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Veterans' Disability Compensation: Trends and Policy Options

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Notes

Unless otherwise noted, all years are fiscal years (which run from October 1 to September 30). Dollar amounts are generally adjusted for inflation (to fiscal year 2014 dollars) using historical values and projections of the personal consumption expenditures deflator, but savings and costs for policy options are presented in nominal dollars. This report uses the term *spending* to refer either to *obligations* or to *outlays*, depending on the availability of data. The report shows the benefits paid under the disability compensation program to veterans themselves but not to their survivors.

On the cover: Veterans attend a ceremony at the Tomb of the Unknown Soldier, Arlington National Cemetery, November 11, 2010. Department of Defense photo by Cherie Cullen/Wikimedia Commons.

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Summary

The Department of Veterans Affairs (VA) oversees a disability program that makes payments through the Veterans Benefits Administration (VBA) to compensate U.S. veterans for medical conditions or injuries that are incurred or aggravated during active duty in the military, although not necessarily during the performance of military duties. Compensable service-connected disabilities range widely in severity and type, including the loss of one or more limbs, migraines, scars, and hypertension. Payments are meant to offset the average earnings lost as a result of those conditions, whether or not a particular veteran's condition has reduced his or her earnings or interfered with his or her daily functioning. Disability compensation is not means-tested; veterans who work are eligible for benefits, and, in fact, most working-age veterans who receive disability benefits are employed. Payments are in the form of monthly annuities and typically continue until death.

Adjusted for inflation to 2014 dollars, VA disability compensation to veterans amounted to $54 billion in 2013, or about 70 percent of VBA's total mandatory spending, according to analysis by the Congressional Budget Office (CBO).[1] The remainder of the department's mandatory spending that year was for programs that provide veterans with housing assistance, education, vocational training, and other assistance. In 2013, about 3.5 million of the nation's 22 million veterans received disability compensation benefits. (Those benefits are distinct from the health benefits provided through the Veterans Health Administration [VHA].)

How Much Has Federal Spending on VA Disability Compensation Changed Since 2000?

From 2000 to 2013, the number of veterans who were receiving disability payments rose by almost 55 percent, from 2.3 million to 3.5 million (see Figure 1), despite a 17 percent decline in the total population of living veterans, from nearly 27 million to 22 million. In 2000, 9 percent of all veterans received disability benefits; by 2013, that proportion had risen to 16 percent. Over the same period, the average real (inflation-adjusted) annualized disability payment rose by nearly 60 percent—from $8,100 in 2000 to $12,900 in 2013—consistent with increases in the average number and average severity of compensable disabilities per veteran.

Both the share of veterans receiving disability payments and the average real amount of those payments increased for veterans from all periods of service. Those increases can be attributed to several factors: changes in policy that made it easier for veterans to claim benefits, the recent conflicts in Iraq and Afghanistan, and difficult labor market conditions during the past several years.

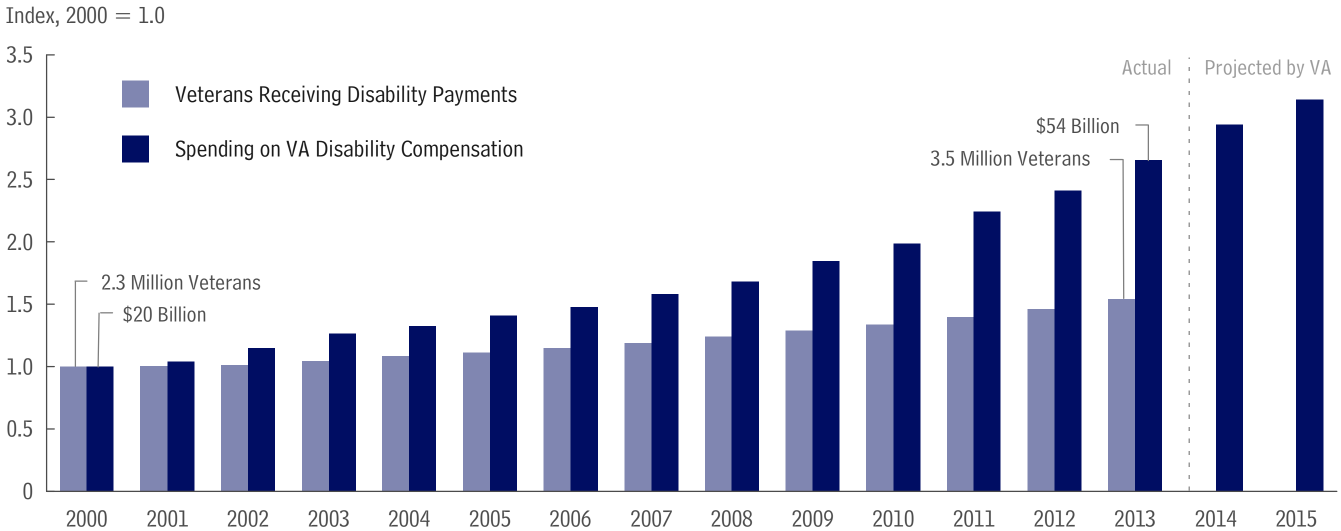
Spending on veterans' disability benefits has almost tripled since fiscal year 2000, from $20 billion in 2000 to $54 billion in 2013—an average annual increase of nearly 8 percent, after adjusting for inflation. VA projects that such spending will total $60 billion in 2014 and $64 billion in 2015, a 19 percent increase from two years earlier (see Figure 1).[2]

1. Those figures are based on data published by the Department of Veterans Affairs regarding obligations for its mandatory spending programs. Obligations are legally binding commitments by the federal government that will result in outlays, immediately or in the future. Mandatory spending is the budget authority provided by laws other than appropriation acts and the outlays that result from that budget authority.

2. VA reports both historical spending and projections of future spending on disability compensation in terms of obligations, and CBO has largely adopted that approach throughout this report. In other contexts, CBO projects VA's spending in terms of outlays, but those projections are for a broader category of costs (including survivors' and other payments) than the disability payments to veterans that are the subject of this report.

Figure 1.

Trends in the Number of Veterans Receiving VA Disability Payments and in Spending on VA Disability Compensation



Source: Congressional Budget Office based on data from various years of the Department of Veterans Affairs' Budget Submission and Annual Benefit Report.

Notes: In this study, CBO uses the term spending to refer either to obligations or to outlays, depending on data availability. Obligations are presented here and are adjusted for inflation using the personal consumption expenditures deflator. CBO reports only those benefits paid to veterans and not those paid to veterans' survivors.

Veteran recipients are counted as of the beginning of each fiscal year.

VA = Department of Veterans Affairs.

How Might Certain Policy Options Affect the Federal Budget?

The United States has a record that spans centuries of compensating veterans who have been injured during military service. VBA's vision statement reads, in part, "Veterans whom we serve will feel that our Nation has kept its commitment to them . . . and taxpayers will feel that we've met the responsibilities they've entrusted to us." To better meet those purposes, lawmakers could consider changing VA's disability compensation program. In response to budgetary pressures, for example, the program could be scaled back to reduce federal spending. Alternatively, lawmakers could choose to modify the program to provide greater support to certain groups of disabled veterans.

In this report, CBO examines some advantages and disadvantages of potential policy changes and presents estimates, to the extent that it is possible to do so, of their budgetary effects from 2015 through 2024 (see Table 1). Several of the options would modify VA's processes for identifying service-connected disabilities. Others would change payment rates, coordination with other federal benefits, or the tax treatment of benefits.

