EXAMINING THE IMPLICATIONS OF THE AFFORDABLE CARE ACT ON VA HEALTH CARE

HEARING

BEFORE THE

COMMITTEE ON VETERANS' AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

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EXAMINING THE IMPLICATIONS OF THE AFFORDABLE CARE ACT ON VA HEALTH CARE

Wednesday, April 24, 2013

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON VETERANS' AFFAIRS,
Washington, D.C.

The Committee met, pursuant to notice, at 10:15 a.m., in Room 334, Cannon House Office Building, Hon. Jeff Miller [Chairman of the Committee] presiding.

Present: Representatives Miller, Bilirakis, Roe, Runyan, Benishek, Huelskamp, Amodei, Coffman, Wenstrup, Walorski, Michaud, Takano, Brownley, Kirkpatrick, Negrete McLeod, Kuster, O'Rourke, Walz.

OPENING STATEMENT OF CHAIRMAN MILLER

The CHAIRMAN. Good morning and welcome, everybody, to today's Full Committee hearing, Examining the Implications of the Affordable Care Act on the Department of Veterans Affairs' Health Care.

As we all know, about three years ago, the Patient Protection and Affordable Care Act—or ObamaCare as it is commonly known—was signed into law.

Today's hearing will focus on just one aspect of the law that I believe has received distressingly little attention from the Administration and the media to date, its potential implications for the VA health care system and the many veterans that it serves.

Despite informing this Committee last summer that the department was developing a proactive communications strategy to inform veteran stakeholders about the potential impacts of the ACA, VA's Web site devotes just two sentences to the law stating that it, quote, "Will not affect the current role VA has in the lives of America's veterans," end quote.

But as we all know, stating that the so-called Affordable Care Act will not affect the department is not the same as saying that it won't affect veterans.

Secretary Shinseki testified before this Committee earlier this month that the Affordable Care Act has important implications for VA.

VA's fiscal year 2014 budget submission includes a request of $88.4 million to implement the provisions of the ACA and meet the department's responsibilities as a provider of minimum essential coverage.

Buried in volume two of VA's budget submission—lacking context, justification, or supporting data—is a single statement alleging that VA assumes that it will experience a net enrollment increase as a result of the law.

What that net increase may be, why VA believes it will occur, and what actions the department has taken to prepare for it are unknown at this time.

Unfortunately, these are far from the only things we do not know. Less than a year from full implementation, we also do not know how veterans may respond to the new care options available to them and how enrollment and utilization of VA health care benefits may be affected, in turn; how increasing demands for health care services will affect competition for health care providers, and therefore VA's health care workforce and recruitment and retention efforts, particularly for hard to fill positions like psychiatrists; whether VA's current information technology systems are capable of fulfilling the law's data requirements which include identifying individuals who are enrolled in the VA health care system and reporting their coverage status to the Department of Treasury; or, if or whether the critical role of the VA health care system will change in the post-ACA national health care landscape.

Sadly, I could continue. A report on uninsured veterans issued last month by the Robert Wood Johnson Foundation and the Urban Institute states that, "it remains to be seen the extent to which uninsured veterans would seek coverage through Medicaid, the VA, or other options under ACA and whether and how this will vary across state lines."

Former VA Under Secretary for Health, Kenneth Kizer, published an article last year in which he stated, that "the overall net effect of the ACA on the health care for veterans is uncertain at this time, although it will likely have a number of intended positive and unintended negative effects."

Where the health care of millions of veterans is concerned, unknowns of this magnitude this late in the game are unconscionable. According to VA, we have to implement the law before we can find out what effect it may have on our veterans.

This House has voted more than 30 times to repeal and replace various elements of the ACA, and I have been proud to support that effort every time. It is no secret that I and many of my colleagues have been critical of the law from the start and remain even more critical of and concerned by it today.

Increasingly, we are not alone. Just last week, Senator Max Baucus, one of the chief authors and primary advocates of the ACA, called the implementation of the law a train wreck. The American public cannot afford a train wreck. And what is more, our veterans do not deserve one.

Thank you all for being here today, and I mean that with great sincerity.

I yield to our Ranking Member, Mr. Michaud, for any opening statement that he may have.

[THE PREPARED STATEMENT OF CHAIRMAN MILLER APPEARS IN THE APPENDIX]

OPENING STATEMENT OF HON. MICHAEL MICHAUD

Mr. MICHAUD. Thank you very much, Mr. Chairman, for holding this timely hearing today.

I want to thank our panelists for coming as well. Look forward to hearing your testimony.

While the Affordable Care Act does not change the VA health care system and is not targeted specifically at veterans, it includes provisions that could affect veterans and their families.

In the light of the fast-approaching deadline contained within the ACA, it is important for this Committee to gauge where the Department of Veterans Affairs is in implementing the ACA.

According to the Urban Institute, there are approximately 13 million non-elderly veterans living in the United States. Of that population, 1.3 million or one in ten are uninsured. This means that there are 1.3 million veterans who will need to select some type of medical coverage within the next year.

How many of these 1.3 million veterans are eligible for VA health care? I do not know if we know that yet. What is being done to encourage those eligible to come into the VA health care system? How can we help those not eligible to understand their options and find insurance elsewhere?

I expect the department to have an aggressive communication plan in place to inform veterans about the Affordable Care Act and how it affects them, what and, if any, they can or need to do to maximize their VA benefits.

It is imperative that conflicting messages do not get out there and confuse our veterans even more. VA at all levels should be prepared to assist veterans in navigating what is sure to be a confusing process.

And I understand that veterans may choose to receive part of their care through VA and part through another system such as employer health insurance programs, exchanges, and/or Medicaid.

Dual eligibility is not new to veterans, but it has been my observation that VA struggles with the minimizing fragmentation of care for those veterans who use more than one system.

Accurate accountability, coordination, and engagement with external partners is essential in keeping track of where veterans receive their care, the quality of that care, and how it integrates for the health and well-being of that veteran.

There are many factors that will play a role in the choice that veterans will be asked to make in the upcoming months. I am also interested in understanding what the factors are. Is it the proximity to a VA medical facility? Is it cost? Is it quality?

It is believed that females within the household make the majority of the family's health-related decisions. VA needs to look at it for the servicewoman veterans and address this important veteran population as well.

We know from studies that individual's health is highly dependent upon the family's well-being. When you include family members of veterans, the number of uninsured rises to 2.3 million.

The department's fiscal year 2014 budget request includes $85 million for the care of the estimated 66,000 new veterans VA has identified who may choose VA for their health care under the Affordable Care Act.

The 2014 budget also includes $3.4 million in the information technology budget to build the functionality needed to meet the requirements in the Affordable Care Act such as identifying individ-

uals who are enrolled in the VA health care programs that have been deemed as meeting the minimum essential health care coverage.

I look forward to this hearing and look forward to VA on the methodology used in arriving at these numbers and to understand how the trends and expenditures will be tracked to ensure that there are adequate resources for VA to respond to changes based on the ACA.

I believe that a smooth implementation can be achieved by 2014 if VA engages effectively with other Federal agencies that it should engage with.

So with that, Mr. Chairman, I yield back.

[THE PREPARED STATEMENT OF HON. MICHAUD APPEARS IN THE APPENDIX]

The CHAIRMAN. Thank you very much.

Thank you to the first and only panel that is going to be here today before this Committee.

With us from the Department of Veterans Affairs is the Honorable Dr. Robert Petzel, Under Secretary for Health. He is accompanied by Patricia Vandenberg, Assistant Deputy Under Secretary for Health and Policy and Planning, and Lynne Harbin, Deputy Chief Business Officer for the Member Services for VA's Chief Business Office.

With us from the Department of Treasury is Lisa Zarlenga, a tax legislative counsel. She is accompanied by Jason Levitis, Senior Advisor to the Assistant Secretary for Tax Policy.

Again, we sincerely appreciate you being here today.

And, Dr. Petzel, you are now recognized to proceed with your testimony.

STATEMENTS OF ROBERT A. PETZEL, UNDER SECRETARY FOR HEALTH, VETERANS HEALTH ADMINISTRATION, U.S. DEPARTMENT OF VETERANS AFFAIRS, ACCOMPANIED BY PATRICIA VANDENBERG, ASSISTANT DEPUTY UNDER SECRETARY FOR HEALTH FOR POLICY AND PLANNING, VETERANS HEALTH ADMINISTRATION, U.S. DEPARTMENT OF VETERANS AFFAIRS AND LYNNE HARBIN, DEPUTY CHIEF BUSINESS OFFICER, MEMBER SERVICES, CHIEF BUSINESS OFFICE, VETERANS HEALTH ADMINISTRATION, U.S. DEPARTMENT OF VETERANS AFFAIRS; LISA ZARLENGA, TAX LEGISLATIVE COUNSEL, U.S. DEPARTMENT OF THE TREASURY, ACCOMPANIED BY JASON LEVITIS, SENIOR ADVISOR TO THE ASSISTANT SECRETARY FOR TAX POLICY, U.S. DEPARTMENT OF THE TREASURY

STATEMENT OF ROBERT A. PETZEL

Dr. PETZEL. Good morning. Thank you, Chairman Miller, Ranking Member Michaud, and Members of the Committee. I appreciate this opportunity to discuss the Department of Veterans Affairs' implementation of the Affordable Care Act.

I have submitted my written testimony for the record.

The CHAIRMAN. And without objection, it will be included.

Dr. PETZEL. Thank you.

I also want to acknowledge in the audience the presence of the veteran service organization representatives. They are of invaluable assistance to us in meeting the challenges of caring for America's veterans.

The Affordable Care Act puts in place comprehensive reforms that improve access to affordable health care coverage for everyone. The law allows all Americans to make health insurance choices that work for them while guaranteeing access to care for the most vulnerable people. It also provides new ways to reduce costs and improve the quality of health care.

VA is committed to providing veterans and all other eligible beneficiaries timely access to high-quality health care services.

Veterans currently enrolled in the VA health care system and current beneficiaries enrolled in VA's CHAMPVA or Spina Bifida program will experience no change in their VA administered health care programs, services, or benefits.

VA currently provides high-quality, comprehensive health care to nearly nine million enrolled veterans and other beneficiaries and we will continue to do so under this new law.

Since the enactment of the Affordable Care Act, VA has been hard at work to understand the law's impact on veterans, other beneficiaries, and VA's health care system and to prepare for implementation of the law.

VA will continue to focus on providing personalized, proactive, veteran-centric health care. Our ongoing efforts for successful implementation include identifying and implementing the operational requirements that we need, putting in place information technology requirements, coordinating efforts directly with other Federal agencies such as the Department of Treasury and the Department of Health and Human Services.

VA has focused on developing and providing proactive communications with veterans and beneficiaries.

To oversee and ensure a comprehensive and coordinated approach to implementation, VA established a health reform integrated project team. The purpose of this team is to examine strategies and operational issues that affect veterans and VA as a result of the Affordable Care Act, steer the implementation of the law at VA, and provide a mechanism for information exchange.

When key components of the Affordable Care Act are implemented on January 1st, 2014, they will provide some veterans with new options for health care through other programs.

Some veterans may become eligible for Medicaid while others may become eligible for a tax credit to purchase health care coverage through the health insurance marketplace.

These changes give VA the opportunity to communicate with veterans and other stakeholders about their implications.

Under the Affordable Care Act, the Federal Government, state governments, insurers, employers, and individuals are given shared responsibility to reform and improve the availability, quality, and affordability of health insurance coverage in the United States.

Starting in 2014, the individual shared responsibility provision calls for each individual to have a minimum essential health care coverage, qualify for an exemption, or make a payment when filing his or her Federal income tax return.

Under the law, VA health coverage meets the definition of minimum essential coverage. This means that veterans enrolled with VA health care and beneficiaries enrolled in CHAMPVA and the Spina Bifida programs do not need to take any additional steps to meet the individual responsibility requirement outlined in the law.

Additionally, under the Affordable Care Act, states have the option to expand their Medicare programs but are not required to do so. VA continues to monitor state decisions to determine the impact on VA beneficiaries in each of these locations.

VA anticipates a modest net increase in enrollment as a result of the Affordable Care Act. The net increase will result from eligible non-enrolled veterans enrolling in VA health care. VA will ensure all veterans can quickly access accurate and understandable information on the Affordable Care Act provisions and their impact on veterans.

Mr. Chairman, our work to effectively implement the provisions of the health care act will continue. We remain focused on providing veterans and other eligible beneficiaries timely access to the high-quality health care that our veterans have earned and deserve.

My colleagues and I are prepared to respond to any questions you may have.

[THE PREPARED STATEMENT OF ROBERT A. PETZEL APPEARS IN THE APPENDIX]

The CHAIRMAN. Thank you, Doctor.

Ms. Zarlenga, you may now proceed with your testimony.

STATEMENT OF LISA ZARLENGA

Ms. ZARLENGA. Good morning, Chairman Miller, Ranking Member Michaud, and Members of the Committee. I am pleased to appear before you today to discuss the Treasury Department's implementation of the Affordable Care Act as it relates to health care provided to our Nation's veterans including coverage through the Department of Veterans Affairs.

Sir, I have also submitted my written testimony for the record.

There is no higher priority than giving veterans the honor and benefits they have earned through their service and sacrifice to our Nation. We appreciate this Committee's commitment to veterans and look forward to working with you to ensure that their needs are met.

The Treasury Department's work to implement the Affordable Care Act has been guided by this principle of serving our veterans. We have worked in close collaboration with the VA to help us understand the needs of veterans and the VA health programs.

Our goal has been to ensure that the tax provisions of the Affordable Care Act protect the health care veterans have today while also giving them access to additional options.

The Affordable Care Act provides for the establishment of affordable insurance marketplaces, also known as exchanges, which will open on October 1st, 2013 to help individuals compare health plans and enroll in the one that is best for them.

The Affordable Care Act created a refundable premium tax credit to help make coverage offered through a marketplace affordable. A

taxpayer may qualify for advanced payments of the premium tax credit which are paid directly to health insurance issuers and reduce the taxpayer's monthly premiums for health insurance.

The premium tax credit is generally not available to an individual who is eligible to enroll in other minimum essential coverage which generally includes coverage through government sponsored programs and employer sponsored plans.

In developing our regulations implementing the premium tax credit, we worked closely with the VA to ensure that the rules work properly for our Nation's veterans.

As part of this process, we determined that the general policy that denies the premium tax credit to individuals who are eligible for government sponsored coverage could create problems for certain veterans and their families because eligibility for veterans' coverage cannot be firmly determined at the time the individual is seeking eligibility determination from the marketplace.

So after consulting with our colleagues at VA and considering the issue, we concluded that a specific rule was needed to ensure that veterans were not inappropriately denied the premium tax credit.

Accordingly, our proposed regulations contained a rule that treats an individual's eligibility for VA coverage only if he or she is actually enrolled in that coverage. The general result of this rule is that a veteran who is eligible for VA coverage may choose between enrolling in VA coverage or enrolling in coverage through the marketplace and, if eligible, receiving the premium tax credit that reduces the premium for that coverage.

Our final regulations retain this general rule, but in addition, in the final regulations, we amended the rule to apply to non-veteran individuals such as dependents who may receive VA medical benefits under certain programs.

Thus, the special eligibility rule applies not just to veterans but to individuals who are eligible for benefits under the Civilian Health and Medical program of the Department of Veterans Affairs or CHAMPVA and the VA's Spina Bifida health care program.

Beginning in 2014, the Affordable Care Act generally directs nonexempt individuals to maintain minimum essential coverage for themselves and their dependents or make an individual responsibility payment with their Federal tax returns.

Section 5000A of the Internal Revenue code which was added by the Affordable Care Act defines minimum essential coverage to include coverage under specified government sponsored programs, eligible employer sponsored plans, and health plans offered in the marketplace.

The statute requires the secretary of Veterans Affairs in coordination with the secretary of Health and Human Services and the secretary of Treasury to determine which VA health care programs should be considered minimum essential coverage.

In implementing our proposed regs under Section 5000A, we worked closely with the VA to identify those VA health care programs that provide comprehensive medical benefits.

Based upon the recommendations of our VA colleagues, our proposed regulations specify that comprehensive medical benefits package authorized for eligible veterans, the CHAMPVA program,

and the Spina Bifida program are each treated as minimum essential coverage for purposes of the individual coverage requirement.

Thus, under the proposed regulations, veterans and other VA beneficiaries who are enrolled in these VA health care programs will satisfy the individual coverage provision of the Affordable Care Act.

We will continue to consult with our VA colleagues as we prepare to issue final regulations on this provision before the end of this year.

Ensuring implementation of the Affordable Care Act in a manner that understands and is responsive to the needs of our Nation's veterans is a top priority of the Department of the Treasury as outlined under the issues we addressed and recent guidance regarding the Affordable Care Act provisions within Treasury's jurisdiction.

As we move forward with implementation, we look forward to working with the VA as well as with this Committee to ensure that the Affordable Care Act works as well as possible for the veterans and their families who have given so much to this country.

My colleague, Mr. Levitis, and I would be happy to answer any questions that you have.

[THE PREPARED STATEMENT OF LISA ZARLENGA APPEARS IN THE APPENDIX]

The CHAIRMAN. Thank you very much for your testimony.

And with that, I will yield myself five minutes for questions and, if necessary, we will do a second round of questions as well.

The first thing I want to focus on is that veterans' disability compensation and pensions are generally exempt from Federal taxation. This goes to both of you.

Under the ACA for the modified adjusted gross income calculation, would this same principle apply? In other words, are veterans' disability compensation and/or pensions excluded for the purposes of calculating income for eligibility for the premium tax credits?

Ms. ZARLENGA. Mr. Chairman, the computation of the modified adjusted gross income begins with adjusted gross income that is reported on your tax return. So anything that is excluded from gross income for normal tax purposes would also be excluded from the modified adjusted gross income. So these veterans' disability benefits would be excluded.

The CHAIRMAN. So the question is, has VA estimated how many veterans will qualify for the credit and what plans is VA making to address the potential change in veteran utilization of the VA health care system?

Dr. PETZEL. VA has calculated how many people we think are going to be leaving us and how many people are going to be accrued to the system. In terms of who would be eligible for the tax credit, that would depend upon whether they elected to do that or not.

I would have to turn to Ms. Harbin or to Pat for any specifics. But I am not aware that we have calculated who would be eligible for the tax credit.

Pat.

Ms. VANDENBERG. Mr. Chairman, we have estimated the potential out migration due to the availability of the tax credit. However,

as you stated so clearly in your opening comments, this whole phenomenon is going to be a function of veteran choice.

So veterans as they look at their options will weigh their current service that they receive from VA, the scope of the service that we provide to them, the model of care that we have, and then they will look at what would they be purchasing if they asked for a tax credit and have to make that choice.

There is no way for us to gauge in absolute terms what the ultimate determinant will be in that veteran's choice. So we have to make a certain set of assumptions.

As Dr. Petzel indicated, we estimate that there could be up to a million veterans who could elect to avail themselves of the premium tax credit.

Reciprocally, there are, as has already been referenced, a million plus veterans who are eligible to enroll with VA to get the coverage that will constitute minimal essential coverage. That is what gives rise to our net analysis that you alluded to earlier.

The CHAIRMAN. So you're saying a million out, a million in?

Ms. VANDENBERG. That is the extreme range of the analysis that we have conducted thus far using the American community survey results and several simulation tools that help us to understand what drives an individual's choice in selecting insurance products.

