

**STATEMENT OF THE HONORABLE ALLISON A. HICKEY
UNDER SECRETARY FOR BENEFITS
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 2016

MARCH 19, 2015

Chairman Kirk, Ranking Member Tester, 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 2016 Budget and 2017 Advance Appropriations requests for the Veterans Benefits Administration (VBA). I am accompanied today by Mr. Jamie Manker, VBA's Chief Financial Officer, and Mr. Thomas Murphy, VBA's Compensation Service Director.

VBA has the incredibly important mission of effectively delivering the benefits our Nation's Veterans and their families have earned and deserve. In carrying out its mission, VBA employees have adopted and embraced the Department's core values of Integrity, Commitment, Advocacy, Respect, and Excellence – appropriately captured in the phrase "ICARE." Our workforce includes over 21,000 employees, 53 percent of whom are Veterans themselves, and 34 percent of whom have service-connected disabilities.

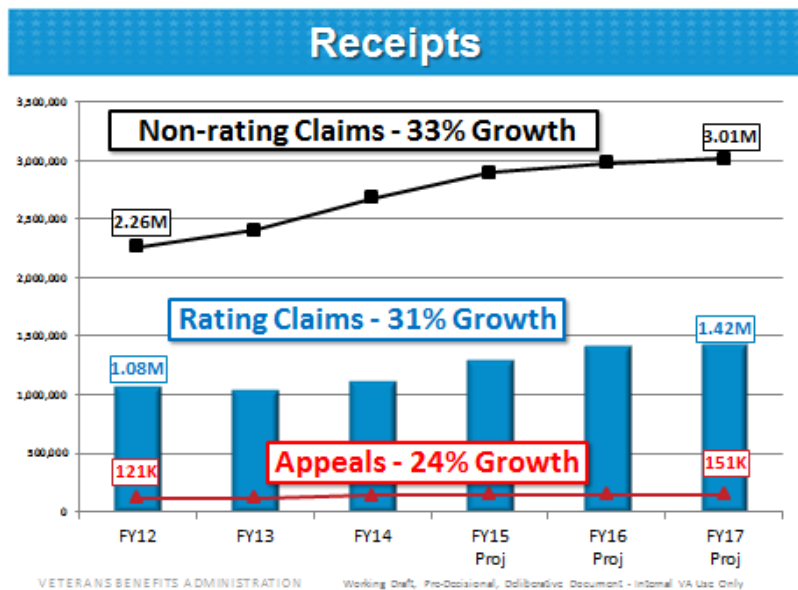
Summary of 2016 Budget Request

The President's 2016 Budget for the Department of Veterans Affairs (VA) will allow VBA to manage integrated benefits and services, administered through a nationwide network of 56 regional offices (RO). The 2016 Budget requests \$2.7 billion in discretionary funds and \$95.3 billion in mandatory funds for VBA. The budget also requests a first time Advance Appropriation of \$104.0 billion for 2017 for VBA's three mandatory appropriations, including Disability Compensation and Pensions, Readjustment Benefits, and Insurance and Indemnities. Funding for VBA is critical to continue providing the following benefits:

- Disability compensation for 3.9 million Veterans with service-connected disabilities;
- Dependency and indemnity compensation for 369,000 Veterans' survivors;
- Pension for 308,000 wartime Veterans and 209,000 of their survivors,
- Vocational rehabilitation and employment benefits paid for over 99,000 Veterans and Servicemembers;
- Education and training assistance for 1.2 million Veteran students and their families;

- Home-loan assistance for 2.1 million Veterans with active VA loans;
- Fiduciary activities providing estate protection services for 173,000 VA beneficiaries unable to manage their own funds; and
- Life insurance programs for 6.5 million Servicemembers, Veterans, and their families.

The President’s 2016 Budget request includes critical information technology investments supporting VBA’s claims processing transformation and other essential initiatives to continue improving benefits delivery. For example, the Veterans Claims Intake Program makes investments in the conversion of paper claims to digital images, and the Veterans Benefits Management System facilitates electronic claims processing. In addition, the request includes funding to right-size our workforce. As VBA continues to receive and complete more disability rating claims, the volumes of appeals, 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), and fiduciary field examinations correspondingly increase. We anticipate that demand for benefits will continue to grow in FY 2016. VBA’s request for 770 additional FTE is necessary to meet Veterans’ expectations for more timely actions on non-rating claims and appeals and ensure strong fiduciary oversight.