The option with the largest estimated budgetary effect would eliminate the program known as concurrent receipt. For decades before 2003, a veteran's retirement pay from the Department of Defense (DoD) was reduced by the amount of any VA disability benefits that person received. Since then, under concurrent receipt, the retirement pay some veterans receive either is not reduced or is reduced by a smaller amount. CBO estimates that eliminating concurrent receipt (and thereby returning to the previous long-standing policy) would save the federal government $119 billion from 2015 through 2024. By contrast, extending concurrent receipt to all veterans who would be eligible both for disability benefits and for military retirement pay would cost $30 billion over the same period. The estimated budgetary effects of the other options range from savings of $64 billion through 2024 to additional outlays of $9 billion for the same period. (Actual savings or costs would depend on the options' final design.)

Table 1.

Budgetary Effects of Selected Approaches to Changing Veterans' Disability Compensation

Billions of Dollars

	Ten-Year Savings (Costs), 2015–2024
Modify VA's Processes for Identifying Service-Connected Disabilities	
Option 1: Institute a Time Limit on Initial Applications	
5 years	28
10 years	19
20 years	9
Option 2: Require VA to Expand Its Use of Reexaminations	Could be savings or costs[a]
Option 3: Change the Positive-Association Standard for Declaring Presumptive Conditions	Net savings[a]
Change Payments to Disabled Veterans	
Option 4: Restrict Individual Unemployability Benefits to Veterans Who Are Younger Than the Full Retirement Age for Social Security	
All veterans	17
Phased in for veterans age 65 or younger in 2015	8
Option 5: Supplement Payments to Veterans Who Have Mental Disorders	
All veterans	(9) [b]
Veterans age 65 or younger	(7) [b]
Option 6: Change the Cost-of-Living Adjustment	10
Option 7: Change Concurrent Receipt	
Eliminate the program	119
Extend to all DoD retirees	(30)
Option 8: Tax VA Disability Payments	64

Sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

Note: VA = Department of Veterans Affairs; DoD = Department of Defense.

a. CBO did not estimate the budgetary effects of this option.

b. The cost represents two years of supplemental payments.

Characteristics of VA's Disabled Beneficiaries

A veteran can receive compensation for disabilities so long as he or she has been discharged from military service under other than dishonorable conditions and can document that a current medical condition or injury either was incurred or was aggravated during active duty or during certain kinds of National Guard and reserve training. Notably, a service member need not have been performing military duties for the disability to be deemed connected to service.[3]

Compensable disabling conditions can be physical, like lower back pain, or mental, like depression; complications that arise from a given disability also may be deemed connected to service. VA reported that, at the beginning of fiscal year 2013, the most common broad categories of disability among veterans who were receiving compensation were musculoskeletal (36 percent), hearing related (13 percent), and skin related (11 percent). The three most prevalent specific

3. In addition, veterans whose disabilities result from improper care or an unforeseen event while under the care of the VHA may qualify for disability compensation.

disabilities, collectively representing 16 percent of the total, were tinnitus, or ringing in the ears (6.7 percent); hearing loss (5.3 percent); and post-traumatic stress disorder (4.0 percent).

In 2013, some 3.5 million veterans (about 16 percent of all veterans) received VA disability compensation. About 46 percent of recipients were between the ages of 55 and 74 (compared with about 43 percent of veterans overall), and many of them first began to receive benefits after reaching the age of 55. Women made up 8.5 percent of the population of disabled veterans in 2013 (compared with about 10 percent of all veterans). Just under 40 percent of disabled veterans had a high school education or less, similar to veterans as a group and to the civilian population as a whole. Relatively few disabled veterans, 6 percent, had less than a high school diploma, compared with 13 percent of civilians.

Most disabled veterans of working age (18 to 65) are in the labor force—that is, they are either working or actively looking for work—but their labor force participation rate is lower than that of their nondisabled counterparts. For example, in 2013, the participation rate was 73 percent among male veterans who had separated from the military after September 2001 and who had a disability as determined by VA or by DoD (which has its own disability system). The corresponding rate for nondisabled male veterans was 88 percent (roughly similar to that for the younger, male, nonveteran population). However, the participation rate for working-age male civilians with disabilities was much lower than that for disabled veterans—34 percent in 2013—in part because other disability programs have stricter rules for determining what constitutes a compensable disability and place greater limits on employment for recipients.

The unemployment rate for disabled veterans of working age (7 percent) was lower in 2013 than that among similar, nondisabled veterans (12 percent), partly because of the larger share of disabled veterans who were not in the labor force. Disabled veterans were much more likely to be employed in the public sector (31 percent) than were other veterans (19 percent).

On average, U.S. households with disabled veterans have about the same income as all U.S. households ($80,500 and $82,000, respectively, in 2010), although the composition of that income is different. In general, households with disabled veterans have less income from earnings (wages and salaries) than is the case for U.S. households as a group, with the difference largely made up by VA disability payments. The distribution of income for nonelderly disabled veterans is generally about the same as it is for nonelderly households in the population at large, although the households with nonelderly disabled veterans whose income is in the lowest 20 percent of that group have higher total income, on average, than the lowest-income nonelderly households overall ($16,800 versus $14,500)—again, in large measure because of VA disability benefits.

VA's Evaluations of Claims for Disability Benefits

A veteran may apply for disability benefits shortly before or any time after leaving active duty. Veterans need not demonstrate any loss in earnings to qualify for benefits; documented disabilities (other than mental disorders) need not impair either employment or employability.[4] That feature of VA's disability compensation makes the program markedly different from private disability insurance and other government disability programs.

A VA rating specialist, guided by regulations and department policy, either rejects an application or assigns a composite disability rating that determines the amount of compensation to be awarded along with eligibility for certain other benefits, such as health care provided by VHA.[5] The time it takes for a claim to be processed—which is sometimes more than a year—depends on the completeness of the application, the evidence received, and VA's resources. A veteran may appeal a rating decision to the VA's Board of Veterans Appeals and, if that appeal is denied, proceed to the U.S. Court of Appeals

4. Veterans who apply for one type of supplemental disability compensation, however, must show that their earnings are below the federal poverty guidelines (that is, their earned income cannot exceed what is commonly referred to as the federal poverty level). In 2014, that amount (which is indexed to inflation) is $11,670 for a single person.

5. Although there are detailed instructions on rating medical conditions, the process entails some subjectivity that can result in veterans with similar conditions receiving different benefit amounts. For example, there is evidence of geographic variation in benefits. See Institute for Defense Analyses, *Analysis of Differences in Disability Compensation in the Department of Veterans Affairs, Volume 1: Final Report* (December 2006), http://tinyurl.com/klz9von (PDF, 1 MB).

for Veterans Claims. For veterans who are granted compensation, disability payments continue until death.

Submission and Evaluation of Claims

VA requires claimants for disability benefits to complete an application that includes supporting evidence and to undergo a physical examination that typically is conducted by VA personnel or by contractors, focusing on the specific disabilities for which the veteran seeks compensation. Federal law requires VA to help claimants acquire the necessary supporting documentation. That assistance can include asking DoD or other federal agencies to release the veteran's personnel and medical records, contacting the veteran's private physicians, examining corroborative evidence, or otherwise attempting to document eligibility and the service-connected nature of the medical condition. Federal law also requires VA to give the benefit of the doubt to the veteran and to approve a claim as long as the evidence presented does not lead to a clear conclusion that a disability is not connected to service.[6]

Some medical conditions have been identified by VA or by law as *presumptive* conditions, under certain circumstances, for disability compensation. In those cases, the veteran does not need to prove that the condition was related to his or her military service; instead, VA simply presumes that it is. For example, some conditions that have been associated with exposure to certain herbicides, notably Agent Orange, are considered presumptive for veterans who served in Vietnam.[7] If VA denies an application from a veteran who meets the criteria for a presumptive condition, the agency bears the burden of proof that some behavior or some circumstance other than military service is the cause of the disability.