The CHAIRMAN. It is pretty coincidental that the numbers would balance themselves out, especially when the number is that high.

But I guess the question that I would have is—you have a veteran with a family who may have a child who has a disability or something similar, the premium tax credit, I think, would be a draw for that veteran to leave the system and go into the private market given the fact that they have the ability to get the tax credit. Am I misinterpreting or is that correct?

Dr. PETZEL. Let me start just briefly with that and then we can—both individuals on my right and left have something to say.

It depends on what kind of coverage they are able to get and what kind of co-pay, if you will, they have to provide. The plans range from covering 70 percent of the cost of health care to as much for the platinum plan as 90 percent.

One is going to have to weigh whether the tax credit more than makes up for the co-pay or the expense that the individual that is in the marketplace is going to have to bear.

Ms. ZARLENGA. Yes. Mr. Chairman, we consulted with our colleagues at VA and we tried to coordinate a rule that would work the best for both agencies and the veterans.

And as I stated in my testimony, one of our top priorities was to ensure that the tax provisions protect the current health care that veterans have today while giving them these additional options.

That being said, my understanding is that the VA coverage is free with no premium. And even with the premium tax credit, individuals going to the exchange will have to pay for either equivalent coverage that is currently provided to veterans or even lesser coverage.

And so I do not think that the premium tax credit itself will drive veterans to leave VA coverage and seek out coverage on the

exchange, although there may be unique circumstances that, you know, drive a veteran to choose one plan over another.

The CHAIRMAN. First of all, and I apologize, my time is running out, the care that is provided is not free. It was paid for a long time ago. And I know you did not mean it the way you said it.

Ms. ZARLENGA. Absolutely, sir.

The CHAIRMAN. The issue is, though, the family members that VA does not care for. If a veteran cannot get the premium support if they are enrolled in VA, then they have to dis-enroll from VA in order to pick up the premium support. Is that true?

Ms. ZARLENGA. Mr. Chairman, the family can still separately enroll in the exchange even if the veteran himself is covered through VA coverage if they otherwise qualify for the premium tax credit.

The CHAIRMAN. Okay. I have follow-up questions, but I would like to go ahead and recognize Mr. Michaud.

Mr. MICHAUD. Thank you very much, Mr. Chairman.

Dr. Petzel, by January 1st of 2014, the VA must be in compliance with the Affordable Care Act.

Under your implementation efforts for the information technology, VA has identified a system that is needed to support the ACA.

Do you have any contingency plans in place if the latter part of the year that you look at it and you realize you cannot meet the implementation timeframe?

Dr. PETZEL. Congressman Michaud, we have a plan and $3.4 million in the budget to provide for the IT links, particularly to IRS, that are necessary to be in compliance.

We actually have much of this in place already and I am confident that we will be able to have all of the information exchange IT systems up and in place by the 1st of January.

I would ask Lynne Harbin if she has anything to add to that.

Ms. HARBIN. Yes. Thank you, Ranking Member Michaud.

VA has worked with CMS and the Federal marketplace both to better understand the business requirements and the flow of information.

We have built an interface with the CMS hub so that when a veteran or beneficiary is applying for the tax credit, that query will come into the VA and we will be able to respond.

We have actually already tested, began the testing process. We believe we are on track to have that in place before October 1 of 2013.

Mr. MICHAUD. Have you given any thoughts, because the states have to play a role if they go into the exchanges, what it is going to look like and what have you, what affect will it have for some states who do not want to participate working with Health and Human Services to make sure that they are on time to implement it come 2014? Do you see that as a problem and, if so, what are you doing to try to address that as it relates to our veterans' population?

Dr. PETZEL. We are in communication with the states. We do not anticipate an issue in terms of the reporting. What is, I think the important issue for us is in those 21 states that have elected not to enhance their Medicaid programs, what is going to be the reac-

tion to both the state and the veteran community in terms of seeking other sources of care.

And when we talk about a net effect of 66,000 or so people coming to us, the majority of those people we think are going to be coming to us because of differences in their Medicaid programs in different states so that we would expect to see perhaps more people coming from a state that did not enhance their Medicare program than from those states that did.

Mr. MICHAUD. So we know that we have veterans who are enrolled in VA health care but do not rely on the VA for their primary health care coverage.

If they chose to seek private health care insurance in the marketplace, can they still qualify? I am talking about the individual veteran.

Dr. PETZEL. Yes, they can. They can still be seen by us if they have sought care in the private sector. If they get care with us, they would not be eligible for the tax credit, just like if they get care with Medicare or with Medicaid, they would not be eligible for the tax credit. But, yes, they could seek care with us.

Mr. MICHAUD. They can seek care, but as far as the tax credit, if they just use VA not as their primary health care, so they will not be eligible then for the tax credit, if I understand that correctly?

Dr. PETZEL. That is correct.

I would ask Ms. Zarlenga if she has anything to add to that.

Ms. ZARLENGA. Right. The rule is, if they enroll in VA coverage, then they would not be eligible for the premium tax credit, Congressman. They could still enroll in a plan through the exchange, but they could only get the premium tax credit if they are not actually enrolled in VA coverage.

Mr. MICHAUD. Have you looked at or was it ever brought up during your rulemaking process that if they only enrolled in VA for, you know, minor care but not as their primary health care whether or not they would receive tax credit for that primary care health coverage? Have you discussed that in the rulemaking process?

Dr. PETZEL. Enrollment is what decides it, not what kind of care or the volume of care. But if they are enrolled with us, then they would not be eligible for the tax credit.

Ms. ZARLENGA. Right. And our rules treat as minimum essential coverage the comprehensive VA coverage as well as the CHAMPVA and the Spina Bifida programs. I am not aware if there are smaller programs within VA, but those have not been designated to be minimum essential coverage. And it is the minimum essential coverage, enrollment in that that keeps you from getting the premium tax credit.

The CHAIRMAN. That is what I was trying to drive at just a second ago and I think the Ranking Member was trying to ask the exact same question.

The concern is veterans can dual enroll now and go back and forth from VA to other forms of health care coverage. And if I understand correctly, VA can bill third parties for services rendered, and use that money as supplemental dollars to the VA health care system.

So will you not be losing those dollars if you do not allow a dual enrollment by the veteran?

Dr. PETZEL. That is correct. If there were people that were no longer dually enrolled, then we would not be able to bill their other insurance companies, if they were private sector. The majority of our dual enrollment comes from Medicare, but you are correct. We would not be able to bill if somebody decided just to enroll with us and not to have dual enrollment.

The CHAIRMAN. Have you done a calculation yet based on the lost income to VA?

Ms. VANDENBERG. Mr. Chairman, we have done an initial evaluation and at this point, it is emerging what that impact will be. We do not estimate it to be a significant impact.

We would be happy to discuss that with you in further detail in terms of the underpinnings. I did not bring that with me today, but I will take that for the record.

The CHAIRMAN. Yeah. Did you say it was a significant impact or not?

Ms. VANDENBERG. It does not appear to be a significant impact at this point. We do have that analysis available. We could easily review that with you at your——

Dr. PETZEL. We would be delighted to meet with the staff or whatever and review that analysis.

The CHAIRMAN. Thank you.

I would like to ask that question to be answered for the record.

Ms. VANDENBERG. The record.

The CHAIRMAN. Dr. Roe.

Mr. ROE. I thank the Chairman.

And that is a pretty easy number to find if you make less than $88,000 a year which is about 90 percent of the U.S. population. That would be probably most veterans would fall into that category if they have ability to have private health insurance like I have had all my life. So that should not be a hard one to figure out. You guys have got the data.

The problem with the health care system in this country is, is it costs too much money. It is too expensive. Secondly, we have people who are out there at work every day and cannot afford it. And the Affordable Care Act was supposed to do that.

And what happened was it has actually forced the cost way up and it may end up cutting the number of people who actually end up having private health insurance. It very well could. And this bill basically, this Affordable Care Act expanded greatly in some states, some areas that chose to do it, Medicaid, which is a program that is not working too well right now.

And I can tell you I believe you are going to have a lot more people, Dr. Petzel, come. And the reason is because exactly what was pointed out by Treasury is that the subsidy, the tax credit is not going to be as much as what is going to be paid by the VA which is no co-pay.

And people make economic decisions and veterans out there who are struggling right now, I think you are going to see an onslaught of people that come to the VA. I think there are going to be a lot more veterans use it because the other side, instead of making it

more affordable, is making it less affordable for people. And so I think you are going to see more people.

I have a question for Treasury. If the tax credit, the credit that you will get to buy insurance on the exchange, if a veteran chooses to go to the VA for his or her family, those family members can get that tax credit, is that correct, when we consider the VA minimum essential coverage? Am I right on that?

Ms. ZARLENGA. So what you are saying, Congressman, is that the——

Mr. ROE. Here is a veteran over here going to the VA getting their health care and he has got family members.

Ms. ZARLENGA. And they are not——

Mr. ROE. And they are going to get a subsidy.

Ms. ZARLENGA. —getting health care?

Mr. ROE. Because they cannot get the care at the VA, they get a subsidy and buy it on exchange. Am I correct on that?

Ms. ZARLENGA. That is correct, yes.

Mr. ROE. Well, am I also correct that in the private sector, if an employer provides minimal essential coverage, by the rules that I have read, they do not have to provide—the government does not provide subsidies for those family members, at least for the spouse to buy insurance on the exchange? Why that disparity?

Ms. ZARLENGA. Congressman, it is the nature of the way that the code is written. For employer sponsored coverage, affordability is determined based on the——

Mr. ROE. But you see my point here?

Ms. ZARLENGA. Yes.

Mr. ROE. Those are two exact same things and, yet, if I am out here in my private practice and I choose to cover my employees, I am not required to do exactly what you required someone who goes to the VA to do. Why is that?

Ms. ZARLENGA. There is just a difference in the way the code treats government sponsored coverage and employer sponsored coverage. And it is a rule that is unique to employer sponsored coverage.

Mr. ROE. Who made the rule?

Ms. ZARLENGA. Pardon me?

Mr. ROE. Who created that rule?

Ms. ZARLENGA. It is in the statute, sir.

Mr. ROE. The rule is in the statute. We did not write the rule.

Ms. ZARLENGA. That is the way we——

Mr. ROE. When we passed the Affordable Care Act, it was not in there. I read the bill. That was not in there. The rulemaking occurred afterwards.

Mr. LEVITIS. Congressman——

Ms. ZARLENGA. Right. Go ahead.

Mr. LEVITIS. —maybe I can try to explain.

Mr. ROE. I tell you we do need an explanation because there are people out there that are going to lose their coverage.

The other thing I think is very important, and I want to hear what you have got to say, is that we better doggone well explain to the veterans who use—for instance, myself. I have chosen not to use—I have good health insurance. I do not want to step in front of a veteran, and many of us are like this out there. I talk to vet-

erans every day who have private health insurance. And we know there are a lot of guys and veterans struggling and we do not want to take up their slot.

Well, we better doggone well explain to them that if they get some coverage, as Mr. Michaud said a little bit, that they can lose—they lose that benefit, that exchange benefit if that happens. In other words, they no longer can qualify for those, so they are now stuck essentially in the VA system. That is the first time I have heard of it was today.

Now your answer.

Ms. ZARLENGA. Actually, Congressman, I would like to clarify a point that you just made.

It is if the veteran has minimum essential coverage, then, or his family has minimum essential coverage, then they cannot get the premium tax credit. And so that minimum essential coverage has been defined to include the comprehensive VA coverage or the CHAMPVA or the Spina Bifida program.

I mean, perhaps Dr. Petzel could explain if there are other small—you were saying small benefits. And my understanding is that the minimum essential coverage that VA provides is a comprehensive coverage.

Mr. ROE. Back to why the other, if you could indulge me for 30 seconds.

Mr. LEVITIS. Sure. So, Congressman, the general way that the tax credit is set up is that an individual who is eligible for other coverage, be it government sponsored coverage or employer sponsored coverage, cannot get the tax credit. So the idea is, if you have other coverage, you are supposed to get that, not the tax credit.

So in developing our regulations on the tax credit, we realized that that rule could create some issues for veterans because it may not always be possible to determine clearly whether, when they go to the exchange or the marketplace and try to get an advanced payment of the tax credit, whether they are eligible for VA coverage or not.

So what we did is we created a rule that effectively gives veterans a choice whereas an individual who is eligible for employer sponsored coverage, generally they have to take that. An individual who is eligible for veterans' coverage can choose between taking the veterans' health coverage or they can also choose to get the tax credit.

So our understanding in working with our colleagues from VA was that this would help veterans to be able to take advantage of either option and get the most help they could.

Mr. ROE. I yield back.

The CHAIRMAN. Am I the only Member of the Committee that is confused? What has just transpired, I am lost because you came back and you just made a clarification.

Again, if a veteran is eligible to be in the VA system, is his family eligible to get a tax credit?

Dr. PETZEL. Yes.

The CHAIRMAN. Okay.

Ms. ZARLENGA. Yeah. And our rule is actually based on whether the veteran is enrolled in the VA system.

The CHAIRMAN. But there is a difference now between—

Ms. ZARLENGA. Right.

The CHAIRMAN. —being enrolled and not enrolled.

Ms. ZARLENGA. That is right. If the veteran is not enrolled, then the veteran is also eligible to get the premium tax credit.

The CHAIRMAN. Okay. Then there is the point. There is a reverse incentive for the service-connected veteran to stay in the system. What I am trying to figure out also concerns the calculation of household income.

If a veteran stays in the system, how do you calculate the household income for the family members and whether or not they receive the tax credit?

Ms. ZARLENGA. Mr. Chairman, the income for the tax credit computation is based on household income. And so regardless——

The CHAIRMAN. But if they are separated and you have the veteran in the VA system taking health care there, but the family is over here and they may not have any income.

Ms. ZARLENGA. That is right. I mean, a function of the statute looks to household income. The IRS really only has the ability to enforce household income because that is what is reported on the tax returns. The IRS does not have the ability to look to individual members of the household income unless they impose additional reporting requirements.

And so by the function of looking at the household income, the veteran's income would be included. That being said, if the veteran has income that is excluded from gross income such as disability payments, that is not counted towards household income.

The CHAIRMAN. Ms. Brownley.

Ms. BROWNLEY. Thank you, Mr. Chair.

Dr. Petzel, I wanted to follow-up with you because I, you know, share your concern about Medicaid and the states expanding Medicaid and others not.

I am wondering if you have done or have been able to do any kind of prediction or assessment in terms of, understanding that all states have not made any final decisions, I mean, but in terms of where the concentration of veterans might be relative to these states and those who are uninsured and what that impact is and do you know what the impact would be roughly?

Dr. PETZEL. Thank you Congresswoman Brownley.

We have. As I said, 27 states have elected to expand Medicare and 21 states have decided not to. And there are three states that have not yet made a decision.

Three of the states that have elected not to expand Medicare are very populous and have large—beg your pardon? I am sorry. Medicaid. My apologies.

Three of the states are populous states and they have a large concentration of veterans. And we expect that, again, depending upon exactly what the Medicaid program will look like, that we would be seeing more people migrating towards the VA health care from those places than we would be in places that have expanded their Medicaid coverage.

And, Pat, you might be able to——

Ms. VANDENBERG. Yes.

Dr. PETZEL. —add a little bit to that.

Ms. VANDENBERG. Yes. We are focusing on Florida and Texas in particular at this point. What we have done is taken our estimate of the uninsured and spread that over the states as best we can ascertain from the American community survey results that we have used, the census survey. And then we have looked at that in relationship to the states who are and are not going to expand Medicaid.

We have also established a network of contacts within our VISNs who are establishing more explicit communication with state government regarding their intent, the scope of the services, the way they are going to deploy those services to Medicaid beneficiaries.

And we are attempting to ascertain at this point what the attractiveness would be in those states where we are going to see Medicaid expansion and reciprocally in states that are not going to expand what the health care needs of those individuals might be so that we further hone our communication to those uninsured veterans.

So we are trying to take both a macro approach at the highest level and then take it down to the micro level of the states and really drill down to get a closer linkage to state governments for this discussion.

Dr. PETZEL. An important aspect of this, Congresswoman, is what are the plans going to look like both in terms of Medicaid and in terms of what is on the insurance exchange and in the insurance marketplace.

How are they comparing to VA health care and will it be economical for someone to forego their VA health care and get the tax credit, if you will, and participate in that program or enroll in Medicare?

And there has been no crispness yet on the part of both the insurance industry and the Medicaid programs in defining exactly what their coverage is going to be. We are keeping as close track of it as we possibly can. But that is going to be an important determinant.

Ms. BROWNLEY. Thank you.

And just another follow-up question, Dr. Petzel. And you mentioned your assurance that a plan will be in place for outreach and communications and the IT system will be up.

I think you said it will be ready to implement in January of 2014. I just want to make sure that you are going to be ready. I think we need to be ready before that in terms of being sure to outreach when the implementation of the Affordable Care Act takes places.

Dr. PETZEL. Oh, I apologize. I meant the IT program. I did not know the question was referring to outreach. Our outreach program is nearing completion. We have developed a very comprehensive outreach program including multiple types of media.

Our intention is that that will roll out in May and June concomitant with Health and Human Services' rollout of their information about the Affordable Care Act so that these two things will mesh together very, very well.

Ms. BROWNLEY. Could we submit that plan into the record that you have developed or is that possible?

Dr. PETZEL. Absolutely, yes, we can.

Ms. BROWNLEY. Great. Thank you.

The CHAIRMAN. Mr. Coffman.

Mr. COFFMAN. Thank you, Mr. Chairman.

So if I understand it correctly, the result will be, I suspect, a significant expansion potentially in enrollees in VA health care because it does not have to be service-connected. It could be simply the means tested aspect of it; is that correct?

Dr. PETZEL. We expect that there will be, Congressman, some increase in enrollment. We expect that there will be some people who will leave us. And the net effect of this is what we have been talking about. And we are anticipating that in the early stages as this is rolled out in 2014 that this will be about 66,000 people.

Mr. COFFMAN. So for those states that took the Medicaid option, I would assume that you would not see a lot of movement in those states.

Dr. PETZEL. Congressman, we think that it will be less.

Mr. COFFMAN. Okay.

Dr. PETZEL. We think that it will be less. But, again, a big determining factor is going to be the nature of that Medicaid program and how does it measure up against what is available in terms of VA health care.

Mr. COFFMAN. Okay.

Dr. PETZEL. We expect less.

Mr. COFFMAN. Okay. Don't we know that at this time though?

Dr. PETZEL. No.

Mr. COFFMAN. Oh, we do not? Okay. My other question would be in terms of the families. So it is not an issue from your perspective.

So if you have a former member of the Armed Services and I think it is 180 days consecutive service to the country and they meet the eligibility criteria, let's say the means test aspect of the eligibility criteria, and they qualify for the VA, then what you are saying, and maybe this is a Treasury question, is that the family still then because the household income is unchanged would be eligible for whatever subsidies exist in the exchange?

Dr. PETZEL. I would say yes, but——

Ms. ZARLENGA. Yes, that is right. As long as the family's household income is between 100 percent and 400 percent of the Federal poverty line, then they could qualify for the premium tax credit on the exchange.

Mr. COFFMAN. But how do you subtract out the servicemember from that equation? In other words, I understand the eligibility in terms of household income. But then let's say you have a two-parent family with three children. And so one of the adults is a servicemember that becomes VA eligible. Then they make that election.

Ms. ZARLENGA. Okay.

Mr. COFFMAN. Okay? To your knowledge, is it required that the subsidy, that the premium be applied to all members of the family or is the servicemember subtracted out?