Increased Demand for Disability Benefits

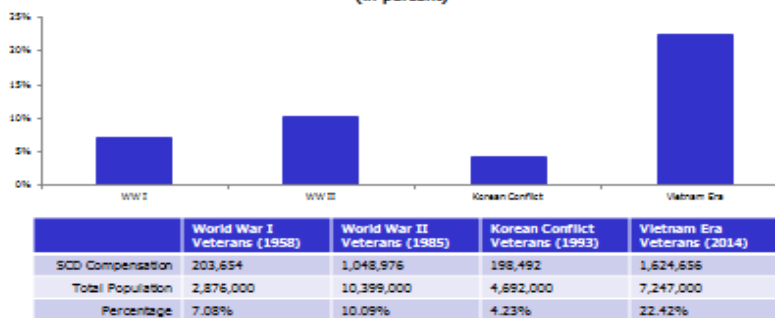
Our obligation to Veterans grows over time because Veterans’ demand for benefits continues to increase long after wars end. Even as we are becoming more productive through our Transformation, the demand for benefits and services from Veterans of all eras continues to increase. For example, the population of Vietnam Era Veterans receiving disability compensation has not yet peaked – 40 years after the Vietnam War

ended. VBA anticipates a similar trend for Gulf War Era Veterans, 26 percent of whom have already been awarded disability compensation. The total number of service-connected disabilities for Veterans receiving compensation has grown from 11.8 million in 2009 to 17.8 million in 2014 – an increase of over 50 percent in just 5 years. This dramatic growth portends even greater growth in claims for increased benefits as Veterans age and their disabilities worsen. It is also significant to note that VA is still providing benefits to the child of a Civil War Veteran 150 years after the Civil War ended.



Service Connected Disability (SCD) Compensation

Veterans Receiving SCD Compensation: 40 years after Conflict Ends (in percent)



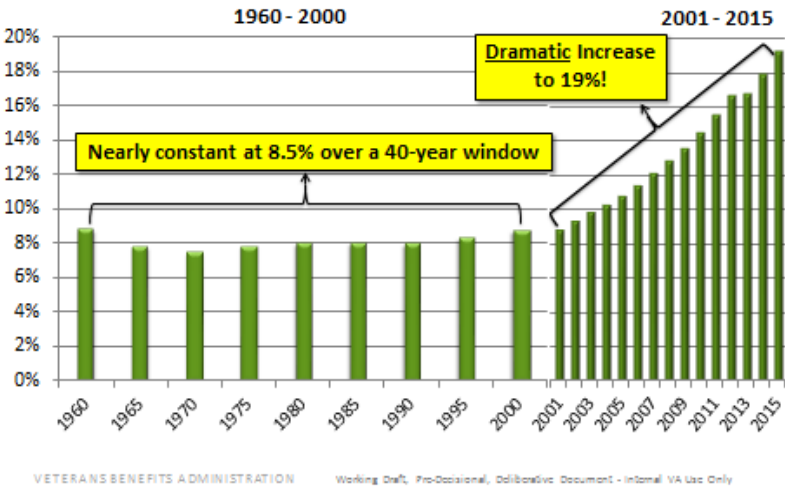
Note: Date in parentheses is the date of data used in the chart.
 Data Source: 1958: VA Annual Report; 1985: VA Trend Data 1961-1985;
 1993: VA Trend Data 1969-1993; 2014: VBA OPA and Veteran Population Model

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Fueled by more than a decade of war, Agent Orange-related disability claims, a disjointed claim appeal process, demographic shifts, increased medical issues claimed, and other factors, Veterans' demand for benefits has exceeded VBA's ability to timely meet it. VBA must build the capacity now to meet current demand and ensure we are prepared to meet future demand. We look forward to working with you to identify and prioritize spending to best serve the interests of Veterans and our Nation.