Since 2009, all service members have been eligible to submit claims for VA disability compensation before leaving military service. Two programs—Benefits Delivery at Discharge and Quick Start—are available to service members who do not qualify for a DoD-approved medical separation. The difference between the two programs is in the time frame. Service members who are scheduled to separate within 60 to 180 days may use Benefits Delivery at Discharge and must be available to attend all required examinations at their last duty station before leaving active duty. Almost all applicants for that program complete their claims by the time they leave the military. Service members who are scheduled to separate in fewer than 60 days can begin the claims process through Quick Start but may not have enough time to complete their claims before separation. Service members who cannot complete their applications before separation can finish at their local VA facility.

The programs' advantages to service members are twofold: The veteran's responsibility for providing information is greatly reduced, and, for approved claims, compensation may start sooner than would be the case if the service member waited until after discharge to apply. In 2013, applicants for Benefits Delivery at Discharge claimed, on average, 16 service-connected conditions; the average for Quick Start was 12 conditions. Under Benefits Delivery at Discharge, the average new beneficiary in 2014, through March, received the first compensation payment within 203 days of the date of separation; the Quick Start average was 159 days. (Initial payments under both programs and for veterans who apply within one year of leaving military service include retroactive payments to the date of discharge.) Both programs processed applications faster than the national average of 256 days for all claims.

Service members who seek a medical discharge from DoD use the Integrated Disability Evaluation System (IDES), which is jointly administered by DoD and VA to streamline evaluations. In the past, the agencies' processes required separate physical examinations; now, just one is required. People who leave military service for medical reasons still receive separate ratings for use by DoD and by VA, however, because the two systems have different purposes. DoD evaluates fitness and readiness, judging

6. In addition, for veterans who engaged in combat and later claim a service-connected condition for which there is no official record, VA must consider other proof of service connection for conditions and resolve every reasonable doubt in favor of the veteran. See Consideration to Be Accorded Time, Place, and Circumstances of Service, in Chapter 11—Compensation for Service-Connected Disability or Death, 38 U.S.C. §1154(b) (2011), http://go.usa.gov/kStJ.

7. In 1985, for veterans who had served in or around Vietnam, VA began to recognize as presumptive conditions several cancers and other medical conditions associated with exposure to Agent Orange and other herbicides. For veterans of earlier wars, presumptive conditions included tuberculosis and various tropical diseases. For veterans with more recent service, still other conditions are presumptive. For a list, see Presumptions Relating to Certain Diseases and Disabilities, in Chapter 11—Compensation for Service-Connected Disability or Death, 38 U.S.C. §1112 (2011), http://go.usa.gov/kStJ.

members on the basis of their ability to stay on active duty. Only those conditions that impede a service member's ability to perform his or her military duties are considered in DoD's disability rating and for its subsequent compensation package; other conditions have no bearing. VA takes a broader approach: Its ratings are meant to reflect the average effect of one or more impairments on a veteran's earnings capacity, although ratings are granted without regard to an individual applicant's earnings. In 2013, IDES received referrals for almost 32,000 service members who claimed an average of 13 conditions each (2 identified by the branch of service and 11 more by the service member); about 25,000 of those service members were granted medical separations by DoD in that year. For 2014, through March, veterans who were awarded VA disability ratings through IDES received notification of claim decisions, on average, within 47 days of separating from military service.

Reevaluation of Claims

Reevaluation of a disability rating may be initiated either by VA or by the veteran. Generally, VA's policy is to schedule a new physical exam (which typically is part of the reevaluation process) for disabilities that may improve in the years following the initial evaluation. However, both the regulations and VA's resources limit the department's ability to initiate reexaminations.[8] As of March 2014, the department had plans to initiate reevaluations of about 27,000 disabled veterans in the next five years. More commonly, though, veterans request a reevaluation to increase their disability rating when they believe that their conditions have worsened or new conditions have developed. For instance, if a veteran becomes less able to control his or her high blood pressure or develops a related complication such as hypertensive retinopathy or an aneurism, that veteran may receive a higher rating. In 2013, VA increased the disability ratings of nearly 230,000 veterans (or 6 percent of compensated recipients), mostly as a result of reevaluations initiated by the veterans rather than the department.

Claims Processing

The number of claims received by VA increased considerably over the past decade. In 2011, the number of initial claims and requests for reevaluation peaked at about 1.3 million, an increase of nearly 30 percent from just two years earlier and nearly double the 735,000 claims received in 2003.[9] VA attributes the jump to several factors, including the agency's improved outreach and access to veterans, new presumptions for exposure to Agent Orange, the aging of the veteran population, and a relatively weak U.S. economy. Since 2011, new claims have dropped to 2009 levels, totaling about 1 million submissions in 2013.

As total claims increased, VA's average processing time also lengthened. The average period of 177 days in 2006 had almost doubled to 348 days by 2013, far from satisfying VA's stated goal of a 125-day maximum. In response to criticism about processing time, in recent years the agency has instituted such measures as a paperless claims system and mandatory overtime for processors. By March 2014, about 580,000 veteran-initiated claims for disability compensation were pending, a decline of one-quarter from the previous March. About 190,000 were initial claims, and one-quarter of those were complex claims from veterans who were applying for eight or more disabilities. The remaining roughly 390,000 of the applications requested an increase in a disability rating.

VA's Benefit Calculations

Disability benefits consist of base payments in the form of monthly annuities and, in certain cases, supplemental benefits known as special monthly compensation (SMC) and individual unemployability (IU) payments. All disabled veterans are eligible for VHA medical care; some disabled veterans are also eligible for other VA or federal government benefits, depending on such factors as income and the time elapsed since separation from the service.

Ratings and Base Payments

The amount of a veteran's base payment is linked to his or her composite disability rating, which is expressed

8. Some restrictions prohibit VA from initiating reevaluations more frequently than every other year for an individual veteran and from reevaluating any veteran over the age of 55; see Reexaminations, 38 C.F.R. §3.327 (2013), http://go.usa.gov/kSuH (PDF, 181 KB). However, the disability-rating schedule requires reevaluation for certain conditions if there is a change in severity; that would be the case, for example, if someone's cancer went into remission. VA's decision to reevaluate a veteran depends on the individual circumstances of each case.

9. Those numbers include disability claims and pension claims (for certain low-income veterans with non–service-connected disabilities) as well as claims by survivors. The number of pension claims is generally about 10 percent of the total; survivor claims are typically less than 5 percent of all claims.

from zero to 100 percent in increments of 10 percentage points. The composite rating is not strictly additive but is a nonlinear combination of ratings for each physical or mental condition.[10] Higher ratings generally reflect greater severity of disability. A rating of zero is assigned to service-connected conditions that are not considered disabling, such as a small scar, mild anxiety, or a minor limitation in the motion of a thumb. A veteran with a composite rating of zero does not typically receive compensation but still has a documented service-connected disability and may receive an increased rating if the condition worsens. (By contrast, if a condition did not occur or worsen during a veteran's time in service and is not deemed presumptive, then the veteran receives no rating.) Impairments rated at 60 percent or higher are considered significant; a rating of 100 percent is assigned to conditions that VA considers completely disabling, such as multiple amputations or chronic congestive heart failure. Two percent of individual disabilities are rated at 100 percent, although 10 percent of disabled veterans have composite ratings of 100 percent.