Ms. ZARLENGA. The premium, and I will let Jason talk a little bit more to the detail, but the premium is computed based on a percentage of household income which would include the veteran. But it is based on the premium paid for a benchmark plan that would only include the individuals who are covered by that plan.

Mr. COFFMAN. Okay.

Ms. ZARLENGA. And so that is at a high level how the computation works.

Mr. COFFMAN. Okay.

Ms. ZARLENGA. And I can let Jason talk a little bit more about that.

Mr. LEVITIS. Sure. So the way that the tax credit tries to take into account the size of the family and the sort of resources it has to pay for health care is the amount of the tax credit is set so that the amount a family has to pay is a percentage of its income. And that percentage is based on the Federal poverty line and the Federal poverty line varies based on family size.

So if you had a family of four or a family of five who had the same income, then the family of five would have to pay less because their income would be at a lower level relative to the Federal poverty line. So they would be thought to have less resources that they could spend towards their premium.

Mr. COFFMAN. But I think the fundamental issue, the question really before us is that for—so a family of five walks in and one of the servicemembers again is eligible for VA care and makes that election. So the family is purchasing health insurance through the exchange.

Is there some level of discrimination whereby the family is forced to pay for part of the servicemember in buying that policy through the insurance exchange who is covered by the VA?

Mr. LEVITIS. Congressman, that is a very good question.

The way that it works is that the amount that the family has to pay is the same generally whether they enroll, say, all five members of the family in the plan or just the four members and the veteran takes the VA coverage.

Mr. COFFMAN. That is a problem. Mr. Chairman, that is a problem. I yield back.

The CHAIRMAN. What happens if both parents have service-connected disabilities and are able to use the VA system, but they have three children? How then do you calculate the premium subsidy for the three children?

Ms. ZARLENGA. So the actual computation is the difference between a percentage of your household income and the cost of a benchmark plan that is covering the individuals that you are actually going to cover on the exchange.

And so you would go to the exchange and you would get a plan for the three children and you would look at what that benchmark premium costs. And then it is the difference between a percentage of your household income.

That percentage varies depending upon how close to the 100 percent or 400 percent of the poverty line the family is. And so it is based on a percentage of the household income, the difference between that and the premium for the benchmark plan.

The CHAIRMAN. Dr. Petzel, don't you see this as a disincentive for the veteran to use the VA system because a service-connected veteran does not have to enroll in the VA system in order to receive their health care; is that correct?

Dr. PETZEL. That is correct.

The CHAIRMAN. Why would they enroll?

Dr. PETZEL. There would be no reason for them to enroll. And, again, they could still get their health care with us, but they do not have to be enrolled. And we are still working through what is going to be done in terms of the tax credit in that kind of a circumstance.

The CHAIRMAN. And so do you see it again as a, if you will, perverse disincentive to the veteran to not enroll into the system and what impact is that going to have on VA being able to develop your budget over the coming years?

Dr. PETZEL. Well, Mr. Chairman, when you look at what is going to be available to that service-connected veteran on the outside and what is available to that individual within the VA, for a 100 percent service-connected or service-connected individual comes close to a platinum plan, maybe even exceeds that, there is virtually no expense associated with that health care coverage for that individual. They are not going to find that in the outside world. They are just not going to find it.

The CHAIRMAN. Ms. Negrete McLeod.

[No response.]

The CHAIRMAN. Dr. Wenstrup.

Mr. WENSTRUP. Thank you, Mr. Chairman.

Is a VA benefit given a value that is subsequently added to the net household income? If someone is receiving that benefit as though it is——

Dr. PETZEL. I will take the first crack at that, Dr. Wenstrup. And, no, they are not.

Mr. WENSTRUP. Okay.

Dr. PETZEL. You may want to comment further, but the health care benefit is not considered part of the family income, assets, or whatever.

Ms. ZARLENGA. Right. So a disability benefit——

Mr. WENSTRUP. No.

Ms. ZARLENGA. —is that what you are——

Mr. WENSTRUP. No.

Ms. ZARLENGA. So the vet——

Mr. WENSTRUP. No, a health care benefit.

Ms. ZARLENGA. Oh, a health care benefit. Yeah, it is not included in their gross income for purposes of determining the household income.

Mr. WENSTRUP. Okay. So is the family in any way penalized for the veteran in the family taking their VA benefits or enrolling in the VA? Are they penalized as far as tax credits or anything? I am just still kind of confused on the whole calculation process.

Ms. ZARLENGA. So the computation is that the credit is equal to the difference between what the family would have to pay for their benchmark plan. And that is the plan that is actually going to cover whoever is in the exchange.

So if the veteran gets coverage through the VA and the rest of the family goes to the exchange, you would find a plan that covers the spouse and two children or just the children, whoever is not getting the VA coverage. And you would look at that, the premium cost for that plan.

And then what the statute does is it looks at a percentage of the household income and it says basically we think that families

should be able to pay that percentage of their income in premiums for health care.

And so it takes the difference between what the statute thinks a family should be able to pay of their household income and the difference in the amount that you are paying on the exchange and the credit is the difference between that.

And that credit is paid to the families to help them. Actually, it could be paid directly to the insurer or it could be claimed by the families later on their tax returns, but it helps them pay for the premiums on the exchange.

Mr. WENSTRUP. Thank you.

I yield back.

The CHAIRMAN. Ms. Kirkpatrick.

Mrs. KIRKPATRICK. Thank you, Mr. Chairman.

Secretary Petzel, I have a concern about the delivery of the medical services to these new enrollees.

So my first question is, does the VA have capacity in its existing facilities to take 66,000 new enrollees?

Dr. PETZEL. The short answer, Congresswoman Kirkpatrick, is yes.

Mrs. KIRKPATRICK. So you will not need to expand any of your existing facilities?

Dr. PETZEL. We would not need to expand any of our existing facilities. We will be monitoring the health care providers that we have available and if we need to add health care providers, we would do that. That is part of what the $85 million might be used for.

But at the present time, we believe that we can absorb the 66,000 new people with the $85 million that is in our 2014 budget.

Mrs. KIRKPATRICK. And do you have a breakdown between rural and urban veterans, how many of those new enrollees are living in rural communities versus urban settings?

Dr. PETZEL. I do not have it with me, but we do and can provide that.

Mrs. KIRKPATRICK. If you could provide that to me.

Dr. PETZEL. We can.

Mrs. KIRKPATRICK. Then my other question is about the actual providers. I represent a very large rural district in Arizona. We have opened up some new VA clinics. We have a very difficult time getting doctors to staff those clinics. Lots of them have PAs, nurse practitioners.

So do you have a plan? Have you discussed about how you are going to bring in more physicians into the VA system, more PAs, more nurse practitioners so that we can have more coverage at those levels?

My concern is that it takes so long to get through medical school and we do not have enough physicians nationally as it is. And how is the VA going to deal with that?

Dr. PETZEL. Well, Congresswoman Kirkpatrick, we do not have any trouble attracting PAs and physicians into the VA system. The issues that we have are attracting them into rural areas. This is not just unique to the VA. This is a problem across the country as I am sure you know from looking at the health care community outside of the VA in those rural areas.

And the ways that we are trying to cope with this, number one, using PAs and other substitutes for physicians when we can and, two, telehealth. We have now got a number of primary care telehealth clinics around the country mostly concentrated in Colorado which, of course, is highly rural like Arizona and New Mexico. And they have been very successful.

That is where there is a nurse clinician at the site and the individual and the nurse clinician are connected to the primary care doctor at a remote area such as back at the medical center. And you would be surprised at how much of the primary care interaction and care can be delivered in that kind of a format where you have somebody that can do the physical exam things that are needed, where you have somebody that can monitor the blood pressure, et cetera.

And I think that that is going to be an important part of our future ability to deal with the highly rural areas.

Mrs. KIRKPATRICK. Well, let me just express my concern again that I am afraid that veterans are going to be turned away from these rural clinics and sent to emergency rooms in the hospital because there is not a physician there, a primary care physician there, or overwhelming these clinics.

And is that something that you are working on and addressing?

Dr. PETZEL. It is. And we are providing incentives for people to move into rural areas. We can provide debt forgiveness for medical school. We have a lot of flexibility in terms of our salaries. And we are pulling out all those stops to try and recruit into those highly rural areas.

Mrs. KIRKPATRICK. And is it possible to recruit some of the returning veterans from Iraq and Afghanistan who have been medics and have that kind of training? Is there an effort to do that, to get them to the rural areas?

Dr. PETZEL. There is an effort. I cannot say that it is specifically focused to rural areas, but there is an effort to recruit out of the military the clinical professionals that are leaving the military, absolutely.

Mrs. KIRKPATRICK. Well, let me just request that you do focus somewhat on the rural areas because all those veterans are really lacking in the delivery of services.

Dr. PETZEL. I hear you on it.

Mrs. KIRKPATRICK. So thank you, Secretary.

I yield back.

The CHAIRMAN: Ms. Walorski.

Ms. WALORSKI. Thank you, Mr. Chairman.

Dr. Petzel, I kind of have a different question, but I just returned from Afghanistan yesterday and I want to tell you that my respect and admiration for our brave men and women and what our military does is second to none, and I am just so grateful to our Nation and to our veterans, and yet I was perplexed by the questions that our servicemen from my district asked me. They are young men and women and they are already concerned about their VA benefits. And I thought how sad it is that they are carrying out these, you know, protecting our freedoms and at the same time they are concerned because of the things they hear about the benefits that they will or won't receive.

The question I have is that, as we all know, January 1st of this year the President's medical device tax went into operation and I have already heard from medical device manufacturers in my district expressing concern how this new tax will raise the cost of life saving medical devices.

Do you anticipate the medical device tax having any impact on the VA?

Dr. PETZEL. I beg your pardon. No, I don't expect it to have a significant impact on us.

Ms. WALORSKI. And I find it interesting because the medical device tax is a huge issue in my district and we had access to a recent report issued by the VA that stated, "The VA anticipates a 2.3 percent increase in costs to offset the negatively impacted profit margin for the vendors and manufacturers that will be paying the tax. This is based on commentary and published opinions that vendors will pass this additional tax on to all consumers, including the VA."

So what would have changed your opinion from the one on this report?

Dr. PETZEL. I will have to go back and take this for the record if you don't mind and find out what the analysis has shown here. I am just not familiar with what it has shown.

Ms. WALORSKI. I would appreciate it because in my district one of things that we are finding from hospitals all the way down, this is a comprehensive progressive tax. Every single unit that touches these devices adds to the tax and what I have seen from our brave servicemen and women that I just came from in Afghanistan is they deserve the best of everything we can possibly give them, including these lifesaving medical devices and if that report is true, that that would be a significant hit.

My question would be if you could follow up and get back to us is what is the cost to the VA going to be?

Dr. PETZEL. I will get back to you.

Ms. WALORSKI. I appreciate it. Thank you. I yield back.

The CHAIRMAN. Thank you, Dr. Petzel. I think your testimony earlier said that you expected 66,000, net individuals or new individuals coming into the VA system and an $85 million budget increase in 2014. Is that correct?

Dr. PETZEL. That is correct.

The CHAIRMAN. The budget submission itself shows a net enrollment increase from 2013 to 2014 as 68,415. So am I to assume that the vast majority of people coming into the system are ACA veterans?

Dr. PETZEL. I am not recalling, Mr. Chairman, the net enrollment figure for—we expect enrollment to go up by about 1.3 percent in 2014 in total, and I would have to do the quick math to see what kind of a number that yields.

Mr. CHAIRMAN. Well, the reason I am asking is because you are asking for an additional 85 million to handle a number that it appears that you have already calculated for and so I will get a question to you for the record that is specific to that because I am looking back to the advance appropriation 2013 to 2014 expecting an increase of 48,000. I am just trying to see if we can figure out

where that additional money is going. Are we double counting, you know, what is happening?

Mr. Michaud, I recognize you now?

Mr. MICHAUD. Thank you, Mr. Chairman.

Yeah, I want to just try to further understand, you know, whether or not the ACA would be a disincentive for veterans or an incentive for veterans to leave the VA health care system. And I know if you are, if I understand it correctly, if a veteran is enrolled in the VA, that qualifies that he will not be able to get the tax credit if he has a private plan.

My concern is if you have a veteran that is enrolled in the VA just for prescription drugs and that veteran lives in a rural area and he has got family problems with his children and they prefer to have their health care taken care of locally, in order for them to get the tax credit he would have to disenroll from the VA in order to fully benefit from the tax credit.

Ms. ZARLENGA. Congressman, to just make sure I understand your question, the veteran is enrolled in the comprehensive VA coverage but all they use it for is——

Mr. MICHAUD. Prescription drugs.

Ms. ZARLENGA. —prescription drug coverage.

Mr. MICHAUD. They seek their primary care elsewhere for whatever reason because they would prefer, rather than travel a long distance in a rural area to get their health care closer to home, and then it gets into a whole other issue when you look at what if that a single parent veteran is enrolled in the VA, then you get into the whole issue about, can they stay on until they are 26 in their private health care plan.

So there is a whole other slew of questions that concerns me that might encourage a veteran to disenroll from the VA.

Ms. ZARLENGA. One of the things that we were trying to accomplish with the rule that requires enrollment as opposed to just being eligible was to sort of give veterans, you know, access to—give them flexibility, access to options and also give them the ability to take advantage of the, you know, the great health care that VA provides for them today.

Mr. MICHAUD. That is good. If I may follow up on that. That might be true if a veteran lives near a VA health care facility, but if you have a veteran that lives a distance away and it is a lot easier for that veteran to receive access closer to home if there is, you know, military sexual trauma involved, and they would rather go to their health care provider closer to home because VA does not provide those types of services.

So that is a choice where that veteran will have to decide whether or not they are going to give up their primary care to disenroll from the VA because all they will need the VA for might be for prescription drugs, but then you get into the other situation, what do you do as a single parent that has health insurance, the VA coverage but also has health coverage for their children as well and they would not be eligible for, as I understand it, for the tax credit, correct, for a single parent?

Ms. ZARLENGA. Children would be subject to, if they are not enrolled in the VA coverage, then they would be eligible for the tax credit.

Mr. MICHAUD. What happens if you have a single mom who is enrolled in the VA system?

Ms. ZARLENGA. She could still get coverage for her child on the exchange as long as the child is not enrolled in one of the other coverages.

Mr. MICHAUD. But does she qualify for the tax credit?

Ms. ZARLENGA. With respect to her child, she does, she could. If she otherwise satisfied the income requirements and everything, she could get the tax credit with respect to her child that is enrolled in the exchange coverage.

Mr. MICHAUD. Okay. So she still can receive coverage from the VA?

Ms. ZARLENGA. That is correct, yes. So I mean what we try to do is give veterans sort of the maximum flexibility. If they are not near a VA hospital, then they can still get the premium tax credit and enroll in a plan that may, you know, have providers that are closer to them.

Mr. MICHAUD. Right. So if a veteran is covered by the VA and they do not live near a VA facility, they still can keep their health care coverage and get the tax credit?

Ms. ZARLENGA. Well, in order to get the tax credit, they would need to enroll in coverage on the exchange and not enroll in the VA coverage for them to get the credit, but they could still have their families get the credit if they wanted to actually enroll in the VA coverage.

Mr. MICHAUD. But what about that veteran for whatever reason is still using his primary health care because he is getting the excellent care he needs because he lives a long distance away from the VA, say in this particular case, for military sexual trauma. They are already getting health care through their private insurance and that individual will have to make a decision they want to keep the tax credit, whether to unenroll from the VA. You are forcing a choice.

Ms. ZARLENGA. I think that is like—yeah.

Mr. MICHAUD. I don't know if Dr. Petzel——

Dr. PETZEL. Yeah, that is correct, Congressman Michaud. If the veteran were enrolled in VA health care, whatever it might be, whether it is just getting medications or getting primary care. If they are enrolled, then they are not eligible. As an individual, they are not eligible to participate in the tax credit.

They can still have other insurance. They might be engaged in Medicaid. They might be engaged in Medicare. They might have private insurance and they could still come to us, but they would not be able to get a tax credit.

And so that the individual is going to have to weigh the value of the tax credit against the services that they are getting.

Mr. MICHAUD. Thank you.

Mr. CHAIRMAN. I think it is important for the record also that it is this Committee's understanding, you were talking about rural veterans, 40 percent of the veterans in this country live in what are termed rural areas. I think that you have brought to bear a very important point, Mr. Michaud.

Dr. Benishek.

Mr. BENISHEK. Thank you, Mr. Chairman. I am really worried about some of these assumptions that you guys made down there that this—there is going to be a net increase of 66,000 people. I don't see that as being anywhere near correct. I mean, I don't see anybody disenrolling from VA. Why would anybody want to disenroll from the VA? I mean certainly not to get on Medicaid. You are not going to take Medicaid versus the VA. I will tell you that right now. I don't know where you got the idea that some people will prefer to be on Medicaid than get the benefits of the VA, but that is not a reality.

Dr. PETZEL. First of all, you wouldn't have to disenroll.

Mr. BENISHEK. So you are saying this 66,000 is a net in the people that are not going to take it anymore versus those who are going to get it, so I don't see why anybody is going to disenroll. Explain me that.

Dr. PETZEL. I think it might have to do, Congressman, with proximity care, the accessibility of care. It might have to do with the specific——

Mr. BENISHEK. Might. Might.

Dr. PETZEL.—circumstance. Absolutely. We are not going to know these things with absolute certainty until we get to the point of actually implementing the law.

Mr. BENISHEK. What I was saying, and the whole point of this is, I think of this estimate of 66,000 is far short of the mark and if you are planning for 66,000, you are not going to be able to provide the care for what I think would be a millions people.

I mean, how many veterans are out there now that are not enrolled in the VA?

Dr. PETZEL. I think the better number to look at, Congressman, is how many people are without——

Mr. BENISHEK. I have asked the question. How many veterans are out there now that are eligible that are not enrolled?

Dr. PETZEL. Probably about 8 million.

Mr. BENISHEK. What if all those people decide that because they are not going to have access to health care, they want to join the VA health care system? I mean, that is really that maximum number you are looking at, right? You didn't consider that. That is 8 million.

Dr. PETZEL. No, no, Congressman, those people, the vast majority of them already have health insurance.

Mr. BENISHEK. What if they lose their health insurance?

Dr. PETZEL. That is a different circumstance, but they do now.

Mr. BENISHEK. There are a lot of people losing their health care insurance under the Affordable Care Act, so is there any contingency about those people? I mean, I talked to lots of employers that are telling me that they are not going to be able to provide health care for their employees anymore because of the cost.

I mean, I have an employer that tells me they can't even get a bid on his insurance for his 800 employees because of the uncertainty there. So what if he decides just to, I am going to pay the $1,000 fine and I am going to throw everybody in the exchange? That is a reality, so have you made any contingency about that? That is 8 million people we are talking about.

Dr. PETZEL. Congressman Benishek, our calculations are based on the uninsured, the veterans that we have identified as being——

Mr. BENISHEK. That was a million.

Dr. PETZEL. And that is about—that is a million three. Of those million three, about a million of them are actually eligible for VA health care, so our calculation——

Mr. BENISHEK. That is a long way from 66,000.

Dr. PETZEL. That is because we don't believe that all of those people are going to seek care with the VA.

Mr. BENISHEK. Where are they going to get it, Medicaid?