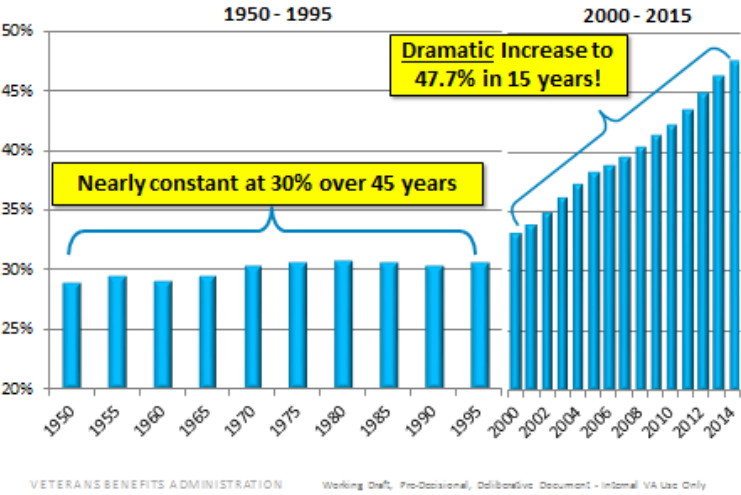
While the percent of the Veteran population receiving compensation was nearly constant for over 40 years at 8.5 percent, over the past 15 years there has been a striking increase to 19 percent.

Percent of Veterans Receiving Compensation



The increase in Veterans receiving disability compensation is accompanied by the 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 47.7 percent. VBA’s mandatory spending is projected to reach \$106 billion in FY 2017, twice the amount spent in FY 2009.

Average Degree of Disability



Transformation Results

In order to meet this ever growing demand for benefits, VBA is undergoing the largest transformation in its history – bringing the delivery of VA benefits and services into the 21st Century. VBA is aggressively implementing its transformation plan – a set of actions targeted to reorganize and retrain its people, streamline its processes, and deploy technology designed to achieve VA’s goal of processing all claims within

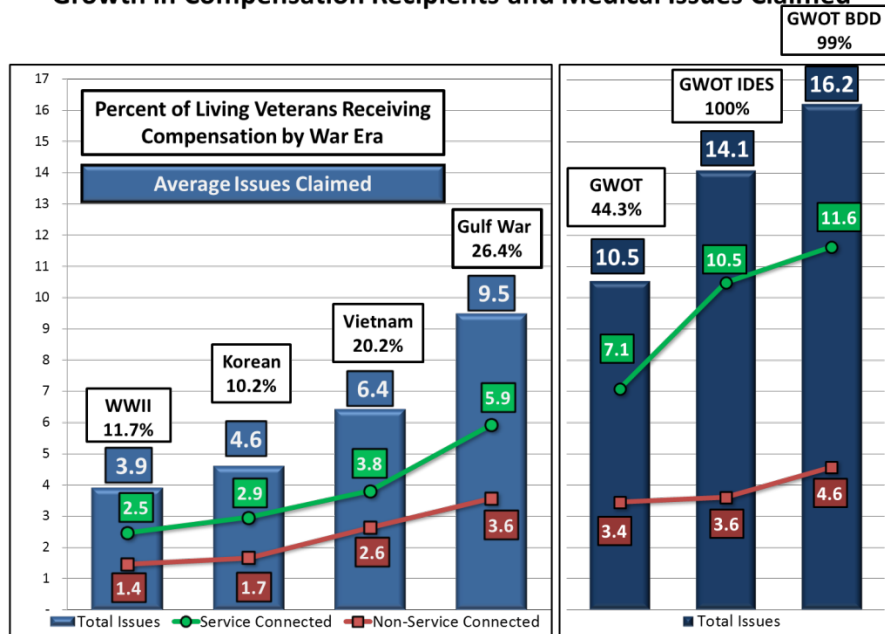
125 days with improved accuracy by the end of 2015. VBA has achieved the following transformation results:

- VBA is reducing the pending disability claims inventory.
 - Peak: 884,000 claims in July 2012
 - Now: 477,000 claims - Improvement: 46 percent
- The number of claims pending over 125 days and considered part of the claims backlog has decreased.
 - Peak: 611,000 claims in March 2013
 - Now: 215,000 claims - Improvement: 65 percent
- Rating accuracy has improved.
 - 3-month claim-based accuracy increased from 83 percent in 2011 to 92 percent, an improvement of 9 percentage points.
 - 3-month issue-based accuracy improved to 96 percent
- Veterans are waiting less time for decisions and benefits.
 - The average time to decide a Veteran's disability claim:
 - Peak: 348 days as of September 2013
 - Now: 186 days – Improvement: 162 days
 - The average age of pending disability claims:
 - Peak: 282 days in February 2013
 - Now: 142 days - Improvement: 140 days

Improving quality and reducing the length of time it takes to process disability claims are integral to our mission of providing the care and benefits that Veterans have earned and deserve in a timely, accurate, and compassionate manner. The disability rating claims workload continues to increase, due to the reduction in military forces, Servicemembers returning from wars, and the aging of the Veteran population. Also, the complexity of the workload continues to grow because Veterans are claiming greater numbers of disabilities and the nature of disabilities – such as posttraumatic stress disorder (PTSD), combat injuries, diabetes and related conditions, and environmental diseases – is becoming increasingly complex.

