims, and a 43-percent improvement from the FY 2015 ADC baseline of 221 days.

All VBA Benefit Programs

The transition from a paper-intensive process to a fully electronic processing system resulted in VA deciding a record-breaking 1.4 million disability compensation and pension claims for Veterans and their survivors in FY 2015. VBA's success in processing an unprecedented number of rating claims in recent fiscal years has also resulted in other unmet workload demands. With increases in rating claims receipts and completions, the volume of non-rating claims, fiduciary field examinations, and appeals increases correspondingly. To address this, VBA requests \$2.8 billion for general operating expenses, an increase of \$118.4 million (4.4 percent) over the 2016 enacted level. These resources will support 22,171 full-time equivalent (FTE) employees and includes an additional \$29.1 million for 300 FTE to process non-rating compensation and pension claims. In 2015, VA completed nearly 37-percent more non-rating work than in 2013 and 15-percent more than in 2014. These additional FTE are needed to reduce the non-rating claims inventory and provide Veterans with more timely decisions on non-rating claims. To ensure that all aspects of the claims process are improved for Veterans, VBA is also requesting an additional \$25 million to help meet Veterans' expectations for more timely claim decisions, for a total increase of \$118.4 million over the 2016 enacted level.

This budget will allow VBA to administer compensation and pension benefits totaling \$86 billion to over 5.3 million Veterans and survivors. It will also enable VA to administer education benefits and vocational rehabilitation and employment benefits and services to over 1.2 million participants; guarantee more than 429,000 new home loans; and provide life insurance coverage to 1 million Veterans, 2.2 million Servicemembers, and 2.8 million family members.

Insurance. VBA's insurance program maintains life insurance programs, giving financial security and peace of mind to Servicemembers, Veterans, and their families. In 2017, we anticipate that our insurance programs will provide \$1.2 trillion of insurance coverage to 2.2 million Servicemembers, 1 million Veterans, and 2.8 million spouses and children. The 2017 Budget request for \$35.4 million, of which \$879,000 is in the general operating expenses appropriation and \$34.5 million is reimbursable by the Insurance funds, will support 345 FTE and provide Servicemembers and their families with universally available life insurance, as well as traumatic injury protection insurance for Servicemembers.

Education. VA's education programs provide education and training benefits to eligible Servicemembers, Veterans, and dependents. Education programs assist them in their readjustment to civilian life and also help the armed forces with recruitment and retention of members. In addition, these programs enhance our Nation's economic competitiveness by developing a more highly educated and productive workforce. Through the Post-9/11 GI Bill program, as of February 8, 2016, we have issued approximately \$60.4 billion in benefits payments to 1,546,035 individuals and their educational institutions since the program's inception in August 2009. With the successful automation of Post-9/11 GI Bill claims, we are currently issuing benefits to the majority of beneficiaries in an average of 7 days at 99-percent accuracy. The 2017 Budget request is \$212.4 million and 1,904 FTE to continue providing Veterans, Servicemembers, Reservists, and qualified family members with such educational resources.

Vocational Rehabilitation and Employment (VR&E). The VR&E program provides the services and assistance necessary to enable Veterans with service-connected disabilities to become employable and obtain and maintain suitable employment, or, to the maximum extent feasible, achieve independence in daily living. VR&E services include career vocational counseling, job search assistance, and post-secondary training for service-disabled Veterans. VBA seeks to enhance outreach and service delivery of education and vocational counseling services. Counselors from VR&E and Integrated Disability Evaluation System, as well as contract rehabilitation counselors will provide these counseling services through the VetSuccess on Campus programs at more than 94 schools.

Our alignment with the MyVA initiatives and objectives include investments in the Veterans Employment Center (VEC), which provides transitioning Servicemembers, Veterans, and their families with a single authoritative Internet source that connects them with job opportunities, and provides tools to translate their military skills into plain language and build a profile that can be shared – in real time – with employers. Employers have made commitments to hire over a million individuals and over 2.2 million private- and public-sector jobs are listed on the VEC. In addition, our Transition GPS program helps separating Servicemembers prepare for civilian life by providing benefits briefings and other transition activities. So far, VBA has provided over 45,000 benefits briefings, career technical training courses, and support for capstone events to over 550,000 attendees. (Because Servicemembers and their family members can attend more than one briefing, this count does not represent unique Servicemembers). As previously mentioned, VBA is involved in the MyVA Economic Opportunity Campaign, which involves the collaboration with public and private partners in communities across the country to help connect and amplify available resources and support for Veterans and their families.

The VR&E program request is \$331.3 million and 1,594 FTE. This funding will help ensure that VA continues to build pathways to meaningful career opportunities for Veterans by bringing them together with educators and employers across U.S. cities

and communities and leveraging unique VA and interagency programs and resources to improve economic outcomes for Veterans.

Home Loan Guaranty. Our request of \$170 million and 907 FTE for the housing program is funded through appropriations to credit accounts and helps eligible Veterans, active duty personnel, surviving spouses, and members of the Reserve components and National Guard to purchase, retain, and adapt homes in recognition of their service to the nation. The 2017 Budget includes \$34 million for the VA Loan Electronic Reporting Interface (VALERI) to manage over 2 million VA-guaranteed loans for Veterans and their families. VA uses the VALERI tool to manage and monitor efforts taken by private-sector loan servicers and VA staff in providing timely and appropriate loss mitigation assistance to defaulted borrowers. In addition to supporting the payment of guaranty and acquisition claims, it connects VA with more than 320,000 Veteran borrowers and more than 225,000 mortgage servicer contacts. Without these resources, approximately 90,000 Veterans and their families would be in jeopardy of losing their homes each year, potentially costing the government an additional \$2.8 billion per year.