Dr. PETZEL. They are going to get it from Medicaid. They are going to get it from insurance——

Mr. BENISHEK. People are not going to accept Medicaid over VA, Dr. Petzel, I will tell you that right now. I mean, I have been taking care of patients for 30 years and, believe me, if you have a choice between the VA and Medicaid, they are going to go with the VA every time, so that is like a really, you know, ridiculous assumption. And if you are thinking that you are going to get by with only 66,000 increase, you are vastly mistaken. There are going to be a lot more people and then I don't see any plans, from what you guys are telling me, to being able to accept a million more people.

This is really concerning, this whole assumption of 66,000 increase is to me, is a real disaster in the making, so I guess I'm out of time. Or am I? Do I have a little more time? I guess I do.

I just think these assumptions you made like this are really incorrect and I guess I don't know how you came across those assumptions. Do you have any idea?

Dr. PETZEL. Well, I absolutely do, and I would disagree with you, Congressman, that the assumptions are ridiculous. We very carefully have looked at this and we have particularly looked at the behavior of the individuals that might be eligible to move back and forth, and we think that the prediction of about 66,000 people is a good, is a good prediction.

Mr. BENISHEK. Well, I can tell you as a physician for 30 years, and I have a patient, he would much rather be in the VA than be on Medicaid and if they were eligible for the VA, they would join the VA, period, no doubt about it, no matter how far they got to travel because getting care through Medicaid is much more problematic than getting it through the VA, as difficult as the VA could be. But I will tell you that, you know, that is an assumption that is absolutely wrong in my experience. My time.

The CHAIRMAN. Dr. Petzel, what happens if the scenario that Dr. Benishek refers to occurs and all of the sudden you do have a flood of individuals that come into the VA system? I mean, how do you handle that when you are already overburdened?

Dr. PETZEL. Mr. Chairman, we will assess this on a very close and regular basis. Again, we have to plan for what we think is the most likely possibility. You would not want us coming here and saying there are going to be a million new patients and we need X amount of money to do this.

This is our best estimate based on a tremendous amount of work as to what the influx will be, and we will monitor this very closely. And if it proves not to be the case?

Dr. PETZEL. Then we will have to look at——

The CHAIRMAN. Can you handle a twofold increase in your estimation? Could VA handle 136,000 new patients?

Dr. PETZEL. Yes.

The CHAIRMAN. That is not a wild assumption. A million may be but a doubling of the number——

Dr. PETZEL. I would want to go back and look and do some calculations before I answered that definitively.

The CHAIRMAN. Mr. O'Rourke.

Mr. O'ROURKE. Thank you, Mr. Chairman.

If the number is close to 60, 120,000 or a million, how will these new enrollees impact the other programs within the VA system—job placement services, educational assistance, housing assistance? How are those going to be impacted and, also, how will you communicate the availability of those programs to the new enrollees?

Dr. PETZEL. Well, we would want to, Congressman—well, first of all, we would want to make them aware of those programs just like we would with every other new enrollee in the system. I can't speak specifically about the impact on those Veterans Benefits Administration programs and the effect that these new people coming in might have because I would need to talk with them about what the uptake is of the people that come into the medical system primarily and then are referred to VBA. I would be delighted to take that for the record.

Mr. O'ROURKE. Yeah, that would be a good one for us to work with your office on and just make sure that we understand the impact systemwide for all these enrollees, whatever the number is and to ensure that there is a plan to effectively communicate these other programs to them, so I appreciate that.

Mr. Chairman, I yield back.

The CHAIRMAN. Mr. Bilirakis.

Mr. BILIRAKIS. Thank you, Mr. Chairman. I appreciate it.

Again, on the 66,000, the prediction, Dr. Petzel, describe the benefits of enrolling in the VA as opposed to an exchange because a lot of these veterans are already eligible. Give me an explanation as to why they would want to enroll in the VA as opposed to taking an exchange.

Dr. PETZEL. Thank you, Congressman Bilirakis. It is going to depend upon the individual veteran's circumstances, so let us take an example. Let us take an example of somebody who is a Priority 8 veteran, is eligible to enroll in the VA, that individual is going to have copays and other things within the VA system, and that would, the amount of that would have to be weighed against what the plan that he was enrolled or she was enrolled in at the exchange offered.

It is a veteran-by-veteran decision. And you would then have to also take into account accessibility, availability at services, et cetera.

It is very hard to predict any given individual—I can tell you, I think, what I will question that the service- connected individual who basically would have no copays and no expense for VA health care would very unlikely to be enrolling in a program in the exchange because there is just so much more value associated with

that VA health care. But other individuals, it would be a veteran-by-veteran decision.

Mr. BILIRAKIS. How did you come to this conclusion? I think it will be more than 66,000 as well. But how did you come to that conclusion, that net increase? How did you base that? How did you base it on—in other words, the quality of health care in the VA? Give me a little, elaborate a little bit on that.

Dr. PETZEL. Congressman, I will. Obviously, we couldn't interview or talk to each one of those million veterans that we think might be coming to us or not coming to us. We looked at the national survey of veterans which gives us information about what veterans do and what their choices might be, the survey of enrolled veterans which gives us good information about the experience of the people that are already with us and you can match what they do and their choices against their income and a number of other demographics, and we looked at the American Community Survey, which is the census survey that has questions on it that relate to veterans, are the best information sources about what choices people might make that we have available to us.

I would ask just briefly if Ms. Vandenberg has anything to add to that because her office is the group that did that.

Ms. VANDENBERG. Just building on what Dr. Petzel just outlined, we have also engaged with our consulting actuary, Milliman, who is assisting us in understanding veteran behavior relative to the public at large. They are doing a lot of work for other clients who are assessing the implications of the Affordable Care Act and so we have drawn on some of their insights regarding what causes a consumer to make choices regarding coverage, costs, et cetera, so those are the resources that we have employed.

Mr. BILIRAKIS. Thank you. I have one last question.

Dr. Petzel, in your testimony you outlined three areas to help enhance the veterans' experience with the VA, including—I know you touched on this a little bit, but including providing each enrolled veteran with a personalized health benefits handbook, explaining costs and hours of operation and streamlining the VA enrollment application form and process.

We are now less than a year away from a full implementation of the ACA. We are in the process of the VA for each of the three enhancements mentioned in your testimony. When will they have access to them?

Dr. PETZEL. Thank you, Congressman Bilirakis. The benefits handbook is done and out. The streamlining the enrollment, I think, is in process and probably is close to being done.

I think the most important part about this, though, is the information outreach effort which we plan on rolling out in May and June in concert with Health and Human Services rollout about, their information about ACA, the Accountable Care Act in general.

And maybe if we could just take 30 seconds, then, and go through the educational and outreach documents that are about to be going out.

Ms. HARBIN. Certainly. With our enrolled veterans in addition to that tailored veterans handbook that we just spoke about, we are rolling out——

Mr. BILIRAKIS. Excuse me. The veteran will have access to the handbook.

Ms. HARBIN. The handbook has already been——

Mr. BILIRAKIS. It is already done, but when will the veteran have access?

Dr. PETZEL. They have got it.

Ms. HARBIN. That is correct. We are wrapping that up. We had almost 8 million handbooks.

Mr. BILIRAKIS. Okay.

Ms. HARBIN. We will continue mailing out new books to new enrollees as they come on board.

In addition to that, we will be mailing out that one-time letter to all of our existing enrollees reminding them of their health care benefits with VA, as well as any information about the tax credits and things that they may need to do.

We are also embarking on making changes to our Web sites. That includes VA.gov, My Healthy Vet, and the benefits portals.

We have social media that is being developed, Twitter, Facebook, as well as our customer support, our call center.

We have trained agents that are ready to address veteran and beneficiary inquiries, and we have printed materials that are being developed. Those include things like posters and brochures and fact sheets. Those will be ready for dissemination at our points of service that includes both our VBA regional offices, as well as the VA medical centers and our CBOCs, and that material will be available to be downloaded from the Web.

Mr. BILIRAKIS. Very good. What about the non-enrollees. You talked about the veterans that you are sending out a one-time letter to all those that are enrolled. What about those that aren't enrolled?

Ms. HARBIN. Thank you, Chairman. That is an excellent question. We are also preparing to communicate with them regarding VA's health benefit plan. We have information about the care that we offer, as well as guiding them through the enrollment process.

We are doing some Web site changes, including a new online tool that will help veterans make decisions about VA health care and inform them, as well as guide them through that enrollment application.

We are doing some social media as well, public service announcements, and again our call center is available and will be posted so that veterans have a single place to go to get answers to their questions.

Mr. BILIRAKIS. Thank you, Mr. Chairman. I yield back.

The CHAIRMAN. You have got a big task in front of you and I get that, but I'm very, very concerned about the ability to provide the information to the veteran. Are you in this booklet talking about the fact that you can no longer be dual enrolled? I mean, obviously you can be if you want to pay, the extra premium, but there have been a lot of veterans out there that have enjoyed dual enrollment and I envision a veteran being in the system and going over here and having health care over here or disenrolling from VA and VA either appropriately or inappropriately notifying IRS and all of the sudden the veteran gets hammered because the veteran just doesn't know, and they get penalized because they have been ac-

customed to this system, for so long and all of the sudden we are changing the system.

Dr. PETZEL. Mr. Chairman, if I just could comment on that. First of all, the benefits books does not have anything in it about ACA. That is a book that just describes the benefits that they are eligible for.

The CHAIRMAN. This is a huge change in the system and you don't have anything in there about the ACA. You based your whole model on behavior of the veteran population. This is going to change that behavior drastically, and that is why Dr. Benishek was asking the question, how could you have confidence in the models that you are using when they have all been based on past participation that is going to be upvented on the 31st of this year.

Dr. PETZEL. The benefits books is intended, Mr. Chairman, to—and started being rolled out more than a year ago, to make people very cognizant of what they are eligible for in VA. The material that is going to be rolled out in May and June to all of our enrollees is going to very explicitly explain to them what their choices are and what is available and then provide them access to interactive Web sites and to call centers where they can get their specific questions answered.

We think we are going to be able to provide our enrollees with a lot of very specific information and help them evaluate the choices they are going to make. The veterans that aren't engaged with us will have to be reached through public service announcements that lead them to our Web sites, lead them to the other material that we have.

The CHAIRMAN. Dr. Petzel, I guarantee you every Member sitting at this dais, and all 435 House Members know how to reach the veterans in their community better than a public service announcement. We can put a letter in their mailbox. We can call them on the telephone, 30,000 veterans a night, if we need to in order to do that. VA needs to come up into the 21st Century and stop using public service announcements.

I am very fearful that you—the entire health care system is changing and you are telling the veterans what their benefits are, but you are not really telling them how their relationship is changing because of the Affordable Care Act.

Dr. PETZEL. That is what the material that we are going to be rolling out, Mr. Chairman, is intended to do. And I want to take you up on your offer. One of the things that we need is your help in educating and your constituents about what is happening, about what is going on and we will provide it in any form that you would like or you need, whatever kind of materials that you would like to have because we are going to—we depend on you.

Veterans talk to you. They talk to all the representatives. They talk to their service organization people to spread the word in those kinds of forums about what is available and what is happening. I think I very much appreciate that offer.

Mr. BILIRAKIS. The word that I am going to spread is going to be much different than the word that you are going to spread because I am going to tell them about the difference that they are about to run into at the end of the year and, you know, I believe that you do provide quality health care and some of the best in the

world within the VA system, but I see a disincentive for the veteran coming up at the end of the year, particularly the rural veteran and what they are going to have to go through. I can see the IRS coming in, penalizing the veteran for making a very simple mistake because they have been accustomed to doing something for a number of years. VA is obviously not interested in helping them cross that bridge that was created by the government, but you know, we would be more than willing to help in any way that we can to help the veteran population get through this huge change within the system.

Mr. Amodei, do you have any questions?

Mr. AMODEI. Thank you, Mr. Chairman.

I think I understand what you are saying about those folks that are enrolled. What is the general number of people who are not enrolled in your system at this point in time?

Dr. PETZEL. There are probably 8 million veterans that are not enrolled that would be eligible. Let me direct this question, are they eligible, that would be eligible for us.

We focused on the uninsured as being the people that are going to be confronted with choices about what they do because they are going to have to have minimum essential coverage and they are going to look to turn someplace to get that minimal essential coverage. And so the question that I think that affects us the most is what are those people going to do? How much of them are going to seek VA care as their minimal essential coverage.

Mr. AMODEI. Doctor, when you refer to those people, are you talking about the uninsured in that group?

Dr. PETZEL. I am talking about the one million uninsured that are eligible for VA care, correct.

Mr. AMODEI. How would you describe your demographic knowledge of those folks who are insured through somebody else who are eligible for VA membership in the context of the coming ACA? And I will tell you why I ask the question, because I think that is a 7 million potential pool who is—and I understand what you said about case by case and is there an exchange, is there not?

But that is something when health care turns upside—excuse me—health care matriculates into the ACA tie that has potential, huge impacts on who your clients are going to be.

And so I am asking the question because if your assumption is that those 7 million are going to kind of stay in other programs, I hope you are really good at that because it is the only group that I have heard of that is like, we don't care how that is going, we will stick with what we are doing.

I think people are going to be shopping big time and if you are one of the options, that influx issue concerns me.

Dr. PETZEL. We have, Congressman, the biggest piece of information we have about that group of people is a survey that is done by the Census Bureau and our survey of enrolled veterans and trying to extrapolate what those enrolled veterans say to that unenrolled population and the Committee had some details, but this is our vast rendering of all of that data in terms of what people will do that—I will let you continue.

Mr. AMODEI. And before you do, let me just say this. This is no disrespect to you, but the "what is going to happen" is a daily

changing thing based on regulations from multiple sources ahead of schedule, behind the schedule, money for this, money for that, so I am not attempting to blame the VA, but I don't know how you are going to predict what is going to happen to that group when quite frankly many people within a few blocks of where we are sitting now, with all due respect on both sides of the fence are not sure what is going to happen.

Ms. VANDENBERG. Thank you for the opportunity to respond to your observation. Let me just say on a personal note I have characterized these changes and, Chairman Miller, I would agree with what you said earlier as probably the most profound waive of change that we are going to see in America in health care since in the advent of Medicare and Medicaid, and I am old enough to remember I was in nursing school and those pieces of legislation were enacted, so I have been a student of this evolving phenomenon and this is a C-change beyond anything that we have seen.

That said, when we do our survey of enrollees annually, we observe that in their self reporting, 77 percent of our currently enrolled veterans have at least one other form of health care coverage and so have gleaned certain insight from that insofar as to meet the requirement for minimal essential coverage. An individual only has to have one form of coverage.

So to your question about those currently non-enrolled potentially eligible individuals, we believe that a certain portion of that population already has other forms of coverage. Yes, they are eligible, but if they already have another form of coverage, we also look at segmenting our overall enrolled population between those who are under 65 and those who are over 65, and more than half of our population is over 65. They are enrolled, for the most part, in Medicare, and so that will suffice as their minimal essential coverage as well.

I couldn't agree more that this is extraordinarily complex, that our tools to assess the impact are not perfect, but we have tried to take, as Dr. Petzel has said several times now, the insight from the American Community Survey, our prior veteran surveys that encompasses individuals who are not currently enrolled, our survey of enrollees, and work through that with our actuary to estimate, and this is our estimate.

The CHAIRMAN. Did you ask on your surveys how many veterans would leave the system and take the additional dollars of tax credit? Was that a question that was asked over the last year?

Ms. VANDENBERG. We have added a question to the survey of enrollees going forward.

The CHAIRMAN. You did not have it over the last year?

Ms. VANDENBERG. No, sir, we did not.

The CHAIRMAN. Why do you think that was?

Ms. VANDENBERG. Because at the time that we were fielding that survey and getting our clearance to deploy that survey, the particulars of the impact of the Affordable Care Act in relationship to veterans enrollment, vis-a-vis what we have discussed this morning with the Department of Treasury, we are not completely confirmed. And so it would have been a speculative question.

Mr. CHAIRMAN. When did they get confirmed? This morning?

Ms. VANDENBERG. No, sir. We have been working with the Department of Treasury for a year now.

Mr. CHAIRMAN. Because Dr. Petzel says it is very difficult to be able to ascertain from the veteran population who would stay in the VA and who would go out into the exchange or take the tax credit. No, it wouldn't. Just ask the question of those that are enrolled, "What would you do?"

Dr. PETZEL. Mr. Chairman, the problem is that they would have to understand all of the options. You are not going to be able to do that on the survey. The best information is going to be garnered after the roll out of the information about ACA in May and June and after we have rolled out our information.

Mr. CHAIRMAN. Do you know who you sound like?

Dr. PETZEL. No.

Mr. CHAIRMAN. Speaker Pelosi made a comment very similar to what you are saying. She said we have to pass the ACA before we know what is in it. Now you are telling me that you got to roll it out before people know what is in it.

Who is going to help them? Are you going to help them understand it? Because what you have said so far is you are just going to tell them about all the good things that VA does, but you are not going to help the veteran. Who is going to help them make that decision?

Dr. PETZEL. Oh, no, that is not what I said, Mr. Chairman. We are going to explain to them what their options are under ACA. We are going to lead them through, hopefully, a decision process. We are not just going to tell them what is available. There will be information available about what the ObamaCare Act is offering, but you get a benefits book.

The benefits book is a different phenomena. The benefits books, sir, was to describe to them, going back a year and a half, actually started two years ago, what their benefits were, so there was a clear delineation.

Mr. CHAIRMAN. I am sorry. I thought it was something that was done in response——

Dr. PETZEL. No.

Mr. CHAIRMAN. —to the ACA. I apologize. That was a misunderstanding on my part.

Mr. Michaud.

Mr. MICHAUD. Thank you. And I could understand the dilemma you are in as far as trying to get the information to the veterans so they can make their decisions. And I know what you are saying, Dr. Petzel, as far as you wouldn't be able to do it later on because there are some states that don't know what their exchange is going to look like and it is problematic because the system is not in place, so it is going to be more difficult, particularly for those states that are falling behind.

But my question actually does deal with information in making sure the veterans have as much information as possible to make the right decision, so here is an example. You have a veteran that lives in the state that, in the far corner of a state, that is surrounded by, or three other states border that state. So that veteran goes into the VA to want to know what is the benefit for them. Can they enroll in the VA or would the enrolling in ACA be better?

Since they live in a corner where you have four states that might have a different plan, how are you going to help that veteran understand which might be better for them because that would mean the VA employee would have to be very familiar with four different plans, depending on where that veteran goes? I am not sure in those particular cases whether if it is on a border state, whether a veteran would have to go to one state or the other state for their health care, which means that the employee would have to realize four different states.

Ms. ZARLENGA. Congressman, I just wanted to clarify that as far as the exchange goes, I believe that an individual is eligible to, you know, purchase a plan on the exchange in their rating area or in their state, so I don't think they can shop around.

Mr. MICHAUD. No, my question, a veteran goes to VA, says I am not enrolled in the VA, I am thinking about enrolling in the VA, what is the best option? And that veteran might have, depending on where they live in that particular state, their VA facility might be in any one of those four states. I am not sure of the example, so how are you going to be able to give that veteran the best information that you can because that VA employee, in order to give that advice, they would have to know what the four states' plan is, plus the VA program.

Dr. PETZEL. In those circumstances we would have to have the information available as you point, Congressman Michaud. And one of the best ways to do that, probably is to have this organized around the networks where we know that then would cover the various states. But you are right, there are places in New England, particularly where there would be a variety of different options and we need to make sure that there is information available about all of it.