The rating is linked to the clinical severity of a veteran's conditions, and veterans with the same condition (for example, diabetes) can receive different ratings depending on the severity of the condition at the time of application for benefits.[11] Because veterans can receive compensation for conditions that develop during military service but that are unrelated to that service, disability compensation is provided for conditions that also occur commonly among the civilian population, including hearing loss, sinusitis, and prostate cancer.

Although subject to the same overall rating system, VA's evaluations of mental disorders are different from those of physical conditions. Physical conditions are assessed according to their associated physical limitations, but mental disorders (other than eating disorders) are evaluated according to a single formula that is based on occupational and social impairment. VA assigns only six degrees of impairment for mental disorders: 0, 10, 30, 50, 70, and 100 percent. (A veteran's rating for a mental disorder can be combined with ratings for physical disabilities.) For a veteran to receive a 100 percent rating for a mental disorder, VA must determine that he or she cannot sustain employment and is unable to interact socially—stricter standards than those applied for physical disabilities.[12]

By statute, disability payments are supposed to reflect the average loss of earnings for veterans with a given rating, but there is no requirement that any veteran demonstrate an actual loss of earnings as a condition of collecting benefits. Therefore, some beneficiaries receive more in benefits than they have lost in income whereas other recipients' payments are smaller than the amount of their lost income.

VA's rating schedule—intended to reflect the average losses in earnings stemming from certain medical conditions—has not been comprehensively updated since 1945, when the U.S. economy was based primarily on manufacturing and agriculture. With the shift toward a service-based economy and with many changes in the manufacturing and agricultural sectors, the same disabilities could have a markedly different impact on earnings today. Thus, VA's rating schedule may no longer meet the stated goals. Some evidence shows that, on average for all

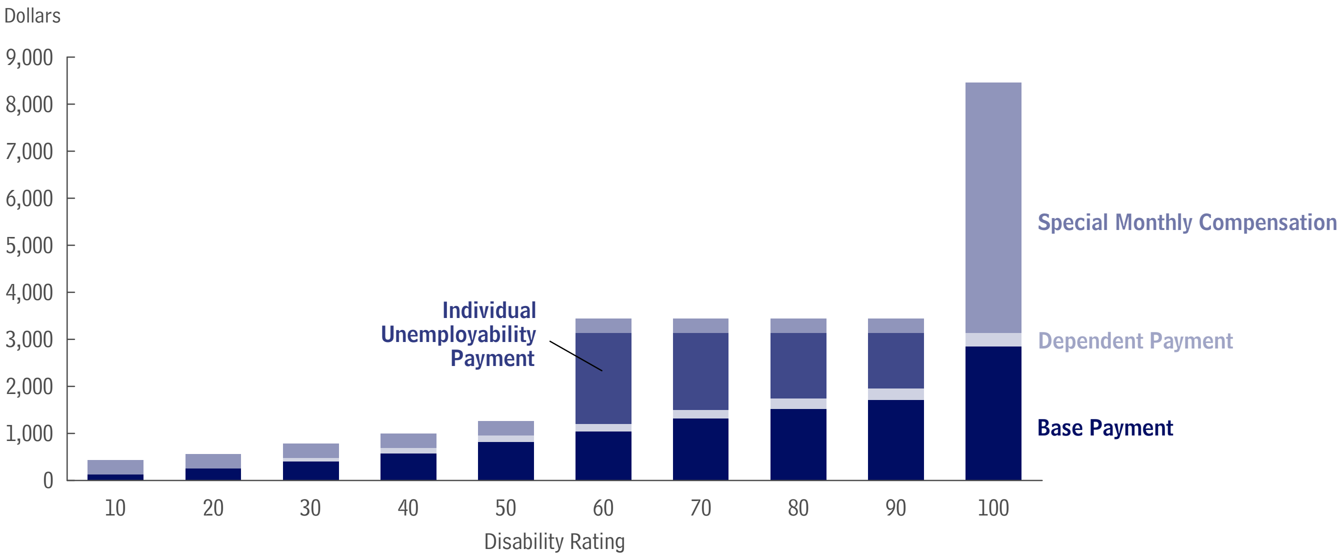
10. For documentation of the method for calculating combined disability ratings, see Department of Veterans Affairs, Compensation, "Learn More About VA Compensation Rates: How VA Calculates Compensation Rates" (April 2014), http://go.usa.gov/BWaw.

11. As an illustration, diabetes ratings range from 10 percent to 100 percent. VA assigns a 10 percent rating if the condition is manageable by restricted diet alone; 20 percent if the condition requires either insulin and a restricted diet or an oral hypoglycemic agent and a restricted diet; and 40 percent if it requires insulin, a restricted diet, and regulation of activities (avoidance of strenuous occupational and recreational activities). VA assigns a 100 percent rating if the condition requires more than one daily injection of insulin, a restricted diet, and regulation of activities; if it is accompanied by episodes of ketoacidosis or hypoglycemic reactions requiring at least three hospitalizations per year or weekly visits to a diabetic care provider; and if it is accompanied either by progressive loss of weight and strength or by complications that would be compensable if evaluated separately. For ratings by medical condition, see Subpart B—Disability Ratings, 38 C.F.R. §4 (2013), http://go.usa.gov/khc4 (PDF, 1.4 MB).

12. VA assigns a rating of 100 percent for a mental disorder if there is total occupational and social impairment attributable to such symptoms as gross impairment in thought processes or communication; persistent delusions or hallucinations; grossly inappropriate behavior; persistent danger of hurting oneself or others; intermittent inability to perform activities of daily living (including maintenance of minimal personal hygiene); disorientation to time or place; or memory loss for names of close relatives, one's occupation, or one's name. For ratings for mental disorders, see Subpart B—Disability Ratings, 38 C.F.R. §4 (2013), http://go.usa.gov/khc4 (PDF, 1.4 MB).

Figure 2.

Maximum Monthly Payment to a Disabled Veteran, Married With One Child, 2014



Source: Congressional Budget Office.

Note: The figure shows illustrative maximum payments for a disabled veteran who is married, has one child, and does not have a dependent parent or a disabled spouse. Payment amounts vary for veterans with different circumstances; not all veterans qualify for special monthly compensation or individual unemployability payments.

disabled veterans, VA disability benefits do compensate by amounts that roughly equal lost earnings. However, there also is evidence that some veterans (for example, those who are age 65 or older) tend to receive benefits that are greater than their typical earnings would have been upon leaving the labor force, whereas other veterans (mainly those who begin collecting benefits when they are young and those whose primary disabling condition is a mental disorder) tend to receive benefits that are less than their average earnings losses.[13] VA is currently revising its rating schedule and plans to integrate recent medical findings and information about earnings losses by April 2016. However, it is not clear how extensive the changes will be.

