ERRATA

To: Recipients of MG-369-OSD, *An Analysis of Military Disability Compensation*, by Richard Buddin and Kanika Kapur, 2005

From: RAND Corporation Publications Department

Date: March 2007

Re: Corrected pages (pp. xx–xxii)

The following typographical errors have been identified in the original printing of this monograph:

On page xx, in the last paragraph, the word "percentage" was mistakenly given as "percent."

On page xxi, in the second full paragraph, the word "recipient" was mistakenly given as "receipt."

On page xxii, in the first full paragraph, the word "system" was omitted from the phrase "military disability system."

We regret the inconvenience.

they leave the military at lower ranks and with fewer years of military service. As a result, the disability compensation of medical retirees with disability ratings of 50 and above is not fully offset by their retired pay.

For full-time workers, the results show that the adjusted payments to medical retirees with disability ratings of less than 50 percent are slightly lower than their earnings losses. Among more severely disabled medical retirees, the earnings gains for full-time workers range from $5,736 per year at a 50 percent rating to $25,352 per year at a 100 percent rating.

As with nonmedical retirees, the magnitude of the earnings losses for medical retirees rises considerably when we look at the results from the model for all retirees including nonworkers. Medical retirees are undercompensated for their earnings losses in nine of ten ratings categories, with the magnitude of the losses ranging from about 1 to 11 percent of earnings per year.

Conclusions

Military and Civilian Philosophies of Disability Compensation Differ

Military and civilian disability programs differ in fundamental ways. Civilian programs focus on replacing a portion of workers' earnings because they cannot work while recovering from an injury. The military, on the other hand, continues a member's full pay and benefits if he or she is unable to work. If unable to return to duty, a military member is discharged with a military retirement or a disability severance. Civilian programs replace earnings; military programs supplement earnings on the assumption that those earnings are depressed as a result of the disability. The military system is notably more generous than the civilian system in paying for short-term work loss.

Both Military and Civilian Systems Face Substantial Program Growth

Disability rates are rising rapidly, so programs in both sectors can expect substantial growth. The increase for military retirees was 22 percentage points between the 1971 cohort and the 2001 cohort (35

percent to 57 percent). Because military disability compensation continues for life, the higher rates in recent cohorts will translate into higher future expenditures.

Disability Compensation Is Adequate to Offset Most Labor Market Losses from Service-Connected Disabilities

The comparisons of earnings for military retirees show that disabled retirees are less likely to work, work fewer weeks per year, and earn less than their counterparts without disabilities. The magnitude of these differences depends critically on two factors. First, the gaps are large for severe disabilities, but they are not large for the disabilities with ratings less than 50 percent. About 71 percent of disabled retirees have disability ratings in the latter range. Second, the earnings losses from disability are sensitive to what assumptions are made about why retirees work either less or not at all. We cannot fully ascertain the full reasons for reduced participation, but the losses are certainly higher if we attribute all the reduced participation to disability-related causes.

The comparison of earnings loss under a variety of assumptions shows that disability compensation is adequate. The VA disability compensation schedule is designed to reflect the loss of civilian earnings capacity associated with a disability. The results from the earnings models show that this schedule payment is systematically higher than the earnings loss for each rating. The story becomes more complicated if the focus is on how much extra income the retiree receives. The value of the VA payment is affected by the offset with retired pay, the tax-exempt status of the recipient, and the phasing-in of concurrent receipt for retirees with disabilities of 50 percent or greater. With these adjustments, the results show that retirees with disability ratings of less than 50 percent receive slightly less than their earnings losses, whereas retirees with larger disabilities will be substantially overcompensated as the concurrent-receipt provisions are phased in.

Our labor market analysis has three limitations. First, the analysis is limited to military retirees. Similar data are not currently available for nonretiree veteran groups (the disability severance and other disabled veteran groups), but this type of analysis would be useful to

further clarify the adequacy of military disability compensation programs. Second, this analysis looks at labor market outcomes of retirees several years after they have left the military and have adjusted to civilian labor markets. Service-connected disabilities may have consequence for how quickly retirees and other veterans find civilian work and what their earnings are at these initial civilian jobs. Finally, labor market results show only one dimension of disability effects of retirees. Injuries and disabilities diminish quality of life through pain and suffering as well as through limitations on household and leisure-time activities.

The Military Disability System Is Complex

The military disability system is complex—unduly so, in our judgment. DoD and the VA evaluate injuries by somewhat different criteria. In addition, the compensation associated with a service-connected disability is based on a combination of military retired pay, the VA disability compensation schedule, and the offset of military retired pay. These complexities mean that it is difficult to assess why a member has received a given disability rating and harder still to assess how this disability rating translates into some incremental monthly income. In our view, these complexities are likely to confuse and frustrate veterans and policymakers alike.

Measuring Disabilities

An important issue for all disability systems is how to assess the validity of the current method of determining disability. Both systems are rooted in the history of medical decisions about performing in a workplace that differs greatly from the one that retirees find today. In addition, many retirees who are assigned VA disability ratings report that they have no health- or disability-related limitations on their civilian sector work.