Mr. MICHAUD. Yeah, because it will make a big difference to that veteran because it would be confusing enough, then, for the VA employee, having to know VA, plus if they are going to advise them, what might be the best plan. They will have four states or more, depending on where they are located that potentially would have to do.

My second question is, what is Health and Human Services doing to educate someone that is talking to them about, for instance, you could have a veteran that doesn't plan on going to the VA system, doesn't know what their benefits are, but they actually might go to the state to look at the exchanges? Is Health and Human Service providing the information about VA health care as well, and how are they providing that information to the veteran that might just go to them instead of the VA?

Dr. PETZEL. Ms. Vandenberg.

Ms. VANDENBERG. We have been working closely with Health and Human Services and at this point they are amenable to including certain information on their Web site. They will not include the VA on the marketplace because technically we are not an insurance product that can be listed in the insurance marketplace for the general public to evaluate. So we have had a good working relationship with HHS.

We are also in close coordination with them regarding their communication rollout. They have begun a series of regional meetings

and we have active engagement with them in the HHS regions with our network VISN points of contact participating in those conversations out in the field so that we can assure synchronization of their message going out with our message to veterans.

Mr. MICHAUD. I am not sure if they are doing questionnaire-type questions when people apply for ACA. Could they have a couple of questions on their, number one, have you served in the armed forces and, number two, if so, are you receiving health care benefits today from the VA?

Ms. VANDENBERG. We continue to be in dialogue with them about the inclusion of that type of a question so that we have a flag that we can pick up early in the process.

Mr. MICHAUD. And where are they on their decision because if they are cooperating with HHS, then those two questions, will be very important to find out whether or not a veteran might be eligible for VA health care but doesn't know it.

Ms. VANDENBERG. I think that decision is pending at HHS.

Mr. MICHAUD. Hopefully it is common sense. My last question is about the IRS, to follow up on the Chairman's concern. Since this is new and as we move forward with implementation, it probably might be a little rough start getting going and you could have a veteran that does make a mistake or VA makes a mistake that could trigger a penalty that the veteran would have to pay. So how lenient will the IRS be as far as where someone might be penalized because of the letter of the law, but because of a mistake that caused them to do that. How hard are you coming down on people who might unintentionally be in noncompliance?

Ms. VANDENBERG. Congressman, I think the penalty that you are talking about is the penalty for not—the individual responsibility payment for not having minimum essential coverage, and so I think you are probably referring to the veterans who have no coverage. They currently are not enrolled in, or have VA coverage or do not have any other coverage.

But my understanding of the way that the 5000A proposed regulations work is we have defined as minimum essential coverage, the comprehensive VA benefits, the CHAMPVA program and the Spina Bifida program. If the veteran is in any of those programs, they have minimum essential coverage and they will not be subject to a penalty, and I don't—is that limited to enrolled?

Dr. PETZEL. Yes.

Ms. VANDENBERG. It is limited to enrolled. Okay.

If they do not have that coverage and they do not enroll in another plan, then they would be subject to the individual responsibility payment. The statute sort of phases in that payment, so it starts off very low for the first year. I think the statute understood that people probably make mistakes, you know, the first couple of years and so the penalties are intended to reflect that. So they are low for the first couple of years and they phase out.

Mr. MICHAUD. But what if they are not identified correctly and they are penalized? Is there a mechanism to prevent that from happening, my first question? My second question, what if a veteran actually is in the VA, says I am covered, no problem, but his spouse might not be?

Ms. VANDENBERG. Right.

Mr. MICHAUD. So what about that situation?

Ms. VANDENBERG. Congressman, there will be a form that people fill out with their tax returns to say whether they and their dependents are covered by a health insurance plan. And so if a spouse is not covered, that would be reported, self reported, on the form. And then, you know, the penalty would be, you know, computed based on how many people in your coverage family do not actually have coverage.

Mr. MICHAUD. What if they don't file an income tax form?

Ms. VANDENBERG. There is an exception to the individual responsibility payment. If you have income below the filing threshold so that you do not have to file an income tax return, you are not liable for the penalty at all, and you don't have to file a return to tell the IRS that you are not liable for the penalty.

Mr. MICHAUD. So you still didn't answer the question. So if someone did make a mistake or whatever in filing the tax form, is an honest mistake, how lenient is the IRS going to be? Are you going to come down with a hammer on every case, or are you going to say, well, it is just getting implemented now and we are going to be flexible, and yes, people have made mistakes rightly or wrongly, but we are not going to be penalizing them right from the get-go.

Ms. VANDENBERG. You know, I think that by making mistakes, that means you didn't enroll in coverage at all, and, you know, I think that generally there are a number of—well, first you would look to whether you would have any exceptions. There are a number of exceptions in the individual responsibility payment, one of which is whether the coverage would be affordable based on your household income.

There are other exceptions for, you know, hardship, for religious convictions, for things like that. So you first go through the litany of exceptions to see if you are, in fact, subject to the penalty.

But if you report that you don't have coverage and that you weren't eligible for any of the exceptions, then for the first year of the penalty amount is very low in my understanding. I don't know exactly how the IRS would administer you. You know, I am happy to look into that to see how they would administer it if someone reports a penalty for the first year.

Mr. MICHAUD. Okay, thank you.

Mr. CHAIRMAN. Dr. Roe.

Mr. ROE. I thank the Chairman.

I have been a veteran for 38 years and a physician for 42½ years, and this is the most uncertain time in my career right now about how health care is going.

I talk to my colleagues, and I know Dr. Petzel mentioned that he was having problems in rural areas of finding physicians and there is no question that that is true and you are having to push care to lower and lower level providers.

We sat here for 2½ hours talking about this and these are knowledgeable people that I am around, smart, knowledgeable people, and I don't think we fully understand what you are talking about. How in the world is a booklet going to explain that to somebody out where I live and I did a townhall Monday night. I could have spent the whole townhall and everybody else would have

walked out scratching their head because I don't think anybody understands it. Private business doesn't understand it.

And from Mr. Michaud and the Chairman, both, I think they are incentives to get out the VA system and to get into the VA system. There are incentives that are pushing you both ways, depending on where you live, as Mr. Michaud pointed out.

If you live in an urban area, your incentives may be one thing and maybe another. And by the way, I want to ask a question that has just a little chuckle. Who thought up the individual responsibility payment? It is a tax. Who dreamed that little acronym up?

Ms. VANDENBERG. I think it is actually in the title of the provision.

Mr. ROE. I love all of these little things like that. Let us call it what it is and it is a tax if you don't buy it. My question is how in the world—and two questions. How long is the form you got to fill out to decide whether you have the coverage or not? Is it just one little checkbox or is it a multiple thing? Is it two pages, then pages to add it to your already overly complicated tax form?

And it is not your fault. The Congress wrote all this stuff. I am not fussing at you guys. You are just doing what we directed you to do. But is it that?

And then how in the world are you going to monitor—I think there are 130 million people working. I don't know how many tax—you probably know that better—that have jobs. At least 130 millions tax returns sent in each year. And how do you monitor that?

How do you have the capacity to know anything this complicated that every person—and then what happens, as Mr. Michaud said, if you just decide not to check the box, how long is it going to take you to chase me down? I just decided I am not going to tell you—or I check "yes" and I don't have insurance.

Ms. VANDENBERG. Well, Congressman, I haven't actually seen the form, but my understanding is the IRS has been working very diligently on all the information reporting forms and the forms that the individuals will fill out and they are keenly aware of trying to keep it simply and short. I don't think they are trying to add a number of questions at all. I mean, my understanding is that they are looking at sort of something as simple as a check box.

My understanding of the way that the IRS will actually implement——

Mr. ROE. Want to bet a steak dinner on that?

Ms. VANDENBERG. Like I said, I haven't seen the form yet, but the way that the IRS will actually administer all of this is there is sort of a series of information reportings, you know, the IRS will be receiving information returns from the exchanges from private health insurers and from employers to report what coverage they are providing for individuals and the IRS will have the ability to sort of cross check these information returns in order to determine who is covered and who is entitled to the premium tax credit.

Mr. ROE. Is Medicaid considered—you may not know this and, Dr. Petzel, you may not either, but is Medicaid considered an essential benefits—and by the way, have any of you all read what is in the essential benefits package? I have and it looks pretty comprehensive to me. It looked like as good as—I mean, does Medicaid

cover that? Is that an essential benefits package if you get Medicaid? And that varies from state to state, remember.

And what happens when the state doesn't expand Medicaid? Is the current Medicaid plan an essential benefits package? Because I can tell you what ours was fifteen years ago in Tennessee which we voted, the governor elected not to be, not to form a state exchange and, number two, not to expand Medicaid. And the Medicaid has been paired down and down and down because what it provides because of costs.

Dr. PETZEL. Doctor Roe, Medicaid is considered to be minimum essential coverage. The plans still may vary and the eligibility is the thing that I think people are talking about when they talk about expansion, any of those people eligible for Medicaid.

Mr. ROE. Let me stop you there because if you look at what we provide now in Tennessee, what we provided before twenty years ago was a platinum-plus plan. But right now, if private business could provide the Medicaid, their costs would be a lot lower. And what has happened is, there are two standards there, and when there is no question of this and just hearing what you have said, because Medicaid doesn't provide anything near what I provide in my own practice, and yet I think we probably just barely make the essential benefits package.

Ms. ZARLENGA. Congressman, my understanding of what the minimum central coverage has to cover is they have to cover, you know, they have to cover the categories of essential health benefits, but they don't need to cover every single benefit that is listed as an essential health benefit in order to qualify as minimal essential coverage.

Mr. ROE. Again, Mr. Chairman, Ranking Member, thank you for having this hearing today which didn't clear the smoke out the room maybe, but helped a little bit and I think we need to continue to do this because I definitely, Dr. Petzel, want to see the booklet go out and explain this to our veterans next month because we spent two hours and haven't explained it to me, yet.

So with that, I yield back.

Mr. CHAIRMAN. Thank you very much.

Mr. Michaud said he has no more questions. The questions that I have we can submit to you for the record.

I do want to go back, Dr. Petzel, to your testimony in your opening statement where you do talk about the proactive efforts that VA has taken, including assessing the potential impacts and opportunities presented by the Affordable Care Act. And then you come on down to about the sixth or seventh bullet that talks about assessing VA's enrollment business processes and identifying opportunities for enhancing veteran experience, including providing each enrolled veteran with a personalized health benefits handbook in order to make the veteran aware of their health care benefits.

So to me, I draw the conclusion that this new handbook is in relationship to the ACA. No need to make a comment. I am just saying that is where it came from.

One other question that I had. You mentioned Priority 8 veterans a few minutes ago. You haven't lifted the Priority 8 ban that is out there now. Those that are not currently enrolled cannot get into the VA system, correct?

Dr. PETZEL. That is correct. We have not changed that.

Mr. CHAIRMAN. Do you intend to change it?

Dr. PETZEL. No, there is no plan to change it.

Mr. CHAIRMAN. Okay. And also, for the record, in some pre-hearing materials, VA stated that the department used a contractor to assess the potential impacts of the ACA on the VA health care system. Is that correct?

Dr. PETZEL. Yes, we did have some brief services from a contractor.

Mr. CHAIRMAN. Would you provide the Committee a copy of that report?

Dr. PETZEL. We will.

Mr. CHAIRMAN. In a timely fashion?

Dr. PETZEL. Absolutely.

Mr. CHAIRMAN. Thank you very much. And with that, I want to say thank you very much to you for being here for over two hours now. We are very appreciative of that.

All Members will have five legislative days to revise and extend their remarks, add extraneous materials. Without objection, so approved. And with that, this hearing is adjourned.

[Whereupon, at 12:22 p.m., the Committee was adjourned.]

A P P E N D I X

Prepared Statement of Hon. Jeff Miller, Chairman

The Committee will come to order.

Good morning, and welcome to today's Full Committee hearing, "Examining The Implications Of The Affordable Care Act On The Department of Veterans Affairs (VA) Health Care."

As we all know, about three years ago, the Patient Protection and Affordable Care Act (A-C-A)—or, ObamaCare as it is commonly known – was signed into law.

Today's hearing will focus on just one aspect of the law that I believe has received distressingly little attention from the administration and the media to-date—its potential implications for the VA health care system and the many veterans it serves.

Despite informing this Committee last summer that the department was developing a proactive communications strategy to inform veteran stakeholders about the potential impacts of the A-C-A, VA's Web site devotes just two sentences to the law, stating that it, " .:.:. will not affect the current role [VA] has in the lives of America's veterans..."

But, as we all know, stating that the so-called "Affordable Care Act" will not affect the department, is not the same as saying it won't affect veterans.

Secretary Shinseki testified before this Committee earlier this month that, "the [Affordable Care Act] has important implications for VA."

VA's fiscal year (f–y) 2014 budget submission includes a request of eighty-eight point four million dollars to implement the provisions of the A-C-A and meet the department's responsibilities as a provider of minimum essential coverage.

Buried in volume two of VA's budget submission—lacking context, justification, or supporting data—is a single statement alleging that VA assumes that it will experience a net enrollment increase as a result of the law.

What that "net increase" may be, why VA believes it will occur, and what actions the department has taken to prepare for it are unknown.

Unfortunately, these are far from the only things we don't know. Less than a year from full implementation, we also don't know:

-How veterans may respond to the new care options available to them and how enrollment and utilization of VA health care benefits may be affected in turn;

-How increasing demand for health care services will affect competition for health care providers and, in turn, VA's health care workforce and recruitment and retention efforts, particularly for hard-to-fill positions like psychiatrists;

-Whether VA's current information technology systems are capable of fulfilling the law's data requirements, which include identifying individuals who are enrolled in the VA health care system and reporting their coverage status to the department of the treasury; or,

-If or whether the critical role of the VA health care system will change in the post-A-C-A national health care landscape.

Sadly, I could continue.

A report on uninsured veterans issued last month by the Robert Wood Johnson Foundation and the Urban Institute states that, "it remains to be seen the extent to which uninsured veterans would seek coverage through medicaid, the VA, or other options under A-C-A and whether and how this will vary across states."

Former VA Under Secretary for Health, Dr. Kenneth Kizer [ky–z-er], published an article last year, in which he stated, "the overall net effect of the A-C-A— on health care for veterans is uncertain at this time, although it will likely have a number of intended positive and unintended negative effects."

Where the health care of millions of veterans is concerned, unknowns of this magnitude this late in the game are unconscionable.

Nancy Pelosi famously remarked that we had to pass the A-C-A— before we could find out what is in it.

And now, according to VA, we have to implement it before we can find out what effect it may have on our veterans.

This house has voted more than thirty times to repeal and replace various elements of the A-C-A and I have been proud to support that effort every time.

It is no secret that I and many of my colleagues have been critical of the law from the start and remain even more critical of—and concerned by—it today.

Increasingly, we are not alone.

Just last week, Senator Max Baucus—one of the chief authors and primary advocates of the A-C-A—called implementation of the law a "train wreck."

The american public cannot afford a train wreck.

And, what's more, our veterans do not deserve one.

Thank you all for being here today.

Prepared Statement of Hon. Michael Michaud

Thank you, Mr. Chairman, for holding this timely hearing today.

While the Affordable Care Act, or ACA, does not change the VA health care system and is not targeted specifically at veterans, it includes provisions that could affect veterans and their families.

In light of the fast approaching deadlines contained within the ACA, it is important for this Committee to gage where the Department of Veterans Affairs is in the implementation process.

According to the Urban Institute there are approximately 13 million non-elderly veterans living in the United States. Of that population 1.3 million, or one in 10, are uninsured. This means there are 1.3 million veterans who will need to select some type of medical coverage within the next year.

How many of these 1.3 million veterans are eligible for VA health care? What is being done to encourage those eligible to come into the VA health system? How can we help those not eligible to understand their options and find insurance elsewhere?

I expect the Department to have an aggressive communications plan in place to inform veterans about the ACA, how it affects them, and what, if anything, they can or need to do to maximize their VA benefits, be compliant with ACA, and find good, quality health care.

It is imperative that conflicting messages do not get out there and confuse veterans. VA, at all levels, should be prepared to assist veterans in navigating what is sure to be a confusing process.

I understand that veterans may choose to receive part of their care through VA and part through another system such as employer health insurance programs, exchanges and/or Medicaid.

Dual eligibility is not new to veterans, but it has been my observation that VA struggles with minimizing fragmentation of care for those veterans who use more than one system.

Accurate accountability, coordination and engagement with external partners is essential in keeping track of where veterans receive their care, the quality of that care, and how it integrates for the health and well-being of the veteran.

There are many factors that will play a role in the choices that veterans will be asked to make in the coming months. I am also interested in understanding what these factors are.

Is it proximity to a VA medical facility? Is it cost? Or quality?

It is believed that females within a household make the majority of the family's health-related decisions. VA needs to look at its services for women veterans and address this important veteran population's needs.

We know from studies that individual health is highly dependent on family well-being. When you include family members of veterans, the number of uninsured rises to 2.3 million.

The Department's fiscal year 2014 budget request includes $85 million for the care of the estimated 66,000 new veterans VA has identified who may choose VA for their health care under the ACA.

The 2014 budget also includes $3.4 million in the Information Technology budget to build the functionality needed to meet requirements in the ACA such as identifying individuals who are enrolled in VA health care programs that have been deemed as meeting the minimum essential health care coverage.

I look forward to hearing from VA on the methodology used to arrive at those numbers, and to understand how the trends and expenditures will be tracked to ensure there are adequate resources for VA to respond to changes based on ACA.

I believe that a smooth implementation can be achieved by 2014 if VA engages effectively with other Federal agencies.

With that Mr. Chairman, I yield back.

Prepared Statement of Hon. Jackie Walorski

Mr. Chairman and Ranking Member, it's an honor to serve on this Committee. I thank you for holding this hearing on such an important issue for our veterans.

The Patient Protection and Affordable Care Act (P.L. 111–148, PPACA) is a law shrouded in uncertainty. The complex implementation of PPACA raises questions that do not always have concrete answers.

For the 50,000 veterans back in Indiana's Second Congressional District [1], and the approximately 22,000,00 [2] veterans overall in this country, the PPACA could greatly impact how and where they receive their health care. These veterans will undoubtedly be forced to decide where they can access the best care that addresses their unique situation.

The Department of Veterans Affairs must be prepared to handle these changes. They must be vigilant as the PPACA is enacted and be responsive to veteran concerns. Most importantly, the VA must provide answers that ensure greater clarity and not further confusion.

I look forward to working with my colleagues and our panelists, today, to ensure the Department of Veterans Affairs is prepared for the impact the Patient Protection and Affordable Care Act will have on their health care system.

Thank you.

Prepared Statement of Robert A. Petzel, M.D.

Good morning, Chairman Miller, Ranking Member Michaud, and Members of the Committee. Thank you for the opportunity to discuss the Department of Veterans Affairs' (VA) implementation of the Affordable Care Act and the law's impact on VA's health care system and the Veterans we serve. I am accompanied today by Ms. Patricia Vandenberg, Assistant Deputy Under Secretary for Health for Policy and Planning, and Ms. Lynne Harbin, Deputy Chief Business Officer, Member Services, Chief Business Office, both from the Veterans Health Administration (VHA).