In calendar year 2014, base payments ranged from $130 per month for veterans with a 10 percent rating to $1,710 per month for veterans with a 90 percent rating; base payments jumped to $2,860 for veterans with a 100 percent rating (see Figure 2).[14] Disability payments are not subject to state or federal taxation, and each year for the past several decades the Congress has enacted a cost-of-living adjustment (COLA) that increased disability benefits to keep pace with inflation.[15]

Veterans whose ratings are 30 percent or higher and who are married or have dependents receive higher base payments that are adjusted with changes in their dependency status. Typically, married veterans receive an additional $50 to $150 each month, and disabled veterans who are parents receive $25 to $100 per month for each dependent child.

13. See Department of Veterans Affairs, *A Study of Compensation Payments for Service-Connected Disabilities, Volume I: Executive Report* (prepared by Economic Systems, September 2008), http://go.usa.gov/BkRk (PDF, 1.4 MB); and Eric Christensen and others, *Final Report for the Veterans' Disability Benefits Commission: Compensation, Survey Results, and Selected Topics* (CNA Corporation, August 2007), http://tinyurl.com/n3dveox.

14. VA also provides dependency and indemnity compensation—payments to surviving spouses or children and to certain others who survive a veteran whose death results from a service-related disability. In 2013, there were about 370,000 such beneficiaries who received an average monthly base payment of $1,300.

15. Beginning in the 1980s, the Congress has set the COLA for VA benefits to be essentially the same as that for Social Security benefits, although, for technical reasons, the rates have not always matched exactly.

Special Monthly Compensation

Veterans who have lost the use of or no longer have one or more specific organs or extremities may receive SMC—typically between $100 and $300 per month–that is added to or, in cases of higher payment rates, substituted for base payments.[16] In some cases, SMC can be substantial: For a very small group of severely disabled veterans (roughly 1 percent of those who collect SMC), the total monthly disability payment exceeds $8,000. In 2013, nearly 490,000 veterans, or 14 percent of disability compensation recipients, received SMC—a marked increase from 2000, when fewer than 150,000 veterans, or 6 percent of disability recipients, collected that compensation.

Individual Unemployability Payments

Some disabled veterans experience larger losses of earnings than do others in a similar situation. VA makes IU payments to veterans whose disability ratings are below 100 percent but who nevertheless are identified as unable to engage in substantial work. This is the only case in which veterans must demonstrate an impact on their ability to work to receive benefits. To qualify, a veteran's earnings may not be above the federal poverty guidelines for a single person, and he or she must meet a minimum disability rating, generally 60 percent.[17] IU payments boost the total benefits of those who receive them to the amounts those beneficiaries would receive if their disability ratings were 100 percent. In 2014, such benefits increased payments from about $1,200 per month to $3,100 per month for veterans who were rated 60 percent disabled and who were married and had one child.

VA reviews the employment history of IU applicants but does not require those veterans to have their employability assessed by the department's vocational rehabilitation program.[18] Veterans may begin to receive IU compensation at any age, and benefits can continue even after they start receiving Social Security or other retirement benefits. Up to the age of 70, IU recipients can be required to submit annual certification of nonemployment, and benefits cease for veterans who maintain substantial employment for more than 12 months. In 2012, the primary disability for more than 40 percent of IU recipients was a mental disorder. In total, nearly 310,000 veterans (or 9 percent of those who received disability compensation) were paid IU benefits in 2013, an increase from 112,000 recipients (or 5 percent) in 2000.

Other VA Benefits

Other VA programs provide health care and other assistance to veterans with service-connected disabilities. In recent years, federal spending for medical care provided by VHA has been roughly the same as federal spending for veterans' disability benefits. In 2013, 6.5 million patients received care from VHA at a total cost of $56 billion and at an average cost per patient of about $8,700.[19]

Veterans who enroll in VHA's program are placed in one of eight priority groups on the basis of disability rating and other factors.[20] Veterans with service-connected conditions receive free or low-cost medical care. (Eligible veterans also may receive additional care from other government sources or from private health care providers.) Hearing aids, eyeglasses, wheelchairs, walkers, and other assistive devices and equipment typically are provided free of charge to enrolled veterans. VHA often offers nursing home and in-home care at reduced cost or without charge. In addition, VHA can provide special transportation or stipends for travel to

16. See Rates of Wartime Disability Compensation, in Chapter 11—Compensation for Service-Connected Disability or Death, 38 U.S.C. §1114(k) (2011), http://go.usa.gov/kStJ. If a veteran has a disability rating of 100 percent and is housebound, bedridden, or otherwise totally dependent on the aid and attendance of another person, VA also may pay SMC in an amount depending on the care needed by the recipient.

17. If a veteran has a single service-connected disability, it must be rated 60 percent or higher. If a veteran has more than one service-connected disability, then one disability must be rated 40 percent or higher, and the composite rating must be 70 percent or higher.

18. In his response to the 2012 Biennial Report of the Advisory Committee on Disability Compensation, the Secretary of Veterans Affairs stated that requiring a vocational evaluation of all new IU applicants is under consideration.

19. For additional information about VHA, see the testimony of Heidi L. W. Golding, Principal Analyst for Military and Veterans' Compensation, Congressional Budget Office, before the Senate Committee on Veterans' Affairs, *Potential Costs of Health Care for Veterans of Recent and Ongoing U.S. Military Operations* (July 27, 2011), www.cbo.gov/publication/41585; and Congressional Budget Office, *Potential Costs of Veterans' Health Care* (October 2010), www.cbo.gov/publication/21773.

20. VHA uses priority groups to determine access to medical services. The highest priority group consists of veterans with the severest disabilities; the lowest priority group consists of higher-income veterans who have no compensable service-connected disabilities. Other factors that determine priority include income and special circumstances, such as having been a prisoner of war.

and from VA medical appointments. Other support, including respite care or monthly stipends, may be available to primary caregivers of some veterans.

In addition to its medical services, VA has a grant program that helps veterans to purchase or modify dwellings to accommodate their disabilities. It also offers grants to help veterans with certain permanent impairments of the hands, feet, or eyes to purchase or adapt a vehicle. VA's vocational rehabilitation programs, generally targeted to disabled veterans, range from employment counseling and assistance with job searches to extensive retraining offered by institutions of higher learning; the programs may also provide certain veterans who are full-time students with monthly stipends of almost $600.[21]

Other Federal Benefits

Some veterans who receive VA disability payments also receive other federal benefits, including those from Social Security's Disability Insurance (DI) program and from the Supplemental Security Income (SSI) program.[22] (DI recipients qualify for Medicare after a two-year period; SSI recipients in most states qualify for Medicaid.) The rules for those programs with regard to employment are much stricter than are the rules for VA disability benefits. The DI program does not consider VA disability compensation in determining either eligibility or benefit amounts, although the SSI program does; DI and SSI benefits have no effect on VA's disability payments.

Some disabled veterans also qualify for DoD retirement pay.[23] Until 2003, disabled veterans had to choose between receiving a full retirement annuity from DoD with no VA disability pay, or having their DoD annuity reduced by the amount they received in disability benefits from VA; that reduction is generally called the VA offset. Since 2003, some retired military personnel who receive VA disability compensation have received payments that make up for part or all of the VA offset; they benefit from what is often called concurrent receipt.

21. Under the Post 9/11 GI Bill, veterans, whether disabled or not, may receive a monthly housing benefit that varies by region and currently averages about $1,400 per month. Certain disabled veterans can receive that housing benefit in lieu of the monthly vocational education stipend.

