

Fit for Duty

Alternative Approaches for Determining Department of Defense Disability Compensation

As service members perform their jobs, occasions arise when they might face injury or illness that makes them unable to perform the duties required of their position. In these circumstances, a service member might be referred for disability evaluation to determine whether their medical condition allows them to return to duty or whether the condition is severe enough that the member is discharged from service and, in turn, paid disability compensation.

Over the years, the disability evaluation process has undergone many reforms to improve process efficiency. Less attention has been paid to the method for calculating disability compensation. Although prior proposals have introduced alternative approaches to compensating service members for disabilities, a rigorous evaluation of what those alternatives might look like, and their potential impact on service member benefits and costs to the Department of Defense (DoD), has never been conducted until now.

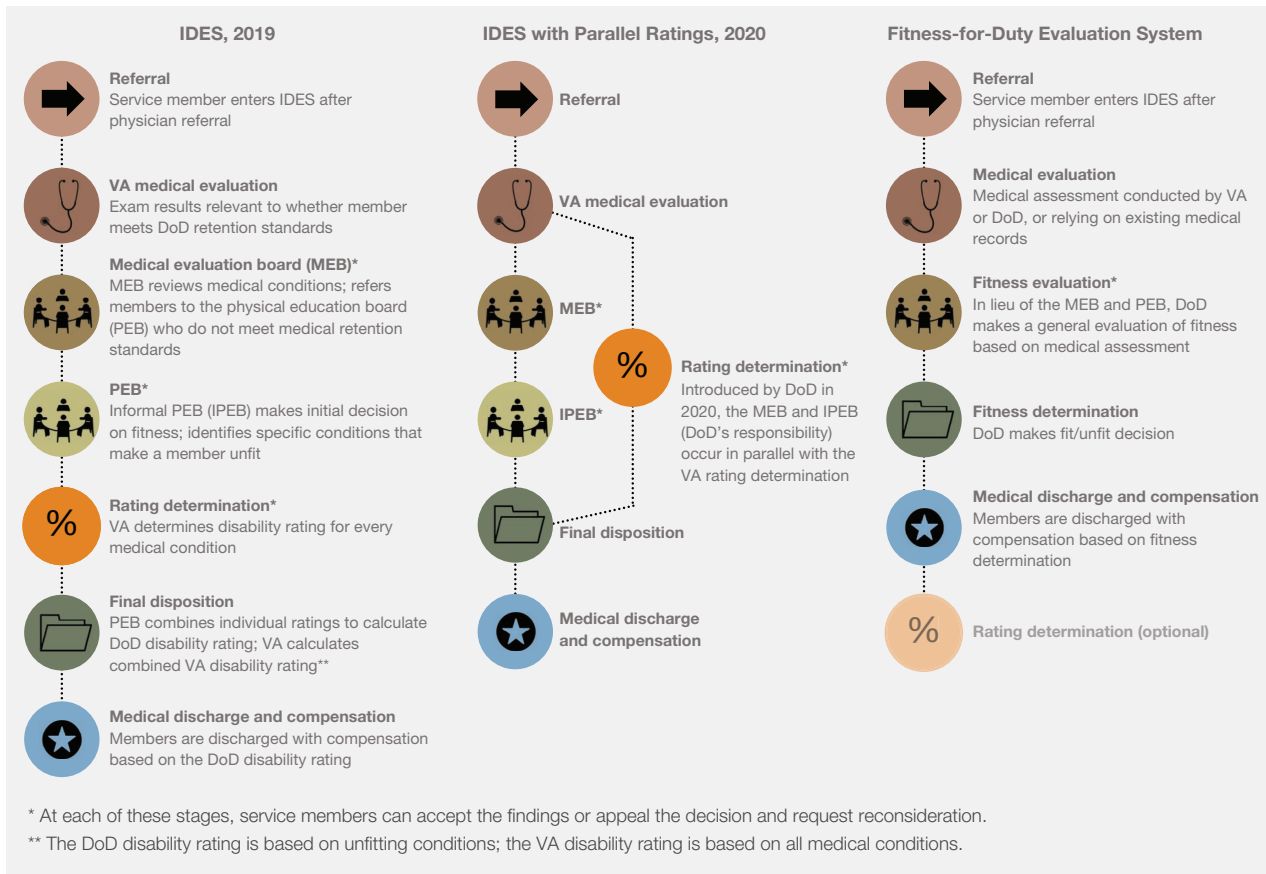
The Disability Evaluation System

The current disability evaluation system is a joint program between DoD and the Department of Veterans Affairs (VA) called the Integrated Disability Evaluation System (IDES). The IDES evaluates a service member's fitness for duty and determines disability benefits for those who are found unfit to continue serving and consequently medically discharged (see Figure 1). The processes for determining fitness for duty and disability compensation are complex and involve numerous stakeholders in DoD and the VA. This complexity results from an effort