The Affordable Care Act puts in place comprehensive reforms that improve access to affordable health coverage for everyone and protect consumers. The law allows all Americans to make health insurance choices that work for them while guaranteeing access to care for our most vulnerable, and provides new ways to bring down costs and improve quality of care. Since the Affordable Care Act's enactment, VA has been proactive in working to understand the law's impact on Veterans, other beneficiaries, and VA's health care system; and in preparing for implementation of the law. VA is preparing for Affordable Care Act implementation, with a focus on providing personalized, Veteran-centric health care. Our ongoing efforts include, for example, developing data tools, coordinating directly with other Federal agencies, including the Internal Revenue Service (IRS) and the Department of Health and Human Services (HHS).

VA is committed to providing Veterans and other eligible beneficiaries timely access to high-quality health services. VA's health care mission covers the continuum of care providing inpatient and outpatient services, including pharmacy, prosthetics, mental health, long-term care in both institutional and non-institutional settings, and readjustment counseling. VA currently provides health care to nearly 9 million enrolled Veterans and other beneficiaries, primarily dependents and survivors. Enrollment in VA health care programs meets the Affordable Care Act requirement to maintain minimum essential coverage. This means that Veterans enrolled in VA health care and beneficiaries enrolled in the Civilian Health and Medical Program of the Department of Veterans Affairs (CHAMPVA) and Spina Bifida program do not need to obtain additional coverage as a result of Affordable Care Act.

VA welcomes new enrollees for health care on a daily basis. Veterans currently enrolled in the VA health care system and current beneficiaries enrolled in VA's CHAMPVA or Spina Bifida program will experience no change in their VA-administered health care programs, services, or benefits. VA will continue to provide high quality, comprehensive health care.

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[1] There are an estimated 53,318 veterans in IN–02. This data was compiled on 09/30/2012, based on the district lines from the 112th Congress. http://www.va.gov/vetdata/Veteran—Population.asp.

[2] There are an estimated 22,700,000 veterans in the United States. Department of Veterans Affairs, Office of the Actuary, Veteran Population Projections Model (VetPop), 2007, Table 5L. http://www.va.gov/vetdata/docs/quickfacts/Population-slideshow.pdf.

VA remains proactive in ensuring it is prepared to meet the Affordable Care Act requirements. One of VA's initial steps to plan a successful implementation and fulfill the requirements of the Affordable Care Act was to form an internal workgroup prior to the Affordable Care Act's enactment. This workgroup reviewed the drafts of the Affordable Care Act legislation to examine the potential impact to Veterans. Once the Affordable Care Act was enacted, VA has continued to monitor the national landscape to understand the impact that state decisions on Medicaid and Health Insurance Marketplaces may have on Veterans.

The remainder of my statement will highlight the most significant provisions to Veterans and VA and present the current steps VA is taking to ensure the effective implementation of the Affordable Care Act. It will describe the effect of the Affordable Care Act on Veterans and other VA health care recipients, anticipated outcomes of the law, and VA's response to the modest but expected net increase in enrollment.

I. Affordable Care Act Background and its Key Provisions to VA

Certain Affordable Care Act provisions began taking effect in 2010 soon after the law was enacted, and most elements of the Affordable Care Act are expected to be implemented by January 1, 2014. Under the Affordable Care Act, the Federal government, State governments, insurers, employers, and individuals are given shared responsibility to reform and improve the availability, quality, and affordability of health insurance coverage in the United States. Starting in 2014, the individual shared responsibility provision calls for each individual to have minimum essential health coverage (known as minimum essential coverage) for each month, qualify for an exemption, or make a payment when filing his or her federal income tax return. Under the law, VA coverage meets the definition of minimum essential coverage.

Under the Affordable Care Act States have the option to expand their Medicaid programs but are not required to do so. VA continues to monitor state decisions to determine the impact on VA beneficiaries in those locations.

Other Affordable Care Act provisions include the establishment of Health Insurance Marketplaces (also referred to as "Exchanges"), where individuals and small businesses can easily compare policies and premiums and shop for coverage. Certain individuals, based on their income, may be eligible for tax credits to defray the cost of health insurance premiums. VA is committed to increasing awareness among eligible Veterans of VA health care benefits, an excellent health care option that meets the Affordable Care Act definition of minimum essential coverage.

II. Current VHA Preparation, Coordination, and Implementation Efforts

VHA has proactively prepared for health reform by examining the key provisions of the law, identifying the implications for Veterans and VA, and conducting analyses to estimate the potential impact of the law on VA enrollment, demand for services, workforce, and costs. Additionally, VA is taking steps to ensure a coordinated and collaborative approach to Affordable Care Act implementation. VA estimates that there are approximately 1.3 million uninsured Veterans who may be eligible for, but not enrolled in, VA health care.[1] While these Veterans will be a major focus of education and outreach efforts, VA will ensure all Veterans can quickly access accurate and understandable information on the Affordable Care Act's provisions and the impact on VA health care.

VHA implementation efforts fall into four broad categories: (1) data analysis; (2) communications; (3) operations; and (4) information technology. The VHA Office of the Assistant Deputy Under Secretary for Health for Policy and Planning, in collaboration with the Chief Business Office, is coordinating health reform efforts within VHA. Proactive efforts to date include the following:

- Assessing the potential impacts and opportunities presented by the Affordable Care Act;
- Monitoring the national health reform landscape;
- Developing plans and materials for outreach to Veterans;
- Identifying, initiating, and testing information system changes needed to support the Affordable Care Act;
- Assessing VA's enrollment business processes and identifying opportunities for enhancing the Veteran experience, including:
  - Providing each enrolled Veteran with a personalized Health Benefits Handbook in order to make Veterans of their health care benefits and enable them to compare those benefits to other health care options. Each enrolled Veteran is able

[1] VA analysis of the U.S. Census Bureau 2011 American Community Survey Public Use File (50 States and DC).

to read information specific to his or her health care benefits – priority group, co-pay amount, servicing VA medical facility and more – providing a personal link between the Veteran and VA;
- Expanding call center hours of operations to respond to Veteran inquiries concerning VA health care benefits and the Affordable Care Act; and
- Streamlining the VA enrollment application form and process.

- Engaging with other Federal agencies including IRS and HHS to identify areas for collaboration and to ensure that VA is in compliance with Affordable Care Act requirements.

To oversee VA's efforts, and to ensure a comprehensive and coordinated approach to implementation, the Under Secretary for Health established a VHA Health Reform Integrated Project Team (IPT). The purpose of IPT is to examine strategic and operational issues that affect Veterans and VA as a result of the Affordable Care Act, steer the implementation of Affordable-Care-Act-related activities, and provide a mechanism for information exchange. It is comprised of representatives from across the Department, to include VHA, Veterans Benefits Administration (VBA), and Office of the Secretary.

III. Continued Delivery of High Quality, Comprehensive Health Care

VA will continue to provide eligible Veterans with high quality, comprehensive health care they have earned through their service. Additionally, the law provides that VA health care coverage meets the definition of minimum essential coverage under the Affordable Care Act. This means that Veterans who are enrolled in VA health care programs, along with beneficiaries in the CHAMPVA and Spina Bifida program, do not need to take any additional steps to comply with the individual responsibility requirement outlined in the Affordable Care Act.

When key components of the Affordable Care Act are implemented on January 1, 2014, they will provide some Veterans, who are not currently eligible for VA health coverage, with new options for health care through other programs. Some veterans may become eligible for Medicaid, while others may become eligible for a tax credit to purchase health coverage through the Health Insurance Marketplace. These changes give VA the opportunity to communicate with Veterans and other stakeholders. VA's robust medical benefits package provides the full continuum of health care services for enrolled beneficiaries and there are no enrollment premiums or deductibles.

VA continues to be a leader on Veterans health issues with a commitment to ensuring the highest quality health care possible for our Nation's Veterans. VA anticipates a modest net increase in enrollment as a result of the Affordable Care Act. The net increase will result from eligible non-enrolled Veterans enrolling in VA health care. The VA medical care budget for fiscal year (FY) 2014 seeks $85 million to ensure VA is prepared to respond to additional Veteran enrollment and utilization of health care services. In addition, the FY 2014 VA Information Technology budget includes $3.4 million to build out technology functionality related to the Affordable Care Act.

Conclusion

Mr. Chairman, our work to effectively implement the provisions of the Affordable Care Act continues. We remain focused on providing Veterans and other eligible beneficiaries timely access to high-quality health care services. We appreciate your support and encouragement in identifying and resolving challenges as we find new ways to care for Veterans. VA is committed to providing the highest quality of care, which our Veterans have earned and deserve. We appreciate the opportunity to appear before you today. My colleagues and I are prepared to respond to any questions you may have.

Prepared Statement of Lisa Zarlenga

Tax Legislative Counsel, U.S. Department of the Treasury
Before the House Committee on Veterans Affairs
April 24, 2013

Good morning, Chairman Miller, Ranking Member Michaud, and Members of the Committee. I am pleased to appear before you today to discuss the Treasury Department's implementation of the Affordable Care Act as it relates to health care provided to our Nation's veterans, including coverage through the Department of Veterans Affairs (VA). I am accompanied today by Mr. Jason Levitis, Senior Advisor to the Assistant Secretary for Tax Policy.

Background

There is no higher priority than giving veterans the honor and benefits they have earned through their service and sacrifice for our Nation. We appreciate this Committee's commitment to veterans and look forward to working with you to ensure that their needs are met.

The Treasury Department's work to implement the Affordable Care Act has been guided by this principle of serving our veterans. We have worked in close collaboration with the VA to help us understand the needs of veterans and VA health programs. Our goal has been to ensure that the tax provisions of the Affordable Care Act protect the health care veterans have today while also giving them access to additional options.

Veterans Eligibility for Premium Tax Credits

The Affordable Care Act provides for the establishment of Affordable Insurance Marketplaces (also known as Exchanges), which will open on October 1, 2013, to help individuals compare health plans and enroll in the one that is best for them. The Affordable Care Act created a refundable premium tax credit to help make coverage offered through a Marketplace affordable by reducing the out-of-pocket premium cost paid by individuals and families. A taxpayer may qualify for advance payments of the premium tax credit, which are paid directly to health insurance issuers and reduce a taxpayer's monthly premiums for health insurance.

The premium tax credit is generally not available to an individual who is eligible to enroll in other "minimum essential coverage," which generally includes coverage through government-sponsored programs and employer-sponsored plans.

In developing our regulations implementing the premium tax credit, we worked closely with the VA to ensure that the rules worked properly for our Nation's veterans. As part of this process, we determined that the general policy that denies the premium tax credit to individuals eligible for government-sponsored coverage could create problems for certain veterans and their families because eligibility for veterans' coverage cannot be firmly determined at the time an individual is seeking an eligibility determination at a Marketplace for advance payments of the premium tax credit.

After consulting with our colleagues at VA and considering this issue, we concluded that a specific rule was needed to ensure that veterans were not inappropriately denied the opportunity to receive a premium tax credit to lower the monthly premium of a health insurance plan purchased in a Marketplace. Accordingly, our proposed regulations contained a rule that treats an individual as eligible for VA coverage only if he or she is actually enrolled in the coverage. The general result of this rule is that a veteran who is eligible for VA coverage may choose between enrolling in VA coverage or enrolling in coverage through a Marketplace and if eligible, receiving a tax credit that reduces the monthly premium of a health insurance plan purchase in a Marketplace. Our final regulations retain this general rule. In addition, to avoid excluding individuals who are eligible for VA medical benefits but who are not veterans, we amended the rule to apply to non-veteran individuals (such as dependents) who may receive VA medical benefits under certain programs. Thus, the special eligibility rule applies not just to veterans but to individuals who are eligible for benefits under the Civilian Health and Medical Program of the Department of Veterans Affairs (CHAMPVA) or the VA's Spina Bifida Health Care program.

VA health coverage and the individual coverage requirement

Beginning in 2014, the Affordable Care Act generally directs non-exempt individuals to maintain minimum essential coverage for themselves and their dependents or make an individual responsibility payment on their federal income tax return.

Section 5000A of the Internal Revenue Code, added by the Affordable Care Act, defines minimum essential coverage to include coverage under specified government-sponsored programs, coverage under an eligible employer-sponsored plan, and coverage under a health plan offered in a Marketplace. The statute requires the Secretary of Veterans Affairs, in coordination with the Secretary of Health and Human Services and the Secretary of the Treasury, to determine which VA health care programs should be considered minimum essential coverage for purposes of the Affordable Care Act. In implementing our proposed regulations under section 5000A, we worked closely with the VA to identify those VA health care programs that provide comprehensive medical benefits. Based upon the recommendations of our VA colleagues, our proposed regulations specify that the comprehensive medical benefits package authorized for eligible veterans, the CHAMPVA program, and the comprehensive health care program for certain children suffering from spina bifida are each treated as minimum essential coverage for purposes of the individual coverage

requirement. Thus, under the proposed regulations, veterans and other VA beneficiaries who are enrolled in these VA health care programs will satisfy the individual coverage provision of the Affordable Care Act. We will continue to consult with our VA colleagues as we prepare to issue final regulations on this provision before the end of the year.

Conclusion

Ensuring implementation of the Affordable Care Act in a manner that understands and is responsive to the needs of our Nation's veterans is a top priority of the Department of the Treasury. I have outlined above some of the issues we addressed in recent guidance regarding the Affordable Care Act provisions within Treasury's jurisdiction. As we move forward with implementation, we look forward to working with the VA as well as with this Committee to ensure that the Affordable Care Act works as well as possible for the veterans and their families who have given so much to our country. My colleague, Mr. Levitis, and I would be happy to answer any questions you might have.

Questions For The Record

Letter and Questions From: Hon. Jeff Miller, Chairman, To: VA

June 24, 2013

The Honorable Robert A. Petzel, M.D.
Under Secretary for Health
U.S. Department of Veterans Affairs
810 Vermont Avenue, NW
Washington, DC 20420

Dear Dr. Petzel:

On Wednesday, April 24, 2013, you testified before the Committee during an oversight hearing entitled, "Examining the Implications of the Affordable Care Act on the Department of Veterans Affairs Health Care."As a follow-up to the hearing, I request that you respond to the attached questions and provide the requested materials in-full by no later than close of business on Monday, July 21, 2013.

If you have any questions, please contact Dolores Dunn, Staff Director for the Subcommittee on Health, at *Dolores.Dunn@mail.house.gov* or by calling (202) 225–9154.

Your timely response to this matter and your commitment to our nation's veterans are both very much appreciated.

With warm personal regards,

Sincerely,

JEFF MILLER
Chairman

CJM/dd/sg

Questions for the Record from the Honorable Jeff Miller, Chairman

1. In response to questioning during the hearing, Ms. Vandenberg stated that, ". . .we have estimated the potential out migration due to the availability of the tax credit ...[however] . ..there is no way for us to gauge in absolute terms what the ultimate determinant will be in that veteran 's choice so we have to make a certain set of assumptions." Ms. Vandeberg further stated that VA has used, "... several simulation tools that help us to understand what drives an individual 's choice in selecting insurance products."

- Please provide the estimated number of veterans expected to "migrate" out of the VA health care system as a result of the ACA and the assumptions VA used to arrive at that estimated numbers and why.
- Please describe the simulation tools that Ms. Vandenberg referenced.

2. Former VA Under Secretary for Health, Dr. Kenneth Kizer, published an article in the Journal of the American Medical Association last year regarding the potential effect of the Affordable Care Act on health care for veterans. In that article, he suggested VA take three steps to better define and quantify the potential effects of the law for our veterans. Those three steps are: (1) conduct a comprehensive eval-

uation of the effects of multiple health plan eligibility on access to and quality of care for VA enrollees; (2) conduct a systematic assessment of current and projected VA health care workforce needs and service utilization vulnerabilities and review options for addressing them; and (3) develop a shared vision of the VA health care syste1n post-ACA that considers the effects of increased health care insurance coverage on VA's role as a safety net provider, declining numbers of World War II and Vietnam War veterans, the increasing number of female veterans, and measures that may be taken to address federal budget problems.

- Please describe any and all actions the Department has taken regarding the three recommendations above, either in response to Dr. Kizer's article or otherwise.

3. A March 2013 policy brief by the Robert Wood Johnson Foundation and the Urban Institute states that, ". ..it will be important to asses the extent to which VA provider supply meets the demand for care and to implement efforts to reduce fragmentation of care among veterans enrolled in both VA and other coverage ..."

- Do you agree that the ACA will lead to increased fragmentation of care for our veterans? Why or why not? Please explain.

- Please describe any and all actions the Department has taken to address potential care fragmentation that may occur as a result of the ACA.

4. A report VA provided to the House Ways and Means Committee states that, "[a]t this time, VA cannot accurately assess the potential impact of the annual fee on health insurance providers; however, VA will assess the impact of this provision after it goes into effect."

- What, if any, attempts were made by VA to assess the potential impact of this provision and why were such attempts unsuccessful?

- Given that VA has abandoned assessment of this provision until "after it goes into effect," what assurance do you have that VA will be able to account for any unknown impacts it may have on VA's current funding levels?

5. What steps has VA taken to ensure that VA remains able to attract and maintain its health care workforce amid potentially growing demand for health care professionals and increased competition with other health care entities? How will VA 's current recruitment and retention efforts need to adjust? Has the current VA workforce begun to see the effects of such increased competition? If so, how? If not, when do you expect to begin seeing such effects and how is VA preparing for it?

6. VA provided Committee staff with information last year indicating that approximately six point seven million veterans under the age of sixty-five fall within the age range that would be eligible for the premium assistance tax credit. If the IRS' proposed rules are implemented, veterans within this income range who are enrolled in VA will become ineligible for the premium tax credit.

- Of these veterans, how many are currently enrolled in VA health care system?

- How is VA intending to inform these veterans - particularly those who are not currently enrolled but may be considering it - of their options under the ACA?

7. The Request for Information entitled, "VA Implementation Support for the ACA," VA posted on Fed-Biz-Opps earlier this year states that, "[a]s VA implements the A-C-A in 2013, it recognizes that VA must better understand the large health care environment at both the national and state level." The RFI includes three action items, the third of which requests assistance in identifying the data systems or exchanges that could assist VA in understanding the choices veterans are making with regard to the A-C-A and how VA might need to adjust its communications towards them as a result.

- What information or expertise does VA believe it is currently lacking that it needs moving forward and how has this impacted VA 's efforts to understand and implement the law to-date?

- Please explain why action item number three - as opposed to the other two - is not due to be completed until April 30, 2014, and describe any and all proactive steps the Department is taking to understand how veterans might react to the ACA and how VA might need to communicate with them as a result of those reactions.

8. What, if any, budgetary impact will the implementation of the ACA have on the VA health care system in FY 2015 and beyond? Please explain in detail.

Question for the Record from the Honorable Phil Roe

1 . Has VA projected what effects, if any, the cuts to graduate medical education could have on future staffing and number of residents available to medical centers?

Question for the Record from the Honorable Jackie Walorski

1. On January lst of this year, the President's medical device tax went into effect. I have already heard from medical device companies in the Second District of Indiana expressing concern over how this new tax will raise the cost of life saving medical devices. A recent report issued by VA stated, "...VA anticipates a 2.3 percent increase in costs to offset the negatively impacted profit margin for the vendors/ manufacturers that will be paying the tax. This is based on commentary and published opinions that vendors will pass this additional cost on to all consumers, including VA."

- In a time of strict budget scrutiny, how does VA plan to absorb these additional costs?
- Does the Department have a contingency plan in place should costs for medical devices continue to rise?
- Can you ensure the Committee that a veteran will not go without or have to sacrifice quality as a result of the President's medical device tax?