22. For more information, see the testimony of Joyce Manchester, Chief, Long-Term Analysis Unit, Congressional Budget Office, before the Subcommittee on Social Security of the House Committee on Ways and Means, *The Social Security Disability Insurance Program* (March 14, 2013) www.cbo.gov/publication/43995; Congressional Budget Office, *Supplemental Security Income: An Overview* (December 2012), www.cbo.gov/publication/43759; and *Social Security Disability Insurance: Participation Trends and Their Fiscal Implications* (July 2010), www.cbo.gov/publication/21638.

Growth in VA's Disability Payments Since 2000

Federal spending for VA's disability compensation program has almost tripled since 2000—rising from $20 billion that year to $54 billion in 2013—despite a shrinking population of veterans that is expected to decline further over the next decade. Like Social Security and Medicare benefits, VA disability benefits represent mandatory spending. The amounts that individual beneficiaries are entitled to receive are not limited by annual appropriations; instead, the Congress determines the amount of veterans' disability compensation by establishing a framework for the program, including its eligibility rules and benefit formulas. Growth in spending for veterans' disability compensation since 2000 has been driven by large increases both in the number of veterans receiving payments and in the average amounts of those payments, which in turn have been influenced by policy changes at VA, the recent conflicts in Iraq and Afghanistan, and conditions in the labor market.

The Rising Number of Veterans Receiving Disability Compensation

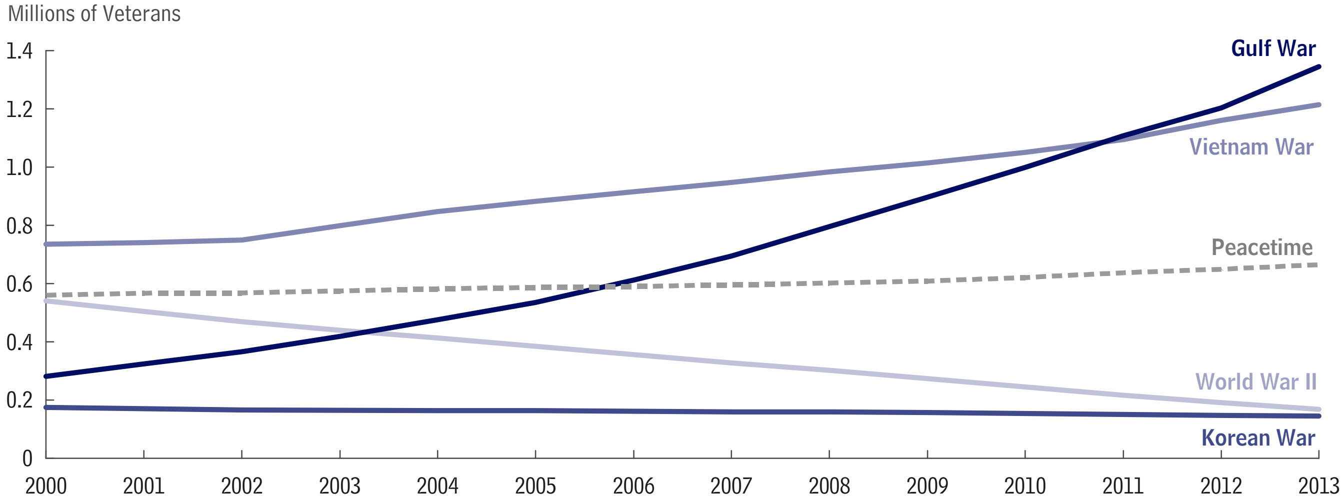
From 2000 to 2013, the number of veterans who began to receive disability compensation jumped from about 85,000 to 290,000 annually. Over the same period, the total number of recipients increased by nearly 55 percent, from 2.3 million to 3.5 million (see Figure 1 on page 2).[24] Veterans from two eras—the Vietnam War and the

23. Regular longevity-based military retirement conveys an immediate annuity after 20 years of service. Military personnel who have a DoD disability rating of at least 30 percent may be awarded a disability retirement annuity even if they served for less than 20 years. In addition, DoD may award lump-sum benefits to military personnel whose disability ratings are below 30 percent but who receive separations for medical reasons.

24. Veteran recipients are counted as of the beginning of each fiscal year.

Figure 3.

Veterans Receiving VA Disability Compensation, by Era of Service



Source: Congressional Budget Office based on data from various years of the Department of Veterans Affairs' Annual Benefit Report.

Notes: Veteran recipients are counted as of the beginning of each fiscal year.

VA classifies veterans into mutually exclusive periods of service, or eras: World War II (December 1941 to December 1946); Korean War (June 1950 to January 1955); Vietnam War (August 1964 to May 1975, but commencing in February 1961 for veterans who served in the Republic of Vietnam during that period); Persian Gulf War or, more commonly, Gulf War (August 1990 to the present); and peacetime (all other years). VA classifies veterans whose service overlaps multiple eras into the single most recent era of service. For example, a service member who entered the military in 1972 and retired in 1992 would have served during Vietnam, peacetime, and the Gulf War but is classified as a veteran of the Gulf War era.

In 2000, fewer than 100 people were classified as World War I and Mexican Border War veterans; they are not included in this analysis.

VA = Department of Veterans Affairs.

Gulf War—accounted for most of the growth (see Figure 3).[25] Combined, those two groups constituted almost three-quarters of all recipients of VA's disability benefits in 2013.

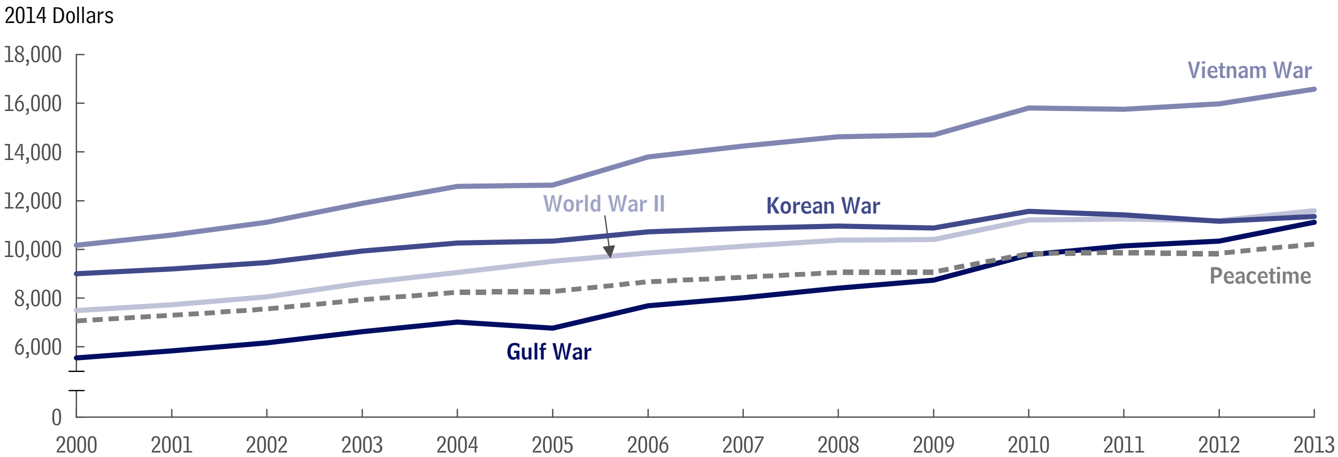
In 2000, about 735,000 Vietnam era veterans were receiving benefits; by 2013, that number had grown to 1.2 million—an increase of more than 60 percent. Over the same period, the number of Gulf War era veterans receiving benefits rose from 280,000 to 1.3 million—an almost fivefold increase. By 2013, 16 percent of Vietnam era veterans and 22 percent of Gulf War era veterans were receiving VA disability compensation. Unlike the slowly declining population of surviving Vietnam era veterans, the number of Gulf War era veterans was growing rapidly; on average, roughly 200,000 active-component service members separated from the military each year over the 2000–2013 period. Many who have served after September 2001 are still in the military; their numbers in the veteran population will increase as they leave the service, as will the numbers who receive disability compensation. Of those who served after 2001, some 2.6 million were deployed to or in support of the conflicts in Iraq or Afghanistan; through September 2013, VA reports, more than 700,000 of the total 1.9 million in that group who had separated from the military were receiving disability compensation.[26]