Legislation

The 2017 President's Budget also proposes legislative actions that are necessary to ensure that Veterans receive timely and quality delivery of benefits. Designated as one of our MyVA breakthrough priorities, VA proposes to streamline and modernize the appeals process.

The current VA appeals process is broken. The more than 80-year-old process was conceived in a time when medical treatment was far less frequent than it is today, so it is encumbered by antiquated laws that have evolved since World War I and steadily accumulated in layers.

Under current law, the VA appeals framework is complex, ineffective, confusing, and understandably frustrating for Veterans who wait much too long for final resolution of their appeal. The system has no defined endpoint, and multiple steps are set in statute. The system requires continuous evidence gathering and multiple re-adjudications of the very same or similar matter. A Veteran, survivor, or other appellant can submit new evidence or make new arguments at any time, while VA's duty to assist requires continuous development and re-adjudication. The VA appeals process is unlike other standard appeals processes across Federal and judicial systems.

Fundamental legislative reform is essential to ensure that Veterans receive timely and quality appeal decisions, and we must begin an open, honest dialogue about what it will take for us to provide Veterans with the timely, fair, and streamlined appeals decisions they deserve. To put the needs, and interests of Veterans and beneficiaries first—a goal on which we can all agree—the appeals process must be modernized.

The 2017 Budget proposes a Simplified Appeals process—legislation and resources (i.e., people, process, and technology) —that would provide Veterans with a simple, fair, and streamlined appeals process in which they would receive a final decision on their appeal within one year from filing the appeal by FY 2021.

Over the last 20 years, appeal rates have continued to hold steady at between 11 and 12 percent of completed claims. As VBA received and completed record-breaking numbers of disability rating claims, the number of appeals correspondingly increased. Between December 2012 and November 2015, the number of pending appeals rose by 34 percent. Under current law with no radical change in resources, the number of pending appeals is projected to soar by 397 percent—from 437,000 to 2.17 million—between November 2015 and FY 2027.

Without legislative change or significant increases in staffing, VA will face a soaring appeals inventory, and Veterans will wait even longer for a decision on their appeal. If Congress fails to enact VA's proposed legislation to simplify the appeals process, Congress would need to provide resources for VA to sustain more than double its appeals FTE, with approximately 5,100 appeals FTE onboard. The prospect of such a dramatic increase, while ignoring the need for structural reform, is not a good result for Veterans or taxpayers.

While the Simplified Appeals proposal would require FTE increases for the first several years to resolve the more than 440,000 currently pending appeals, by FY 2022, VA would be able to reduce appeals FTE to a sustainment level of roughly 1,030 FTE (including 980 FTE at the Board and 50 at VBA), a level sufficient to process all simplified appeals in one year. Notably, such a sustainment level is 1,135 FTE less than the current 2016 budget requires, and is 4,070 FTE less Department-wide than would be required to address this workload with FTE resources alone.

In 2015, the Board was still adjudicating an appeal that originated 25 years ago, even though the appeal had previously been decided by VA more than 27 times. Under the Simplified Appeals process, most Veterans would receive a final appeals decision within one year of filing an appeal. Additionally, rather than trying to navigate a multi-step process that is too complex and too difficult to understand, Veterans would be afforded a transparent, single-step appeals process with only one entity responsible for processing the appeal. Essentially, under a Simplified Appeals process, as soon as a Veteran files an appeal, the case would go straight to the Board where a Judge would review the same record considered by the initial decision-maker and issue a final decision within one year; the Veteran would be informed quickly whether that initial decision was substantially correct, contained an error that must be corrected, or was simply wrong. There would be a limited exception allowing the Board to remand appeals to correct duty to notify and assist errors made on the part of the agency of original jurisdiction (AOJ) prior to issuance of the initial AOJ decision. If a Veteran disagrees with any or all of the final appeals decision, the Veteran always has the option of pursuing an appeal to the Court of Appeals for Veterans Claims or reopening the claim with new and material evidence.

VA firmly believes that justice delayed is justice denied. The VA team is passionate about fixing the broken, antiquated appeals process; this is a MyVA breakthrough priority. We look forward to working with Congress, Veterans, and other stakeholders to implement improvements to provide Veterans with the timely and fair appeals decisions they deserve and we appreciate the collaboration and feedback received from our ongoing discussions with Veterans Service Organizations on modernizing the appeals process.

Closing

Thank you for the opportunity to appear before you today to provide additional information on VBA's 2017 budget request. We are committed to administering benefits effectively and efficiently as responsible stewards of the taxpayers' dollars, while continuing to strive to improve the delivery of benefits and comprehensive information and assistance to our Veterans, their families, and survivors. We are grateful for your continuing support and appreciate your efforts to pass legislation enabling VA to provide Veterans with the benefits they have earned and deserve.

This concludes my remarks. I am happy to respond to any questions from you or other Members of the Committee.