The number of separating Servicemembers filing disability claims – and the number of medical issues within those claims – have soared in recent years. The chart below highlights this growth, with Global War on Terror Veterans separating through our Benefits Delivery at Discharge program now claiming an average of 16 medical disabilities as a result of their military service – compared to only 3.9 issues for WWII Veterans and 6.4 issues for Vietnam Era Veterans.

Growth in Compensation Recipients and Medical Issues Claimed

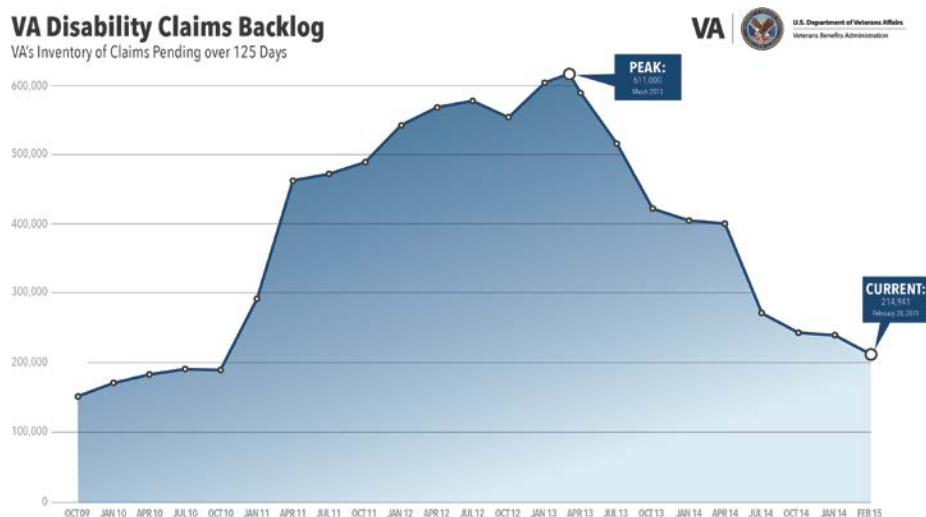


In 2009, VBA completed almost 980,000 claims. In FY 2014, we completed over 1.3 million—a 35 percent increase. But there has been even more dramatic growth in the number of medical issues in claims—2.7 million in 2009 to 5.5 million in 2014, a 101 percent increase over just five years.



Despite these challenges, VBA has made major strides in increasing its productivity and thereby reducing the claims backlog by 65 percent since its peak in March 2013 (from 611,000 to 215,000). Through VBA's claims transformation initiatives, the number of claims completed per FTE increased 25 percent from 2012 to 2014. An even more accurate representation of VBA's increase in productivity is seen at the medical issue-level rather than the claim-level. From 2009 to 2014, VBA's issue-level productivity increased by 67 percent. VBA greatly appreciates the investments provided by the

President and Congress over the past six years, and we are on track to meet the President's goal to eliminate the disability claims backlog and processing all claims within 125 days by the end of 2015.



Transformation Initiatives in the 2016 Budget Request

VBA's transformation progress is the result of an integrated series of initiatives designed to eliminate the backlog. The President's 2016 Budget will allow VBA to continue building on the success of the following initiatives:

Veterans Claims Intake Program (VCIP): VCIP streamlines processes for receiving digital records and data into the Veterans Benefits Management System (VBMS) and other VBA systems, transitioning VBA from a paper-based claims environment to a digital operating environment. It scans paper claims, converts them into digital format, and extracts important data for input into electronic folders. VCIP has converted and uploaded more than 1.2 billion images from paper. In addition to supporting scanning operations for incoming claims, VBA's 2016 request of \$140.8 million will allow the digital intake of military, income, and employment records from other federal agencies and private providers. This will broaden electronic evidence exchange for processing all types of claims more accurately and more rapidly by building additional interfaces for Official Military Personnel Folders (OMPF) from DoD and interfaces with health networks, hospitals, and private clinicians.