25. VA classifies veterans into mutually exclusive periods of service, or eras: World War II (December 1941 to December 1946); Korean War (June 1950 to January 1955); Vietnam War (August 1964 to May 1975, but commencing in February 1961 for veterans who served in the Republic of Vietnam during that period); Persian Gulf War or, more commonly, Gulf War (August 1990 to the present); and peacetime (all other years). VA classifies veterans whose service overlaps multiple eras into the single most recent era of service. For example, a service member who entered the military in 1972 and retired in 1992 would have served during Vietnam, peacetime, and the Gulf War but is classified as a veteran of the Gulf War era.

26. In this report, the term "deployed to Iraq or Afghanistan" encompasses service members or veterans who deployed overseas to nearby countries or elsewhere in support of those two conflicts.

Figure 4.

Average Annualized Payments for VA Disability Compensation, by Era of Service



Source: Congressional Budget Office based on data from various years of the Department of Veterans Affairs' Annual Benefit Report.

Notes: Average annualized payments are calculated as the average monthly payments at the beginning of a fiscal year, multiplied by 12. Veteran recipients are counted as of the beginning of each fiscal year.

Spending is adjusted for inflation by means of the personal consumption expenditures deflator. CBO reports only those benefits paid to veterans and not those paid to veterans' survivors.

VA classifies veterans into mutually exclusive periods of service, or eras: World War II (December 1941 to December 1946); Korean War (June 1950 to January 1955); Vietnam War (August 1964 to May 1975, but commencing in February 1961 for veterans who served in the Republic of Vietnam during that period); Persian Gulf War or, more commonly, Gulf War (August 1990 to the present); and peacetime (all other years). VA classifies veterans whose service overlaps multiple eras into the single most recent era of service. For example, a service member who entered the military in 1972 and retired in 1992 would have served during Vietnam, peacetime, and the Gulf War but is classified as a veteran of the Gulf War era.

In 2000, fewer than 100 people were classified as World War I and Mexican Border War veterans; they are not included in this analysis.

VA = Department of Veterans Affairs.

Rising Average Payments per Beneficiary

Since 2000, the average disability payment has risen sharply as well, even after adjusting for inflation. In 2000, the average annualized payment for all disabled veterans (including base payments and any supplements) was $8,100 (in 2014 dollars); by 2013, that amount had risen to $12,900.[27] That rise is partly attributable to the growing average number of compensable disabilities per veteran (which climbed from 2.5 in 2000 to 4.1 in 2013) and the resulting increase in the average composite disability rating (which went from 33 percent in 2000 to 46 percent in 2013). By contrast, over the much longer period from the late 1940s to 2000, the average composite disability rating rose only from 28 percent to 33 percent. (The average ratings for individual disabilities since 2000 have been largely unchanged.)

On average, veterans of the Gulf War era received the largest increases in individual payments (after an adjustment for inflation), which doubled for that group over the 2000–2013 period (see Figure 4). In 2013, average payments to Gulf War era veterans ($11,100) had almost caught up to those to World War II and Korean War veterans, although they were still only two-thirds of those to Vietnam era veterans. Part of the increase for Gulf War

27. For this report, the average annualized benefit is the average monthly benefit from the beginning of the fiscal year, multiplied by 12. For several reasons, total obligations for the program may not equal the result of multiplying that annualized benefit by the number of beneficiaries. First, VA's payments to new beneficiaries are retroactive, either to an application's submission or to the date of separation from military service. Second, VA makes retroactive payments for newly declared presumptions; in 2013, total retroactive payments were $8.1 billion (in constant 2014 dollars). Third, depending on whether the fiscal year begins on a weekday or a weekend, a year could have 11, 12, or 13 payments.

era veterans is attributable to the influx of veterans who had been deployed to Iraq or Afghanistan after September 2001: On average, they had 6.2 disabilities each and received average payments of $11,900; veterans of that era who had not been deployed to Iraq or Afghanistan after September 2001 averaged 4.7 disabilities and payments of $10,500.

Average payments have risen for veterans of all other eras too, even after adjusting for inflation, although more slowly. Vietnam era veterans had the second-largest growth rate from 2000 to 2013 (63 percent) in the average payment, the highest average payment in 2013 ($16,600), and the second-highest average number of disabilities (3.6 per veteran). Average payments to veterans of the Korean War era increased by the smallest amount, rising by 26 percent over the period (to $11,300).

Factors Contributing to the Increases

The sizable increases both in the number of recipients and in their average payments can be attributed to policy changes at VA, the recent conflicts in Iraq and Afghanistan, and the weakness in the labor market in recent years.

Policy Changes. Part of the explanation for the increases in the number of recipients and the amount of the average payment per recipient can be found in the Veterans Claims Assistance Act of 2000 and the Veterans' Benefits Improvement Act of 2008, which required VA to help veterans apply for disability benefits and help with substantiating claims. VA also has increased its outreach concerning post-traumatic stress disorder and eased diagnostic requirements for that condition. The department has benefited from the Internet's capacity to relay information quickly and easily as well; its website offers information on many benefits and programs, and applications can now be submitted online.

Some policy changes have been directed at veterans who served in Iraq and Afghanistan, helping to explain the markedly higher number of compensated disabilities for recent veterans (5.4 disabilities, on average, compared with 3.6 for Vietnam era veterans and 2.4 for veterans of World War II and Korea).[28] For example, VA greatly expanded its outreach efforts to current service members and established predischarge programs to accept applications before separation.[29]

One important set of policy changes affects Vietnam era veterans specifically. VA has designated additional conditions that have been linked to exposure to Agent Orange as presumptive for veterans who served in Vietnam. Several of those conditions are common in the U.S. population, so the policy change has made a considerable number of veterans eligible to receive disability benefits. In 2001, for example, VA published regulations establishing type 2 diabetes as a presumptive condition for veterans who served in Vietnam. As a result, veterans with diabetes need not prove that their condition is connected to their military service to receive benefits (although they must show that they served in Vietnam, not just in the armed services, during the wartime era). In 2000, some 38,000 veterans of all eras received compensation for diabetes, but by 2013, more than 320,000 Vietnam era veterans were receiving diabetes-related compensation; diabetes was the fourth most common disability in that group. In 2010, VA issued a list of other diseases presumed to be associated with Agent Orange exposure, including ischemic heart disease, Parkinson's disease, and certain types of leukemia. At that time, VA projected that the resulting increase in disability payments would total about $26 billion for the first 10 years.[30] As of June 2013, VA had processed 280,000 claims and made $4.5 billion in retroactive payments for those newly declared presumptive conditions.[31]

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28. Veterans who deployed to Iraq and Afghanistan since September 2001 claim an average of 12 disabilities each; in general, about half of those disabilities are accepted by VA.