KEY FINDINGS

- A fitness-for-duty evaluation system (FES) reduces reliance on Department of Defense (DoD) disability ratings for determining DoD disability compensation and relies primarily on a single decision about whether a service member is fit to perform their duties.
- With one exception, none of the FES alternatives evaluated guarantees that all service members would see benefits at least as large as the benefits they qualify for under the current system.
- Eliminating or delaying the rating step would reduce processing times under a FES by an average of 29 days relative to the current sequential process.
- The estimated time savings associated with implementing an alternative system imply that active-duty end strength for the Army enlisted force would fall by at most 0.2 percent relative to the current system.
- Any alternative system should be evaluated not only on the basis of direct costs and benefits but also on whether it is consistent with the broader objective of disability compensation.

FIGURE 1
Disability Evaluation: IDES Versus Fitness for Duty



to ensure that service members are given a complete and thorough evaluation for any potentially unfitting condition.

Yet, at the same time, the complexity can have adverse consequences, leading to a lengthy evaluation process for members and extra time and resource costs to DoD. At any given time, thousands of service members are in the IDES. While these service members are being evaluated, they cannot deploy, which affects DoD's readiness to conduct its mission. Thus, maintaining readiness creates an incentive for the system to work as efficiently as possible.

Through a series of reforms, DoD, the VA, and the services have made considerable progress in reducing the amount of time it takes to process service members through the system, reducing processing times from an average of 400 days in 2012 to 248 days in 2018. Through new initiatives in 2020, DoD, the VA, and the services are close to achieving a goal of 180 days.

It is also a DoD priority to ensure that service members receive adequate and fair disability com-

ensation and that the DoD disability compensation system work efficiently and compatibly with IDES. Consequently, because the characteristics and needs of DoD and service members evolve over time, it is important to occasionally review the current disability compensation system to ensure that it still achieves this goal.

RAND researchers evaluated DoD disability compensation alternatives within a streamlined disability evaluation approach, referred to as a fitness-for-duty evaluation system (FES). A FES reduces the reliance on DoD disability ratings for determining DoD disability compensation. Instead, it focuses primarily on a single decision of whether a service member is fit or not fit to perform his or her duties (see Figure 1). The work described in this brief is based on the IDES process as it operated in 2019. In 2020, DoD introduced a parallel processing track into IDES. These processes are illustrated in the left and center of the figure. A hypothetical evaluation process that would be consistent with a FES is illustrated in the right of the figure.

With fewer steps, such an approach would save some additional time, but the question at hand was how to change the disability compensation system to support a FES. In particular, how can alternative disability compensation approaches be structured without relying on the disability rating?

DoD Disability Compensation Today

DoD disability compensation is currently determined based on a complex set of formulas. The DoD disability rating—determined in the IDES—has a direct connection to the disability compensation that a service member receives from DoD. Depending on the disability rating, a service member receives either DoD disability *severance* or disability *retirement*. The main determination is as follows:

- If a service member is found to be unfit, receives a DoD disability rating of less than 30 percent, and has fewer than 20 years of service, they will be separated from duty and receive a lump-sum *disability severance payment*. The severance payment is calculated based on current basic pay and years of service. The service member also receives 180 days of health care benefits.
- If a service member is found to be unfit and receives a DoD disability rating of 30 percent or higher or has 20 or more years of service, they are medically retired and receive a *disability retirement benefit* for the remainder of their lives. The service member also receives lifetime health care benefits.¹

The DoD disability retirement benefit is calculated in two different ways. The rating-based formula uses the DoD disability rating percentage (up to a maximum of 75 percent) to calculate the benefit. The retirement formula uses a retirement multiplier to calculate the benefit based on longevity of service instead of the disability rating. The member presumably chooses the option that results in the higher benefit payment.

Service members who are medically discharged through IDES could also receive disability compensation from the VA. The DoD disability benefit is reduced by the amount a member receives from the VA.

