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Is Military Disability Compensation Adequate?

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Disability compensation for military members has received much attention of late. First, there is concern about whether those injured in Afghanistan and Iraq are receiving adequate compensation. There is also concern about the impact of changes in the law that eliminate the offset between retired pay and disability compensation for those with a disability ranked over 50 percent and 20 years of service. And more generally, there is concern about whether the military disability system has adjusted to the opportunities available today to disabled veterans, given advances in medical technology and changes in the nature of the workplace.

To address these concerns, RAND researchers reviewed the goals and effectiveness of current policies for compensating veterans with service-connected disabilities. In particular, they compared the military's disability system with that used by civilian firms; identified trends in veterans' disabilities; and described the effects of military disability on civilian labor market outcomes. Researchers built statistical models to compare the labor market outcomes of disabled and nondisabled retirees, relying on data on 32,804 retirees from the 2003 Survey of Retired Military (SRM) conducted by the Defense Manpower Data Center (DMDC). The SRM includes civilian earnings information on nonmedical and medical military retirees with a service-connected disability. Nonmedical retirees generally complete a military career of 20 or more years to qualify for retirement and receive disability payments for service-connected injuries. Medical retirees are granted early retirement benefits if a Physical Evaluation Board determines that a service-connected disability does not allow them to perform their military duties. The SRM does not include information on other veterans with service-connected disabilities who are ineligible for retirement benefits.

Abstract

Military and civilian systems have different philosophies about compensation, but both face substantial program growth. Severely disabled military retirees receive disability payments that are much larger than their civilian earnings losses. However, most disabled retirees have less serious injuries that have little effect on their civilian work and earnings. Finally, the system itself is unduly complex, which is likely to confuse and frustrate both veterans and policymakers.

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. In contrast, the military continues members' full pay and benefits if they cannot work. If the member cannot return to duty, he or she is discharged with a military retirement or a disability severance. Civilian programs replace earnings; military programs supplement earnings under 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.

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 expenditures. A key issue is why military disability rates are rising across cohorts.

For Most Labor Market Losses, Disability Compensation Is Adequate

We find 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 on two factors. First, the gaps are large for those with severe disabilities but not for those with disabilities rated at 50 percent or less—about 71 percent of disabled retirees. (Disabilities are rated on a scale from 10 to 100 percent.) Second, the earnings losses are sensitive to the assumptions made about why retirees work either less or not at all; losses are overestimates if all reduced participation is attributed to disability-related causes.

When researchers compared earnings loss under a variety of assumptions, they found that disability compensation is adequate. Results from the earnings models show that the Veteran Affairs (VA) disability compensation schedule payment is systematically higher than the earnings loss for every rating—from 10 to 100 percent.

But the story is more complicated if the focus is on how much extra income the retiree receives. The value of the VA payment is affected by an offset with retired pay, the tax-exempt status of the receipt, and the phasing-in of concurrent receipt (which establishes separate retirement and disability payments for those with disability ratings of 50 percent or greater). With these adjustments, full-time workers with disabilities of less than 50 percent have net earnings losses of about 1 percent. In contrast, full-time workers with more severe injuries have net earnings gains of 16 to 70 percent compared with similar nondisabled retirees.

The Military Disability System Is Complex

The Department of Defense (DoD) and the VA evaluate injuries by somewhat different criteria. Also, 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 make it hard to assess how a disability rating translates into a specific incremental monthly income, which is likely to confuse and frustrate both veterans and policymakers.

A key issue for all disability systems is how to assess the validity of the current method of determining disability. Both military and civilian systems are rooted in the history of medical decisions about workplaces that differ greatly from those retirees find today. Also, many retirees assigned VA disability ratings report that they have no health- or disability-related limitations on their civilian-sector work.

Key Recommendations

DoD should consider the following actions:

- *Determine why military disability rates for retirees are rising*. If the higher disability rates reflect a rise in injury rates, then the higher cost may be necessary to recruit and maintain a high-quality military force. But if the injury standards are implicitly becoming more lax, then the higher disability rates will increase costs while providing little benefit to the military.
- *Develop a coherent system for measuring the economic loss from an injury*. The current system confounds retired pay and disability compensation in formulas that make it hard to determine how much of the payment is associated with the disability. Concurrent receipt is logically inconsistent with the offset provisions that apply for lower disability ratings.
- *Determine how well the current system assesses the effect of a disability on a member's civilian-sector earnings potential*. The study shows small differences in labor market outcomes (participation and earnings) between disabled and nondisabled retirees. The VA disability schedule emphasizes the importance of physical limitations in assigning ratings, but these limitations are weakly related with earnings in today's knowledge- and service-based economy. Also, advances in medical technology and treatment may mitigate physical limitations from many injuries. The schedule itself may need substantial recalibration, so that the disability ratings more accurately reflect how service-connected disabilities affect civilian-sector earnings.
- *Collect better information on the civilian earnings of the nonretiree veteran population*. Nonretiree veterans have less severe injuries than the retired population, but the earnings losses for retirees may be a poor indication of the opportunities for the population of nonretiree veterans. Nonretiree veterans are younger and have less military experience than military retirees, so their civilian labor force outcome may differ somewhat from that of military retirees. ■

This research brief describes work done for the RAND National Defense Research Institute and documented in *An Analysis of Military Disability Compensation*, by Richard Buddin and Kanika Kapur, MG-369-OSD, 2005, 128 pp., $20, ISBN: 0-8330-3825-7, available at http://www.rand.org/pubs/monographs/MG369/. The RAND Corporation is a nonprofit research organization providing objective analysis and effective solutions that address the challenges facing the public and private sectors around the world. RAND's publications do not necessarily reflect the opinions of its research clients and sponsors. **RAND**® is a registered trademark.

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RB-9165-OSD (2006)

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