Centralized Mail: Centralized mail consolidates inbound paper mail from VA's ROs to a centralized intake site. This initiative expands VBA's capabilities for scanning and conversion of claims evidence, increases electronic processing capabilities, and assists in converting 100 percent of received source materials to electronic format. VBA has deployed centralized inbound mail for all ROs. The 2016 budget request of \$18.3 million provides resources to sustain operations at all 56 ROs and positions VBA to expand centralized mail operations to other lines of business and centralize outbound correspondence to Veterans.

Veterans Benefits Management System: VBMS, as VBA's key business transformation initiative, provides a paperless claims-processing environment and improved business processes to provide Veterans and their dependents with timely, high-quality decisions. National deployment of VBMS was completed June 2013 and provides access to over 28,000 end users. VBMS allows VBA to centrally manage the claims workload at the national level and direct cases electronically across its network of ROs to more efficiently match claims demand with available processing capacity. VBA went from touching 5,000 tons of paper annually to now processing 95 percent of the claims inventory electronically in VBMS. VBA has now completed over 1.32 million claims in VBMS. In 2015, VBMS is focused on delivering the National Work Queue (NWQ) and reducing reliance on legacy systems. In 2016, VBMS enhancements will focus on the Integrated Disability Evaluation System, appeals, and pension.

National Work Queue: VBA will distribute claims electronically from a centralized queue based on RO capacity using the electronic NWQ, a national workload management strategy. With all claims placed in the electronic NWQ, Veterans' claims will be automatically directed across all ROs to efficiently match claim demand with available expertise and processing capacity regardless of RO jurisdiction, delivering benefits to Veterans more quickly and accurately. The electronic inventory provides real-time updates, no matter where the claim is assigned for processing. Veterans are still able to receive assistance with their claims by visiting their RO for personal assistance at the public contact sites, going on-line through eBenefits from anywhere, and utilizing VBA's National Call Centers across the nation. In 2016, VBA is requesting \$3.2 million to provide the requisite funding to resource and support 13 employees to manage the NWQ across the VBA enterprise.

Veterans Relationship Management: The VRM initiative continues to facilitate an increasingly more Veteran-centric digital operating environment. VRM is delivering a scalable, enterprise-wide, services-based technology environment that will be the foundation for how Veterans are served and how benefits and services are delivered. This new model will provide VA an integrated services delivery platform with the approach of placing the Veteran at the center of the service with all business requirements and design being driven from the Veteran perspective.

Components of VRM include eBenefits, the Stakeholder Enterprise Portal (SEP), Customer Relationship Management solutions, Digits-to-Digits, Knowledge Management, and Veterans Online Application Direct Connect. Through the eBenefits portal, Veterans can submit claims for benefits, administer their accounts, and receive status updates. The eBenefits Web portal standardizes claim intake and enables collaboration with VSOs to assist Veterans with all interactions with VA. VA continues to expand the capabilities available through the eBenefits portal as more Veterans use the site. Today eBenefits has 4.4 million registered users and over 48 million visits annually. VBA's 2016 request for \$13.8 million, in addition to the \$67 million requested for VRM in the Office of Information Technology, will support ongoing operations and continued efforts to pilot and deploy new solutions for VBA mobile applications that expand access to self-service tools and

benefits/services information in VBA portal environments; develop new service features in SEP for medical providers, loan officers, fiduciaries, and funeral directors; and integrate VetSuccess with Career Center for Veterans, enabling searches for jobs posted by unique employers targeting Veterans.

Right-Sizing VBA's Workforce

VBA's success in reducing the disability claims backlog is also due, in part, to its strong reliance on mandatory overtime by claims processors. Staff at all ROs worked mandatory overtime for eight months in 2014 and resumed mandatory overtime on January 12, 2015, to accelerate the reduction in the backlog following the heavy leave usage period during the holiday season, and to mitigate the impact of any additional weather-related office closures during the winter months. Employees processing disability compensation claims are working 20 hours of mandatory overtime per month. However, this strategy is not sustainable from a human capital management perspective, and VBA is investing in other initiatives, like right-sizing our workforce and training, to improve performance. We are also taking the lessons learned in eliminating the disability claims backlog and applying them to transform business processes supporting the fiduciary program, the delivery of non-rating benefits, and the appellate workload.