¹ See DoD Instruction 1332.18, Disability Evaluation System (DES), August 5, 2014, incorporating Change 1, effective May 17, 2018, Appendix 3 to Enclosure 3, paragraph 2.b.

In practice, the retirement formula tends to benefit more-senior personnel; junior personnel tend to receive a higher benefit using the rating-based formula. Because most personnel in IDES are relatively junior (E-4 to E-6), their disability benefits would be more likely to change (either increase or decrease) if use of DoD ratings were changed or eliminated.

These differences need to be taken into account when considering alternative ways to compensate members under a FES. These differences also make it difficult to develop alternatives that have equal impact for all service members in IDES.

Alternative DoD Disability Compensation Approaches




RAND researchers developed four alternatives for redesigning DoD disability compensation under a FES. To develop these alternative approaches, they reviewed past proposals to reform the DoD disability compensation system, the disability compensation system for U.S. civilians, and how selected U.S. allies compensate military personnel for disabling conditions. The four alternatives have the following objectives:

1. *Compensate based on current objectives*. This alternative maintains the objectives of the current system, which compensates for the condition causing disability, the severity of the disability, and the military career accomplished to date, but, in most cases, the disability rating is established after the service member is discharged.
2. *Compensate for military career*. This alternative is based on career metrics and considers either the military service accomplished to date or the expected loss of a military career.
3. *Compensate for unfitting conditions*. This alternative is based on the condition that is causing disability and was incurred as a result of a service member's work in the line of duty.
4. *Compensate like U.S. allies*. This alternative considers both the severity of the disability and the loss of a military career.

Table 1 contains additional details on the compensation formula and when the disability rating is determined for each alternative, including implementation options analyzed for Alternatives 1 and 2.

These hypothetical alternatives were developed in 2019. None of the alternatives is currently being pur-

TABLE 1
Alternative Disability Compensation Approaches

 Compensation objective	 Compensation formula	 When disability rating is determined
Status quo	Rated disability or career metrics	During evaluation process
Alternative 1 Compensate based on current objectives	a. Same formula as status quo, with transition benefit b. Rated disability (junior rank) or career metrics (senior rank)	a. After discharge b. During evaluation process (junior rank); senior ranks not rated
Alternative 2 Compensate for military career	a. Value of lost military career b. Retirement pay with floor of 12 years of service c. Retirement pay with no floor	No rating needed for DoD compensation
Alternative 3 Compensate for unfitting condition	Fixed payment for each condition that results in unfitness for duty	No rating needed for DoD compensation
Alternative 4 Compensate like U.S. allies	One payment based on disability severity; additional payment based on earnings loss	After discharge

sued by DoD, and these alternatives also do not take into account parallel ratings adopted by DoD in 2020. Consequently, Alternatives 1a and 4, which move the assignment of a DoD rating until after a member is discharged, are not entirely compatible with the design of parallel ratings. But they do offer different perspectives on ways to reform the disability compensation system. Analyzing these alternatives involved modeling and simulation techniques, as well as tabulations using multiple data files from DoD and the Veterans Tracking Application. The specific analytic approach varied for each alternative.

Each compensation alternative would be feasible under a FES but would change the value of compensation relative to current benefits for at least some service members. In addition to the changes in compensation, costs to DoD could also change under these alternatives.

For example, Alternative 1a, the only alternative under which benefits do not change relative to the current benefit, would increase the overall cost to DoD because of the addition of a transition benefit and would require coordination with the VA to change the timing of the ratings step in the evaluation process.²

² This conclusion assumes that end strength would be held constant, so any savings from having fewer people in IDES would be offset by the cost of replacement personnel.

For all other options, the change in the disability benefit is generally mixed—increasing for some members, decreasing for others—depending on how each option is implemented. Table 2 summarizes changes in service member benefits and DoD costs for each alternative. Although a complete cost assessment was beyond the scope of this research, it was possible to estimate the effect on cost for some alternatives.

Other Implications of a FES









The value of disability compensation is only one dimension by which a FES should be evaluated. It is also important to understand the implications of removing ratings on the timing of the process itself, end strength, human capital, and policies and legislation.