2. In your testimony, you cite developing data tools as one way the VA is preparing for implementation of the ACA. Can you explain what these data tools are and when they will be ready for veterans to access?

3. In your testimony, you say the VA, "anticipates a modest net increase in enrollment as a result of the Affordable Care Act." You continue to say that "the net increase will result from eligible non-enrolled Veterans enrolling in VA health care."

- How is VA certain these veterans will utilize the VA health care system?
- Has VA prepared for a potential significant decrease in enrollees and the potential effects it will have on the VA health care system as a result of the ACA?

4. In a presentation VA submitted to this Committee last July, one of the slides states that the Center for Medicare and Medicaid Services Center for Consumer Information and Oversight (CCIIO) has collaborated with the VA to, "develop educational/outreach package for enrolled veterans who are not eligible to receive premium tax and veterans who are not currently enrolled in the VA health care system." Where can these materials be accessed?

Pre-Hearing Questions From HVAC Majority and VA Responses

1. In response to questioning during the hearing, Ms. Vandenberg stated that, " ... we have estimated the potential out migration due to the availability of the tax credit ... [however] ... there is no way for us to gauge in absolute terms what the ultimate determinant will be in that veteran's choice so we have to make a certain set of assumptions." Ms. Vandenberg further stated that VA has used, " ... several simulation tools that help us to understand what drives an individual's choice in selecting insurance products."

- Please provide the estimated number of veterans expected to "migrate" out of the VA health care system as a result of the ACA and the assumptions VA used to arrive at that estimated numbers and why.

Response: The Affordable Care Act (ACA) expands affordable, comprehensive health care coverage options for some Veterans, both through the Health Insurance Marketplaces and through expansion of Medicaid in states that choose to expand their programs to all individuals below 138 percent of the poverty level. VA assumes that currently enrolled Veterans who become eligible for Medicaid will generally choose to stay with VA. VA also assumes that some Veterans who would have enrolled in VA (under current Medicaid eligibility rules) and live in a state that expands its Medicaid program may choose to enroll in Medicaid instead of VA. ACA also provides premium tax credits for eligible individuals to purchase health care coverage through the Health Insurance Marketplaces. However, in order to receive the premium tax credit, a Veteran may not be enrolled in the VA health care system.

- Please describe the simulation tools that Ms. Vandenberg referenced.

Response: The analysis to estimate the impact of ACA on VA health care was based on data from three sources – the 2010 Public Use Microdata Sample (PUMS) files from the American Community Survey, The Lewin Group's Health Benefit Simulation Model (HBSM), and the VA Enrollee Health Care Projection Model (EHCPM). The HBSM predicts how Veterans' health care choices might change as

a result of ACA. These projected changes are then applied to the EHCPM to obtain estimated expenditure impacts.

The 2010 PUMS data from the American Community Survey (ACS)is the only source of information about Veterans and their health care coverage that is publicly available on a large scale. The ACS routinely asks respondents about their Veteran status and surveys approximately 250,000 Veterans each year. PUMS data are used in conjunction with the Lewin Group's HBSM to predict an individual's chances of moving from one health insurance status to another as a result of ACA. These chances are based on individual-level factors, such as the individual's Federal poverty level (FPL) group, whether the individual is employed, employer type, and employer size. For an individual in a given initial health coverage status, the HBSM will predict the individual's chance of remaining in the same coverage status or moving to another status after implementation of ACA. Once the HBSM transition probabilities have been assigned to each Veteran in the PUMS dataset, estimates are derived for the total Veteran population based on the population weight available for each respondent in the PUMS files. The projected changes in health coverage status were then incorporated into the EHCPM to estimate the impact of ACA on VA health care.

To estimate the VA utilization associated with those Veterans projected to "migrate out," VA's consulting health actuary, Milliman, Inc., analyzed the health care utilization of the enrolled Veteran population by priority group (1–8) and assigned each enrollee into one of 39 health care utilization profiles. These profiles were designed to identify and sort enrollees into a spectrum of high use of VA services down to non-users of VA services. Based on the distribution of enrollees estimated to disenroll, Milliman created a composite utilization profile of this group of Veterans.

2. Former VA Under Secretary for Health, Dr. Kenneth Kizer, published an article in the Journal of the American Medical Association last year regarding the potential effect of the Affordable Care Act on health care for veterans. In that article, he suggested VA take three steps to better define and quantify the potential effects of the law for our veterans. Those three steps are: (1) conduct a comprehensive evaluation of the effects of multiple health plan eligibility on access to and quality of care for VA enrollees; (2) conduct a systematic assessment of current and projected VA health care workforce needs and service utilization vulnerabilities and review options for addressing them; and, (3) develop a shared vision of the VA health care system post-ACA that considers the effects of increased health care insurance coverage on VA's role as a safety net provider, declining numbers of World War II and Vietnam War Veterans, the increasing number of female Veterans, and measures that may be taken to address federal budget problems.

- Please describe any and all actions the Department has taken regarding the three recommendations above, either in response to Dr. Kizer's article or otherwise.

Response: VA is currently analyzing Dr. Kizer's recommendations regarding the effects of multiple health plan eligibility on access to and quality of care for VA enrollees. VA is also examining the effects of increased health care insurance coverage under ACA on Veterans, and has examined the ACA's potential impacts on VA's workforce. VA continues to assess options to continue to recruit and retain high quality health care providers.

In terms of other actions the Department has taken, when ACA was enacted, VA began a systematic and comprehensive review to identify how ACA might impact the VA health care delivery system. This review was done with the assistance of The Lewin Group and VA has provided a copy of The Lewin Group's comprehensive report to the Committee following the April 24, 2013, hearing. VA chartered an integrated project team (IPT) with representatives from VA, Veterans Health Administration (VHA), Veterans Benefits Administration (VBA), and the Office of Information and Technology (OIT) to examine the strategic and operational issues impacting VA. The IPT meets regularly to ensure ACA is implemented in a coordinated manner and formed subgroups to look at specific issues in the areas of policy, information technology, and operations and communications. VA has also established routine meetings to communicate with VHA field staff and to collect information on ACA implementation at the local level. VA has also developed a comprehensive communication plan and materials for Veterans and their families to educate them that VA's health care programs represent minimum essential coverage and that VA health care does not change as a result of ACA. In addition, VA has also been collaborating with other Federal agencies to implement ACA. These engagements have

been overall very positive and VA appreciates the efforts of other agencies to assist in educating Veterans about ACA.

VA's strategic planning recognizes the changing landscape of health care and the changing dynamics of the Veteran population. In 2020, the Veteran population in America is projected to be 12 percent female and 7 percent Hispanic, with the percentage of young, tech-savvy Veterans projected at 40 percent according to VA's Veteran population projection model (VetPop). In the next 20 years, Veterans will reflect gender and minority shifts similar to the general population and the types of health and services provided by VA will have to change to serve a more diverse population. Implementation of the ACA will offer some Veterans new options for health care and VA is actively preparing to assist Veterans in understanding these new optionsTo address the fiscal constraints facing the Federal Government, VA recognizes opportunities that exist today for better coordinating care for beneficiaries with multiple health coverage eligibilities and reducing the waste and inefficiencies in health care delivery that exist today. To that end, VA is developing strategies to provide Veterans with personalized, proactive, patient-driven health care and establish itself as a highly effective, innovative, data-driven, evidence-based, continuously improving, and reliable health care system. VA's future includes recognition as a leader for population health improvement strategies, personalized care, and maximizing health outcomes in a cost-effective and sustainable manner.

3. A March 2013, policy brief by the Robert Wood Johnson Foundation and the Urban Institute states that " ... it will be important to assess the extent to which VA provider supply meets the demand for care and to implement efforts to reduce fragmentation of care among veterans enrolled in both VA and other coverage ... "

- Do you agree that the ACA will lead to increase fragmentation of care for our veterans? Why or why not? Please explain.

Response: VA recognizes that many enrolled Veterans already have some other form of public or private health insurance. According to the 2012 VHA Survey of Veteran Enrollees' Health and Reliance upon VHA, VA estimates that 77 percent of enrolled Veterans have some other form of health coverage. VA's providers actively seek to obtain this information from Veteran patients in order to better coordinate the Veteran's health care treatment and services. VA continually strives to improve care coordination and has worked to electronically exchange medical information with non-VA providers.

- Please describe any and all actions the Department has taken to address potential care fragmentation that may occur as a result of the ACA.

Response: Care coordination is an area of focus for VA through efforts such as the Patient Aligned Care Team model and electronic exchange of medical information. VA recognizes the importance of coordinating health care for Veterans and other beneficiaries. To assist in these efforts, VA is developing communications materials for VA staff regarding ACA, highlighting the importance of improving care coordination, and raising awareness of potential care fragmentation.

4. A report VA provided to the House Ways and Means Committee states that, "[a]t this time, VA cannot accurately assess the potential impact of the annual fee on health insurance providers; however, VA will assess the impact of this provision after it goes into effect."

- What if any, attempts were made by VA to assess the potential impact of this provision and why were such attempts unsuccessful?

Response: Because health insurance companies will gain millions of new customers as a result of the Affordable Care Act, the law includes an annual fee on health insurance issuers and applies to calendar years beginning in 2014. Once this provision goes into effect in 2014, VA will conduct further analyses to assess if there is an impact of this provision on VA.

- Given that VA has abandoned assessment of this provision until "after it goes into effect," what assurance do you have that VA will be able to account for any unknown impacts it may have on VA's current funding levels?

Response: Once the annual fee on health insurance issuers goes into effect in 2014, VA will monitor the fee and respond as necessary.

5. What steps has VA taken to ensure that VA remains able to attract and maintain its health care workforce amid potentially growing demand for

health care professionals and increased competition with other health care entities? How will VA's current recruitment and retention efforts need to adjust? Has the current VA workforce begun to see the effects of such increased competition? If so, how? If not, when do you expect to begin seeing such effects and how is VA preparing for it?

- What steps has VA taken to ensure that VA remains able to attract and maintain its health care workforce amid potentially growing demand for health care professionals and increased competition with other health care entities?

Response: Recognizing that competition has always been a challenge for recruitment and retention of health care professionals, VHA will continue to:

- Offer scholarship programs open to non-VHA employees to help graduate practitioners who will provide obligated service within VHA facilities;
- Authorize student loan repayment for hard-to-recruit clinical providers with educational debt under the Education Debt Reduction Program; and
- Support extensive recruitment and marketing and advertising campaigns targeting health care providers through www.vacareers.va.gov and affiliated Facebook, Twitter, and other social media and broadcast media campaigns.

VHA will continue to maximize the utilization of hiring flexibilities and retention incentives such as: expediting the title 38 United States Code (U.S.C.) hiring process; authorizing higher rates of pay based on specialized skill; utilizing retention, relocation, and recruitment incentives as appropriate; Student Loan Repayment Program; flexibilities in work schedules; and educational assistance programs. VHA is also establishing and implementing a succession planning framework to maintain skilled and ample leadership within the Administration.

VHA will continue to evaluate the pay ranges, alignment of specialties, recommend additional specialties, and make recommendations regarding pay limitations and exceptions.

VHA will maintain nationally acclaimed research and development programs at its medical centers to engage clinicians interested in research. VA conducts the largest education and training effort for health professionals in the United States. Further, through its extensive workforce development and succession planning activities, VA sponsors or funds clinical education and training programs for health care professionals in over 40 disciplines. The graduates of these VA-sponsored and affiliate-sponsored training programs provide a ready resource of future staff who understand Veterans and their unique needs, who have received state-of–the-art clinical education in evidence-based treatments at VA, and whose skills and abilities have already been demonstrated during their training programs. VHA will continue to maintain active affiliation agreements with medical schools nationwide and rotate medical residents and fellows through VHA facilities for training.

- How will VA's current recruitment and retention efforts need to adjust?

Response: While ACA may increase competition for primary care providers and other occupations, VHA views the direct competition for providers as a familiar and increasing operational challenge. In fiscal year (FY) 2012, VHA managers hired more than 30,340 employees. VHA representation at job fairs nationally has positively contributed to the recruitment of new employees. VHA's Healthcare Recruitment and Marketing team continues to partner with VA's Veteran Employment Services Office to successfully recruit Veterans nationwide. VHA will continue to monitor workforce trends, such as onboard and losses by occupation through a robust succession planning process that will promote key recruitment and retention strategies that foster VHA's ability to compete for workers in the health care industry.

To further address this challenge, the following actions were initiated:

- Established a VHA workgroup to develop strategies to improve orientation and retention of physicians during the first 2–5 years of employment;
- Established VHA employee scholarship programs that increase the number of new health care providers and enhance the credentials for current providers; and
- Launched the Strategic Recruitment Initiative for VHA Health Professions Trainees to improve recruitment of medical residents exiting medical school.

- Has the current VA workforce begun to see the effects of such increased competition? If so, how? If not, when do you expect to begin seeing such effects and how is VA preparing for it?

Response: VHA has always been in direct competition with the private sector medical community for physicians, nurses, and other clinical and allied health providers. In response to this competition, VHA commissioned the National Recruitment Program (NRP) in 2009. NRP provides VHA with an in-house team of professional health care recruiters. These "headhunters" employ advanced, private industry recruitment practices to fill the agency's most mission critical clinical vacancies. The team is comprised of 21 professional health care recruiters, one geographically based in each Veterans Integrated Service Network (VISN) (except VISN 12). VHA national recruiters have doubled the private industry average since 2011 that validates the program's demonstrated success. In FY 2013, NRP recruited a total of 514 clinical providers. This is a notable achievement given that 82 percent of NRP hires are physicians in scarce specialties with significantly higher salaries.

6. VA provided committee staff with information last year indicating that approximately 6.7 million veterans under the age of sixty-five fall within the age range that would be eligible for the premium assistance tax credit. If the IRS' proposed rules are implemented, veterans within this income range who are enrolled in VA will become ineligible for the premium tax credit.

- Of these veterans, how many are currently enrolled in VA health care system?

Response: At present, the best estimates of income levels for the enrolled Veteran population are obtained from the Survey of Veteran Enrollees' Health and Reliance Upon VA (SOE). Estimates from the latest SOE with the same year as the Veteran population estimates (FY 2011), suggest that there are approximately 1.8 million Veterans under the age of 65 with incomes between 138 and 400 percent of the FPL are currently enrolled in the VA health care system. This estimate includes all priority categories.

- How is VA intending to inform these veterans – particularly those who are not currently enrolled but may be considering it – of their options under the ACA?

Response: VA has developed a comprehensive strategic communications plan to guide VA leadership and staff while informing and communicating with Veterans, eligible beneficiaries, and other stakeholders regarding the ACA implementation. In addition to communicating with enrolled Veterans and beneficiaries, VA is exploring ways to reach uninsured Veterans to increase awareness of VA health care programs and benefits and encourage the Veteran to consider VA health care enrollment to allow them to access comprehensive, affordable coverage and meet their ACA health care coverage requirements.

VA intends to communicate with uninsured Veterans receiving other VA benefits such as compensation, pension, or education benefits via direct mail. VA will also seek to collaborate with the Department of Health and Human Services (HHS), the Department of Labor (DOL), Veterans Service Organizations (VSO), and states to identify and outreach to Veterans who are uninsured. VA is also planning several different outreach activities for this population to include print, online, and social media.

7. The Request for Information entitled, "VA Implementation Support for the ACA," VA posted on Fed-Biz-Opps earlier this year states that, "[a]s VA implements the A–C-A in 2013, it recognizes that VA must better understand the large health care environment at both the national and state level." The RFI includes three action items, the third of which requests assistance in identifying the data systems or exchanges that could assist VA in understanding the choices veterans are making with regard to the A–C-A and how VA might need to adjust its communications towards them as a result.

- What information or expertise does VA believe it is currently lacking that it needs moving forward and how has this impacted VA's efforts to understand and implement the law to-date?

Response: Some Veterans will have new options for health care as a result of ACA. Currently, there is no national database that tracks the type of health insurance Veterans or Americans in general have chosen. With the implementation of ACA, VA desires to have a more complete, in near real-time, understanding of Veterans' choice regarding health coverage. As with any database, appropriate measures must be taken to ensure individuals' privacy is protected and information is released only on a need to know basis. Current data is limited to only survey infor-

mation such as the American Community Survey and VHA's SOE. These surveys, while informative, do not always provide information at a very granular level of detail.

- Please explain why action item number three – as opposed to the other two – is not due to be completed until April 30, 2014, and describe any and all proactive steps the Department is taking to understand how veterans might react to the ACA and how VA might need to communicate with them as a result of those reactions.

Response: The ACA's expansion of coverage and major market reforms will not be fully implemented until January 2014. In order to better understand how data on Veteran health insurance coverage might be collected/ monitored, VA believes that gathering this information in early 2014 will better help VA conduct analyses and assessments.

8. What, if any, budgetary impact will the implementation of the ACA have on the VA health care system in FY 2015 and beyond? Please explain in detail.

Response: ACA puts in place comprehensive reforms that improve access to affordable health coverage, allows all Americans to make health insurance choices that work for them while guaranteeing access to care for our most vulnerable, and provides new ways to bring down costs and improve quality of care. The Act has various implications for VA. For example, new tax credits and marketplaces for insurance provide a wider range of alternatives for patients. The 2014 budget requests $85 million for VA to fulfill multiple responsibilities as a provider of Minimum Essential Coverage under ACA, including: (1) providing outreach and communication on ACA to Veterans; (2) reporting to Treasury on VA-covered individuals; and (3) providing a written statement to each individual on their coverage by January 2015. Final 2015 funding levels for this initiative will be determined during the 2015 budget process when update data and metrics on these programs' funding needs are available.

Questions for the Record from the Honorable Phil Roe

1. Has VA projected what effects, if any, the cuts to graduate medical education could have on future staffing and number of residents available to medical centers?

Response: VA will be conducting analyses to better understand the implications of changes to graduate medical education on VA's ability to recruit and retain physicians. Medicare is the largest funder of GME. VA conducts its GME program in partnership with the Nation's medical schools and academic medical centers, and fully funds its proportionate share of GME costs. VA training has been found to significantly increase the likelihood of future physician recruitment. If VA affiliated schools of medicine and academic medical centers choose to decrease the number of physician resident training positions for any reason, this may influence the number of available sponsorships for VA rotations and future VHA hiring.

Questions for the Record from the Honorable Jackie Walorski

1. On January 1st of this year, the President's medical device tax went into effect. I have already heard from medical device companies in the Second District of Indiana expressing concern over how this new tax will raise the cost of life saving medical devices. A recent report issued by VA stated, "VA anticipates a 2.3 percent increase in costs to offset the negatively impacted profit margin for the vendors/manufacturers that will be paying the tax. This is based on commentary and published opinions that vendors will pass this additional cost on to all consumers, including VA."

- In a time of strict budget scrutiny, how does VA plan to absorb these additional costs?

Response: VA anticipates that the total cost associated with this new tax will have minimal impact on its medical equipment procurement budget. VA will continue to evaluate and monitor the impact of the medical device tax and develop ap-

propriate contingency plans as necessary to offset these costs in its medical equipment procurement budget.

- Does the Department have a contingency plan in place should costs for medical devices continue to rise?

Response: Each year VA updates the actuarial model estimates to incorporate the most recent data on health care utilization rates, actual program experience, and other factors, such as economic trends in unemployment and inflation. By updating the model's inputs and revisiting the assumptions that underlie the actuarial projections each year, VA is able to produce budget estimates that more accurately reflect the projected model demands of enrolled Veterans. VA will monitor the medical device tax and develop appropriate contingency plans as necessary.