For 2016, VBA requests \$2.7 billion for general operating expenses, an increase of \$165.8 million (6.6 percent) over the 2015 enacted level. These resources will support 21,871 Full-Time Equivalent (FTE) employees and allow VBA to administer compensation and pension benefits totaling \$83.1 billion to over 5.2 million Veterans and survivors; education benefits and vocational rehabilitation and employment benefits and services to nearly 1.3 million participants; guarantee of more than 431,000 new home loans; and provide life insurance coverage to 1.1 million Veterans, 2.3 million Servicemembers, and 3.1 million family members.

As highlighted earlier in this testimony, VBA continues to receive and complete more disability rating claims, resulting in corresponding increases in the volumes of appeals, non-rating claims, and fiduciary field examinations.

Appeals. Over the last 20 years, appeal rates have continued to hold steady at between 11 and 12 percent of completed claims. As VBA continues to receive and complete record-breaking numbers of disability rating claims in recent years (1.3 million claims completed in 2014), the volume of appeals increases concomitantly. The number of statements of the case and other appellate actions completed by VBA on Veterans' appeals has increased 31 percent since 2011, from 135,000 actions to 177,000 actions. VBA currently has approximately 290,000 pending appeals.

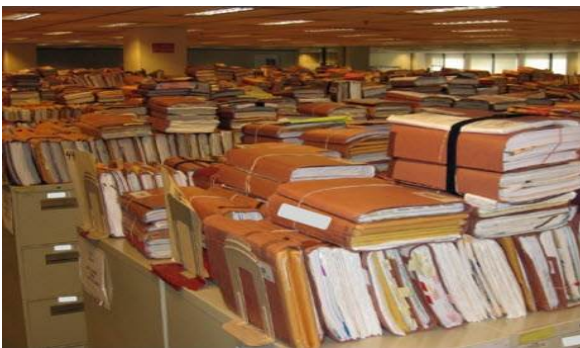
Non-rating claims. VBA's success in completing rating decisions has driven an increase in non-rating claims. Despite completing a 20-year record number of non-rating claims in 2014, this work continues to grow. In 2015, VBA expects to receive 2.9 million non-rating claims and review actions, an increase of 7.4 percent over 2014 (2.7 million) and 20.8 percent over 2013 (2.4 million).

Fiduciary program. In 2014, VBA's fiduciary program protected more than 173,000 beneficiaries, which is a 42 percent increase in the number of beneficiaries from 2011 (122,000). Primary drivers of the growth in this program are the increase in the total number of beneficiaries receiving VA benefits and an aging beneficiary population. In 2014, fiduciary personnel conducted over 86,000 field examinations, and VBA anticipates field examination requirements to exceed 117,000 in 2016.

To ensure all aspects of the claims process are improved for Veterans, VBA is requesting additional claims processors and field examiners. VBA is requesting \$85 million to fund 200 appeals processors, 320 non-rating claims processors, 85 fiduciary field examiners, and 165 support personnel (including 13 FTE for the National Work Queue (NWQ)), for a total of 770 additional FTE. VBA employees – 53 percent of whom are Veterans - are leading advocates for Veterans, Servicemembers, their families, and Survivors and are key to our success. With the additional 770 employees, VBA will provide Veterans with more timely decisions on their appeals and non-rating claims, and conduct thousands more vital fiduciary home visits.

VBA is able to accommodate additional staff without additional space requirements by digitalizing Veterans folders:

Winston-Salem RO: Before and After Transformation:



High Levels of Demand Continue in All Benefit Programs

In addition to benefits provided through VA's compensation and pension programs, VBA's FY 2016 budget request supports delivery of insurance, education, vocational rehabilitation, employment, transition, and home loan guaranty benefits.

VBA, through its Insurance program, maintains life insurance programs that give financial security and peace of mind for Servicemembers, Veterans, and their families. Insurance claims are currently paid in an average of 3 days at 99 percent accuracy. The Insurance program request is \$35.14 million, of which \$867,000 is in the GOE appropriation and \$34.27 million is reimbursable by the Insurance funds. This request will support 347 FTE and provides Servicemembers and their families with universally available life insurance, as well as traumatic injury protection insurance for Servicemembers. In 2016, VA insurance programs will provide \$1.3 trillion of insurance coverage to 2.3 million Servicemembers, 1.2 million Veterans, and 3 million spouses and children.