IDES Processing Time

Eliminating or delaying ratings until after discharge is estimated to reduce the length of the IDES process (prior to the use of a parallel ratings process) by approximately 29 days on average, or about 13 percent of the average IDES duration in 2018. It could also reduce some of the variability in the process. Actual time savings might be greater because eliminating

TABLE 2

Summary of Outcomes for DoD Disability Compensation Alternatives

 Compensation objective	 Change in disability benefits relative to status quo	 Notes
Status quo		No change in disability benefits but total cost increases due to transition benefit if end strength is maintained
Alternative 1 Compensate based on current objectives		<ul style="list-style-type: none"> • No change for junior members or senior members whose current benefit is based on retirement • Decline for senior members whose current benefit is based on ratings
Alternative 2 Compensate for military career		Benefits increase for some, decrease for others, depending on rating under current system, grade, and years of service
Alternative 3 Compensate for unfitting condition		Benefits depend on fixed payment amount: could increase for those with lower payments and fall for those with higher payments under status quo
Alternative 4 Compensate like U.S. allies		Hybrid of Alternatives 2 and 3: results vary depending on size of fixed payment

ratings could lead to efficiencies in other steps in the process, such as the medical evaluation or appeals.

Preliminary DoD estimates from fiscal year 2020 suggest that implementation of parallel ratings in the IDES process saved 36 days, similar to the alternatives examined here in a sequential process.

Change in End Strength

The majority of IDES referrals are Army enlisted personnel. Under a FES, active-duty end strength for the Army enlisted force would fall by no more than 0.2 percent (relative to a system without parallel ratings) because of the reduction in processing times from eliminating or delaying ratings. A similar, though slightly smaller, reduction in end strength would occur in the other services. This drop is among people who are not able to deploy, so the services could choose to maintain end strength with deployable members (through accessions or by increasing retention), thereby increasing readiness.

Human Capital Loss

The loss of personnel who are discharged because of disability represents a loss of skills and experience.

The process envisioned under the alternatives does not change the number of service members who would be found unfit and separated or retired. But members would be discharged more quickly, accelerating the loss of human capital.

Ninety percent of service members who are discharged through IDES are enlisted, and 78 percent are in grades E-4 to E-6. The most common occupations for these members are general infantry and general medical care, supply, law enforcement, and automotive occupations. On average, the training associated with these occupations is relatively modest, although the training and experience of officers who exit the military because of disability is substantial.

Policies and Legislation

The policies and legislation underpinning the current system are complex and interconnected, and many of them directly rely on or reference disability ratings. For example, the terms *disability* and *rating* are referenced numerous times in U.S. Code and the DoD Instruction for IDES.

Nearly all of these references are substantive in nature in that they serve to delineate how determinations of compensation are made, as well as what

appellate options are available to those service members who are designated disabled. As a result, many aspects of the applicable U.S. Code would likely require repeal or amendment under a shift to a FES, and associated authorities would then require rescissions, changes, and/or reissuances.

Concluding Thoughts

Although these alternative approaches for compensation under a FES are feasible, numerous process, legal, and compensation-related changes would be required to implement any of them. Moreover, any disability compensation approach used as part of a FES should be evaluated not only on the direct costs and benefits

but also on what objectives policymakers want the DoD disability compensation system to achieve.

For example, if DoD were to decide that DoD disability compensation should be based solely on career metrics, that would provide justification for pursuing Alternative 2. Similar arguments could be made for other alternatives if broader policy objectives are best met by compensating on the basis of disability severity, unfitting conditions, or the approach undertaken by U.S. allies. The end result could be a simpler and more streamlined disability compensation system.

The analysis summarized here offers a framework that decisionmakers could reference should the department consider moving to a FES in the future.

This brief describes work done in the RAND National Defense Research Institute and documented in *U.S. Department of Defense Disability Compensation Under a Fitness-for-Duty Evaluation Approach*, by Stephanie Rennane, Beth J. Asch, Michael G. Mattock, Heather Krull, Douglas C. Ligor, Michael Dworsky, and Jonas Kempf, RR-A1154-1, 2022 (available at www.rand.org/t/RR-A1154-1). To view this brief online, visit www.rand.org/t/RBA1154-1. The RAND Corporation is a research organization that develops solutions to public policy challenges to help make communities throughout the world safer and more secure, healthier and more prosperous. RAND is nonprofit, nonpartisan, and committed to the public interest. RAND's publications do not necessarily reflect the opinions of its research clients and sponsors. **RAND**® is a registered trademark.

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