- Can you ensure the Committee that a Veteran will not go without or have to sacrifice quality as a result of the President's medical device tax?

Response: No sacrifice in health care provided to Veterans is envisioned as a result of the medical device tax.

2. In your testimony, you cite developing data tools as one way the VA is preparing for implementation of the ACA. Can you explain what these data tools are and when they will be ready for veterans to access?

Response: VA has developed an online Health Benefit Explorer tool. This tool asks the user to answer a few questions about themselves to learn about the VA health benefits for which they may qualify. The tool provides the user with a description of those benefits and any out-of-pocket costs. This tool was launched in the summer of 2013 and is available on VA's ACA landing page at *www.va.gov/aca.*

3. In your testimony, you say the VA, "anticipates a modest net increase in enrollment as a result of the Affordable Care Act." You continue to say that "the net increase will result from eligible non-enrolled Veterans enrolling in VA health care."

- How is VA certain these veterans will utilize the VA health care system?

Response: VA has proactively prepared for health reform by examining the key provisions of the law, identifying the implications for Veterans and VA, and conducting analyses to estimate the potential impact of the law on VA enrollment, demand for services, workforce, and costs. VA estimates the impact of ACA on VA to be a net increase of 66,000 additional Veteran enrollees and increased expenditures of $85 million in FY 2014. This estimate of 66,000 represents the net increase in enrollment due to ACA. VA believes that those most likely to enroll or choose non-VA coverage options are those Veterans who enter or leave VA health care with a low reliance on VA health care. VA health care program for Veterans constitutes minimum essential coverage (MEC).

- Has VA prepared for a potential significant decrease in enrollees and the potential effects it will have on the VA health care system as a result of the ACA?

Response: Beginning in January 2014, Veterans in some states will be eligible for Medicaid because the ACA allows states to expand Medicaid coverage to all individuals below 138 percent of the poverty level. VA assumes that currently enrolled Veterans who become eligible for Medicaid will generally choose to stay with VA. VA also assumes that some Veterans who would have enrolled in VA (under current Medicaid eligibility rules) and live in a state that expands its Medicaid program may choose to enroll in Medicaid instead of VA. ACA also provides premium tax credits for eligible individuals to purchase health care coverage through the Health Insurance Marketplaces. However, in order to receive the premium tax credit, a Veteran may not be enrolled in the VA health care system.

VA's robust medical benefits package provides the full continuum of health care services for enrolled Veterans and there are no enrollment premiums or deductibles.

4. In a presentation VA submitted to this Committee last July, one of the slides states that the Center for Medicare and Medicaid Services Center for Consumer Information and Insurance Oversight (CCIIO) has collaborated with the VA to "develop educational/outreach package for enrolled Veterans who are not eligible to receive premium tax and Veterans who are not currently enrolled in the VA health care system."

- Where can these materials be accessed?

Response: In the presentation VA submitted to this Committee last July, VA indicated that it has "proposed to collaborate with CCIIO to develop an educational/ outreach package for enrolled Veterans who are not eligible to receive premium tax credits and Veterans who are not currently enrolled in the VA health care system." VA continues to engage with the Centers for Medicare and Medicaid Services to identify opportunities to conduct outreach to Veterans. Examples of potential opportunities include providing educational materials for Navigator and other consumer assistance programs training. Another partnership VA has initiated is with the Health Resources and Services Administration (HRSA) to provide VA information when HRSA funds its community health centers outreach efforts on ACA.

Materials Submitted For The Record

PARALYZED VETERANS OF AMERICA

Chairman Miller, Ranking Member Michaud, and members of the Committee, Paralyzed Veterans of America (PVA) appreciates the opportunity to submit a statement for the record on the pending implementation of the Affordable Care Act (ACA) and its impact on the Department of Veterans Affairs (VA) health care system. PVA is a strong supporter of the ACA and we were very involved in the legislative efforts to develop and enact the ACA. Many of the provisions of this legislation will certainly benefit our members, particularly as members of the community of people with disabilities. Veterans with disabilities and people with disabilities have long faced discrimination from the health insurance industry. With this in mind, we would like to offer some observations as it relates to issues raised during the full Committee hearing held on April 24, 2013.

PVA was pleased that the ACA recognized the importance and value of VA health care services by designating those services as "minimum essential coverage" in order to satisfy the health care benefits requirements of the ACA. This designation applies to basic health care services as well as those services provided by the Civilian Health and Medical Program of the VA (CHAMPVA) and services provided to children of certain veterans with spina bifida. Additionally, if someone is enrolled in one of these programs, they will satisfy the "personal responsibility" (or individual mandate) rules of the ACA. Moreover, it is important that compensation for service-connected disabilities is excluded from consideration of gross income under present Internal Revenue Service (IRS) rules that will dictate eligibility for the premium tax credit.

We also recognize the concerns raised by the Committee as it relates to the interaction of the ACA's premium tax credits (which are intended to aid individuals and families with modest incomes to afford health care coverage) with veterans enrolled in the VA. Not surprisingly, if a veteran is enrolled in the VA, or a family member is enrolled in CHAMPVA or the Spina Bifida program, that individual will not be eligible for the premium tax credits offered through plans in the health exchanges. This could pose a problem for those veterans or family members who use the VA for specialized services, like spinal cord rehabilitation, blinded rehabilitation, and polytrauma care, but because they live far from a VA facility (possibly in a rural setting), choose to use private insurance for basic primary care needs. This scenario would exclude the veteran from access to the premium tax credit. Fortunately, family members of the veteran can still get coverage in a health exchange and be eligible for the premium tax credit.

We do however echo the concerns raised by members of the Committee about the lack of clarity on the value of the premium tax credits, particularly for the family members who have "minimum essential coverage" through the VA. It was our understanding, based on the remarks of the officials from the Treasury Department who testified, that the premium charged to a family member in the health exchanges would be based on the income of the individuals enrolled in the exchange. This leads us to conclude that the earned income of a veteran who is already enrolled in the VA for health care coverage should not affect family members' premiums who are enrolled in the exchange. It is critical that the Administration clarify this question quickly so as to ensure that veterans and their families are able to make a decision that best suits their health care needs and accounts for their ability to deal with the costs of health care.

Much like the members of the Committee, PVA has real concerns about the impact on utilization of VA health care services once the ACA is implemented. The VA estimates that 66,000 new veteran enrollees will come into the system as a result of the ACA. Moreover, the Administration's FY 2014 budget request that was

recently released reflects a resource need of $85 million in additional funding for FY 2014 to meet that projected increase in demand. PVA, along with the co-authors of The Independent Budget—AMVETS, Disabled American Veterans, and Veterans of Foreign Wars—questioned the validity of those estimates in our testimony before the House VA Committee. Additionally, the VA has not fully explained why it would need $85 million in additional funding for FY 2014 but absolutely no new funding for FY 2015 (as explained in the FY 2014 budget request). It is important to point out that there are currently eight million veterans not currently enrolled in the VA health care system who would otherwise be eligible for enrollment. Moreover, of that eight million, approximately one million of those veterans are uninsured. This opens the real possibility that a significant number of new veterans (particularly those who are uninsured) might choose to enroll in the VA health care system. In fact, PVA would encourage as many veterans as possible to enroll in the VA for health care given the quality of care available.

PVA also believes that more veterans would choose to enroll in the VA versus enrolling in one of the health exchanges that will be established as a result of the ACA because the health care benefits package available from the VA ranks as one of the best when balanced against private insurance plans. We recognize that for many veterans the choice will be based on the value of the services being provided by the VA versus the value of the premium tax credit. The premium tax credit issue could be particularly complicated if the rules as they apply to family members of veterans enrolled in the VA are not clarified expeditiously.

PVA also shares the concerns raised by members of the Committee about the role VA must play to inform veterans about the health care options they will have. The VA outlined a plan to conduct outreach beginning in May or June of this year through website changes, public service announcements, call center preparations and other communications through social media. While the VA has apparently been working with the Center on Medicare and Medicaid Services (CMS) to interface in some fashion with health plans in the exchanges through this outreach, it apparently has not developed a comprehensive plan to ensure that veterans are making good decisions about their health care options once ACA goes into effect. It remains unclear whether the main focus for VA will be educating veterans and their families about VA health benefits or about informing them of VA health benefits in the context of the ACA and where they might go for more detailed information about benefits under the ACA. For example, family members covered under CHAMPVA may be unaware that their dependent coverage ends at age 22 whereas they could extend that dependent coverage to age 26 under a health exchange plan.

With this thought in mind, we believe the Committee and Congress need to enact legislation immediately to change the eligibility age for dependent children enrolled in CHAMPVA to age 26 so as to align this benefit with all other health care programs. At this time, the only qualified dependents that are not covered under a parent's health insurance policy are those of 100 percent service-connected disabled veterans covered under CHAMPVA. We strongly urge the Committee to approve H.R. 288, the "CHAMPVA Children's Protection Act of 2013," introduced by Ranking Member Michaud that would increase the eligibility age to 26.

Similar to the information concerns from the VA perspective, we cannot emphasize enough the importance of the Department of Health and Human Services (HHS) making available detailed information about the VA being an option for veterans seeking health care coverage. The websites for the different health exchanges will not include information about the VA health care system because the VA is not an option available through those exchanges. We also agree with the Committee's emphasis that any applications to the health care exchanges include an opportunity to indicate military service so as to prompt veterans to consider VA health care as an option. We have concerns that HHS still has this issue "pending" for consideration. It should be a mandatory requirement on the exchange application. The Committee and Congress should continue to press HHS to ensure that veterans and service members coming to the health exchanges are made aware of additional information about their health care options through the VA. In addition, CMS is in the process of developing a cadre of "navigators" to assist people with enrollment in health exchanges and in exploring their coverage options. Training of these navigators should include, at a minimum, the knowledge to connect veterans and their families with appropriate sources of information about the range of benefits available to them.

Another issue that was raised during the hearing that we have serious concerns about is the enrollment of Priority Group 8 veterans. Currently, VA provides a very narrow limit for individuals enrolling as new Priority Group 8 veterans. We believe that VA should consider reopening enrollment to "all" Priority Group 8 veterans. However, according to VA Under Secretary for Health Petzel during the hearing, the

VA has no plans at this time to change the limitations on enrollment of Priority Group 8 veterans. We believe that this is unacceptable because this policy decision serves to eliminate a health care option that might be the best health care option available to this group of veterans. The limitation on Priority Group 8 enrollment could drive veterans into a health exchange that might provide a lesser health care benefit or face the prospect of paying a penalty as a result of the individual mandate. With this thought in mind, Congress should make available all necessary resources to allow VA to reopen enrollment for all Priority Group 8 veterans so as to ensure that they are afforded the opportunity to make the best health care decision available.

Moreover, many veterans who might otherwise be eligible for VA health care as Priority Group 7 veterans face the prospect of having their options limited by decisions at the state level regarding Medicaid. Some Priority Group 7 veterans who are currently uninsured and are not particularly high income earners could be served by Medicaid under the rules established by the ACA which sets the income level at 138 percent of the federal poverty level. Unfortunately, three states with large veteran populations have not yet decided whether to implement the Medicaid expansion, and 21 additional states have already announced that they will not expand Medicaid.

We also believe that the VA must get a better handle on the numbers of service-connected disabled veterans it serves who are not required to enroll in the health care system in order to receive care. This scenario has obvious implications for proper implementation of the ACA, particularly with regards to premium tax credits. A veteran receiving care in the VA without being enrolled could then enroll in a local health plan through an exchange and then conceivably receive care through both avenues while also being eligible for the premium tax credit. It is imperative that the Administration clarify how it would handle such a scenario and whether or not the VA's rules about providing services to unenrolled veterans would have to change. Moreover, the Department of Treasury needs to explain whether a veteran in this situation would be exposed to any subsequent penalties if it is discovered that he or she was using VA health system benefits while also being enrolled in a health exchange.

PVA also believes that the Committee and Congress, as well as the Administration charged with implementing the ACA, must take into consideration the impact of the ACA on low income elderly and disabled veterans in receipt of VA pension. While these veterans have access to the VA health care system under Priority Group 5, their family incomes are obviously limited. However, we are not certain whether VA pension is excluded from consideration as countable income under IRS rules. If VA pension is considered countable income, a veteran's family's eligibility for the premium tax credit could be negatively impacted.

Ultimately, PVA believes the ACA has the potential to significantly broaden access to health insurance coverage for millions of Americans and we support its continued implementation. Additionally, we would like to commend the Committee for beginning the oversight now on the ACA and its relationship to the VA, and we encourage the Committee to continue monitoring the impact on veterans and their families. We thank you again for the opportunity to submit comments for the record. We would be happy to take any questions that you might have.

Information Required by Rule XI 2(g)(4) of the House of Representatives

Pursuant to Rule XI 2(g)(4) of the House of Representatives, the following information is provided regarding federal grants and contracts.

Fiscal Year 2013

No federal grants or contracts received.

Fiscal Year 2012

No federal grants or contracts received.

Fiscal Year 2011

Court of Appeals for Veterans Claims, administered by the Legal Services Corporation—National Veterans Legal Services Program— $262,787.

DEPARTMENT OF VETERANS AFFAIRS (VA)

Congressional Report on Patient Protection and Affordable Care Act (PPACA) Study and Report of Effect on Veterans Health Care

Purpose

The purpose of this report is to comply with requirements of section 9011 of the Patient Protection and Affordable Care Act (Public Law (P.L.) 111–148).

Background

The PPACA was enacted in March 201O and represents comprehensive reform of the health care delivery and financing system in the United States. PPACA includes new reporting requirements for VA. Specifically, section 9008 of PPACA, which imposes new annual fees on branded prescription pharmaceutical manufacturers and importers, requires the Secretary of Veterans Affairs to report to the Secretary of the Treasury the total amount paid for each branded prescription drug procured by VA for its beneficiaries for each covered entity, and for each branded prescription drug of the covered entity. As of the date of this report, VA has submitted reports for calendar years (CY) 2009 and 201O to the Internal Revenue Service (IRS).

Additionally, section 9011 of PPACA requires the Secretary of Veterans Affairs to conduct a study on the effect {if any) of the provisions of sections 9008, 9009, and 9010 of PPACA on:

1. The cost of medical care provided to Veterans, and

2. Veterans' access to medical devices and branded prescription drugs.

The Secretary of Veterans Affairs is required to report the results of the study to the Committee on Ways and Means of the House of Representatives and to the Committee on Finance of the Senate not later than December 31, 2012.

We note that section 9009 of PPACA was repealed by section 1405(d) of PL. 111–152, the Health Care and Education Reconciliation Act of 2010 (HCERA), but would have imposed an annual fee on medical device manufacturers and importers. In repea.ling section 9009, Congress did not amend VA's reporting requirement in section 9011, but did add a provision in the Internal Revenue Code (l.R.C.) on medical device taxes.

Section 1405(a) of HCERA added I.RC. § 4191 , which imposes a tax on the sale of any taxable medical device by manufacturers, producers, or importers for sales after December 31, 2012. As a means of addressing the requirement in section 9011 of PPACA to study and report on section 9009, we have evaluated and report on the potential impact of the medical device tax in l.R.C. § 4191.

Section 9010 of PPACA imposes an annual fee on health insurance providers and applies to calendar years beginning in 2014. We note that both sections 9008 and 9010 were amended by HCERA.

Methodology

In preparing this report, VA constituted an internal workgroup of subject matter experts to collect and evaluate available information pertinent to the two study questions.

Section 9008

Based on the IRS supplied list of National Drug Codes defined as "branded prescription drugs", the following VA branded prescription drug costs [1] (i.e. paid to covered entities) have been reported to IRS by VA in accordance with section 9008:

CY 2009: $3,308,954,508 (submitted 7/22/2011)
CY 2010: $3,362,519,524 (submitted 2/14/2012)
CY 2011: due 2013
CY 2012: due 2014
CY 2013: due 2015

VA Pharmacy Benefits Management Services (PBM) is responsible for overseeing the administration of VA's pharmacy benefits program. In that capacity, PBM interacts with covered entities on a daily basis. These interactions involve issues of drug pricing, drug contracting, and clinical data associated with the covered entities' branded prescription drugs used in VA. Decisions on drug selection are based on

[1] These figures include costs incurred on behalf of all beneficiaries and participants of health programs sponsored by VA.

safety, efficacy, and cost (in that order) and Veterans' access to branded drugs is not anticipated to change as a result of section 9008. Generic drugs are used when clinically appropriate as they are usually the most cost effective choices.

Branded prescription drugs are used when they are clinically appropriate and there is not a generic alternative that has equal or superior safety and efficacy. To date, PBM has not received specific indications from "covered entities" that prices charged to VA may change due to the additional fees on branded prescription drugs.

l.R.C. § 4191

Per 26 C.F.R. § 48.4191–2, there are certain devices which are exempted from the definition of "taxable medical device." 77 Fed. Reg. 72924, at 72934. The majority of items provided by VA's Prosthetic and Sensory Aids Service are excluded, primarily under the "Retail Exemption" clause.

For purposes of evaluating the impact of the medical device tax in l.R.C. § 4191, VA considered only the following medical devices (p ease note, thisis not a comprehensive list of all of VA's medical devices):

- all surgical implants and devices, including biological implants;
- home dialysis equipment;
- ventilators; and
- continuous airway pressure machines

For items not on national contract, VA anticipates a 2.3 percent increase in costs to offset the negatively impacted profit margin for the vendors/manufacturers that will be paying the tax. This is based on commentary and published opinions that vendors will pass this additional cost on to all consumers, including VA.

Veterans' access to medical devices will not be an issue in fiscal year 2013 given the current budget; projected need and any increased costs (due to increased tax) will be covered by the existing budget. The impact on access in future years is contingent on the sustained adequacy of VA's budget to provide medical devices to meet Veterans' needs, and potentially at more costly levels.

Section 9010

As discussed above, section 9010 imposes an annual fee on health insurance providers beginning in 2014. At this time, VA cannot accurately assess the potential impact of the annual fee on health insurance providers; however, VA will assess the impact of this provision after it goes into effect.

Other insights

According to an informal assessment of the impact of these provisions conducted by VA's consulting actuary, the presence of the annual fees on branded prescription pharmaceutical manufacturers and importers imposed by section 9008 is thought to be a factor in the rising Average Wholesale Price (AWP) trends over the last 2 years, but changes in Medicare Part D pricing are also a significant known driver. VA has no evidence that the annual fees by section 9008 are driving a rise in AWP, but cannot rule out these fees being a factor in future AWP trends.

Summarv

Based on a study of currently available information and the input of subject matter experts, VA believes the abovementioned provisions have not yet had an observable impact on either the cost of medical care provided to Veterans or Veterans' access to medical devices and branded prescription drugs.

VA will continue to monitor the effect of the additional taxes and fees on branded prescription drugs, health insurance providers and medical devices on the cost of medical care provided to Veterans and on Veterans' access to medical devices and branded prescription drugs.

Estimate of Cost to Prepare Congressionally-Mandated Report

ATTACHMENT

Short Title of Report: Impact of Certain Taxes and Fees on the Cost of Medical Care Provided to Veterans and Veterans Access to Medical Devices and Branded Prescription Drugs

Report Required By: Patient Protection and Affordable Care Act - Public Law 111–148

The statement of cost for preparing this report is shown below.

Manpower Cost: $3,171

Contract(s) Cost: $0

Other Cost: $0

Total Estimated Cost to Prepare Report: $3,171

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