VA's education programs provide education and training benefits to eligible Servicemembers, Veterans, and dependents. The 2016 budget request reflects VBA's commitment to their needs. The request is \$207.5 million and 1,904 FTE to provide Veterans, Servicemembers, Reservists, and qualified family members with educational resources. These programs are designed to assist in the readjustment to civilian life, help the armed forces both recruit and retain members, and provide the opportunity to enhance the Nation's economic competitiveness through the development of a more highly educated and productive workforce. The most utilized of VA's education programs is the Post-9/11 GI Bill. As of February 21, 2015, VA has issued approximately \$49.5 billion in Post-9/11 GI Bill benefit payments to 1,359,148 individuals and their educational institutions since program inception in August 2009. As a result of VA's success in automating the processing of Post-9/11 GI Bill claims, VBA is now providing benefits to the majority of Post-9/11 GI Bill beneficiaries in an average of 6 days at 99 percent accuracy.

The Vocational Rehabilitation and Employment (VR&E) program request is \$322.8 million and 1,594 FTE. VR&E is a Veteran-centric program providing the services and assistance to enable Veterans with service-connected disabilities become employable and obtain and maintain suitable employment or, to the maximum extent feasible, achieve independence in daily living. Through the VR&E program, VBA provides employment and independent living services including career vocational counseling, job search assistance, and post-secondary training for service-disabled Veterans. VBA will also enhance outreach and service delivery of educational and vocational counseling services. These services will be delivered by Vocational Rehabilitation Counselors, Integrated Disability Evaluation System counselors, and contract rehabilitation counselors. These counseling services will also be provided through the VetSuccess on Campus programs at more than 94 schools.

VBA is also investing in the successful transition of Servicemembers, building 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. VBA's plan to support these Veterans includes the following strategic areas:

Veterans Employment Center (VEC): 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 390,000 individuals. Over 1.7 million private and public-sector jobs are listed on the VEC.

Transition Goals, Plans, Success (GPS): The Transition GPS program helps separating Servicemembers prepare for civilian life by providing benefits briefings and other transition activities. VBA has provided over 45,000 benefits briefings, career technical training courses, and support for capstone events to over 550,000 Servicemembers and their family members (this count does not represent unique Servicemembers).

MyVA (City) Economic Opportunity Campaign: VBA is collaborating with public and private partners in more than 20 communities across the country to help connect and amplify available resources and support for Veterans and their families.

The VA Home Loan Program ensures Veterans can obtain, retain, and adapt their home by guaranteeing their loan against foreclosure. The Housing program request of \$139.4 million and 907 FTE 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 purchase, retain, and adapt homes in recognition of their service to the Nation. VA's partial guaranty on loans made by private lenders enables our clients to purchase homes with little or no down payment. Many of these borrowers would be unable to purchase a home without VA's assistance. VBA guaranteed 438,398 home loans and helped 80,000 Veterans avoid foreclosure in 2014, while maintaining the lowest foreclosure rate (1.56 percent) in the industry for 25 of the last 27 quarters.

Legislation

In addition to presenting VBA's resource requirements, the 2016 President's Budget proposes legislative actions that will benefit Veterans. VBA in this budget proposes changes in disability claims processes, an area where reform is greatly needed, for the benefit of all Veterans who are frustrated with the time it takes to resolve claims and appeals. We are open to all ideas from the Committee and from VSO's to modernize this process, and make it work for Veterans. Our increased manpower and great strides in automation are helping, but these cannot replace statutory changes to modernize the process.

Closing

We appreciate the opportunity to provide additional information on VBA's 2016 budget request and to share with you the progress we are making in transforming the delivery of benefits and services for our Veterans and their families. The work we do continues and grows for decades after the end of America's conflicts. I assure you of our commitment to achieving improvements that will expedite the delivery of benefits, improve quality, and ensure we are providing timely, accurate, and comprehensive information and assistance to all those we serve.

In today's challenging fiscal and economic environment, we must be diligent stewards of every dollar and apply them wisely to ensure that Veterans—our clients—receive timely access to the highest quality benefits and services we can provide and which they earned through their sacrifice and service to our Nation.

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