29. Despite having more disabilities, Gulf War era veterans receive about the same average amount of disability compensation as do veterans of all other eras except Vietnam. This suggests that recent veterans are receiving disability compensation for medical conditions that are less acute than the conditions for which veterans of other eras receive benefits.

30. Since 2000, other conditions also have been declared presumptive for disability compensation; for example, certain medically unexplained, chronic, multiple-symptom illnesses (such as chronic fatigue syndrome, fibromyalgia, and irritable bowel syndrome) are now presumptive conditions for veterans who deployed to the Gulf War in 1990 or thereafter. However, VA has not made available data on remuneration for those conditions.

31. For new presumptive conditions related to Agent Orange, *Nehmer v. U.S. Department of Veterans Affairs*, 494 F.3d 846 (9th Cir. Cal. 2007), and related decisions held that VA must readjudicate previously denied claims once it determines that a disease is associated with exposure to Agent Orange and that it must pay claimants retroactively to their original claim date.

Recent Conflicts in Iraq and Afghanistan. Veterans deployed to Iraq and Afghanistan after September 2001 represent a significant and growing share of disabled veterans. That group is currently receiving VA disability compensation at more than twice the rate of other Gulf War era veterans. As a result, by 2013, postdeployment veterans accounted for roughly 10 percent of all veterans, but they were 17 percent of veterans receiving VA disability compensation. If the rate of receipt for veterans who were deployed to the recent conflicts was similar to the rate for other veterans of that era, roughly 300,000 fewer veterans would be receiving VA disability compensation.

Although combat injuries contribute to the higher disability rates among veterans who were deployed to Iraq and Afghanistan after September 2001, the number of such injuries does not fully explain those rates. The cumulative number of service members wounded in combat in Iraq or Afghanistan—a group that is likely to be among the most severely disabled—was about 50,000 in 2013.[32] The number of veterans who suffered especially traumatic injuries was smaller. Through July 2013, roughly 20,000 active-duty service members or veterans, of whom almost 75 percent served in the combat theater, had filed for Servicemembers' Group Life Insurance Traumatic Injury Protection, a special benefit that is available to applicants with certain severe traumatic injuries.

Rather than arising from combat injuries, the higher disability rates of the veterans who were deployed to Iraq or Afghanistan appear to be related to environmental or occupational factors: the difficult terrain in Afghanistan (including high altitudes), potential chemical exposures in Iraq (including emissions from the open-air burning of waste products), multiple deployments, the age of the force (including reservists, who tend to be older than their active-duty counterparts), and the effects of using or carrying body armor or other heavy equipment.[33]

Labor Market Conditions. Limited employment opportunities in recent years also may have prompted some veterans to apply for disability benefits to replace lost earnings. Research on Social Security's Disability Insurance program shows that a decline in the demand for labor leads to larger numbers of applications for benefits.[34] Although there seems to be no direct research on the topic, such a connection also may exist for veterans and VA disability compensation. In 2005 and 2006, when the economy was growing rapidly, the unemployment rate for male veterans was less than 4 percent, and annual claims for VA disability averaged fewer than 800,000. By contrast, when the unemployment rate for male veterans hovered around 9 percent in 2009 and 2010, in line with the general downturn in the labor market, annual claims topped 1 million.

Other research suggests that the receipt of VA disability compensation is correlated with a smaller amount of labor supplied by veterans.[35] Two possible mechanisms could be at work: Disability compensation could reduce a

32. About 15,000 of that group had injuries that were so severe that they were evacuated from the combat theater. Another 65,000 service members were evacuated either because of illness or because of injuries that were not sustained in battle. For additional information on casualties, see Matthew S. Goldberg, "Death and Injury Rates of U.S. Military Personnel in Iraq," *Military Medicine*, vol. 175, no. 4 (April 2010), pp. 220–226, http://tinyurl.com/q67u7wx.

33. "Medical Evacuations From Afghanistan During Operation Enduring Freedom, Active and Reserve Components, U.S. Armed Forces, 7 October 2001–31 December 2012," *Medical Surveillance Monthly Report*, vol. 20, no. 6 (June 2013), pp. 2–8, http://go.usa.gov/9cye (PDF, 529 KB); and "Medical Evacuations From Operation Iraqi Freedom/Operation New Dawn, Active and Reserve Components, U.S. Armed Forces, 2003–2011," *Medical Surveillance Monthly Report*, vol. 19, no. 2, (February 2012), pp. 18–21, http://go.usa.gov/9cmT (PDF, 352 KB).

34. See Congressional Budget Office, *Social Security Disability Insurance: Participation Trends and Their Fiscal Implications* (July 2010), www.cbo.gov/publication/21638; and David H. Autor and Mark G. Duggan, "The Rise in the Disability Rolls and the Decline in Unemployment," *The Quarterly Journal of Economics*, vol. 118, no. 1 (February 2003), pp.157–205, www.jstor.org/stable/25053901.

35. See Jack Tsai and Robert Rosenheck, "Examination of Veterans Affairs Disability Compensation as a Disincentive for Employment in a Population-Based Sample of Veterans Under Age 65," *Journal of Occupational Rehabilitation*, vol. 23, no. 4 (December 2013), pp. 504–512, http://tinyurl.com/oukjxfx; David H. Autor and others, "Battle Scars? The Puzzling Decline in Employment and Rise in Disability Receipt among Vietnam Era Veterans," *American Economic Review*, vol. 101, no. 3 (May 2011), pp. 339–344, www.jstor.org/stable/29783766; Joshua D. Angrist, Stacey H. Chen, and Brigham R. Frandsen, "Did Vietnam Veterans Get Sicker in the 1990s? The Complicated Effects of Military Service on Self-Reported Health," *Journal of Public Economics*, vol. 94, no. 11–12 (December 2010), pp. 824–837, http://tinyurl.com/kd8zl5n; and Mark Duggan and others, "Federal Policy and the Rise of Disability Enrollment: Evidence for the Veterans Affairs' Disability Compensation Program," *Journal of Law and Economics*, vol. 53, no. 2 (May 2010), pp. 379–398, www.jstor.org/stable/10.1086/648385.

veteran's need to work because that compensation provides income, or a veteran's underlying health problems might affect both his or her ability to work and his or her eligibility for disability benefits. The correlation appears to be stronger for low-skilled veterans, and it is not uniform for all medical conditions—disability compensation associated with certain conditions, such as diabetes, appears not to be related to labor force participation.

Options for Changing VA's Disability Compensation Program

The United States has a record that spans centuries of compensating veterans injured during military service.[36] A veterans' disability program might be designed to achieve a variety of objectives, including the following:

- Recognize the hardships of military service;
- Assist veterans who may have lost earnings as a result of injuries received during military service;
- Provide compensation for a diminished quality of life (apart from work) as a result of such injuries;
- Motivate veterans to continue to work despite their disabilities; and
- Attract and retain an all-volunteer military force.

Those goals could be in conflict with one another, however, or they could run counter to some people's desire to limit government spending.

Several approaches to modifying the VA disability system—some that would maintain the general structure of the current system, others that would change it—could be pursued. All of the options discussed in this report would adhere to the current statutory definition of service-connected disability and to the VA's current disability-rating schedule. Each option would change the program in one of two ways:

- Modify VA's processes for identifying service-connected disabilities, or
- Revise compensation by changing payment amounts, changing coordination with other federal benefits (such as DoD's concurrent receipt), or changing the tax treatment of payments.

CBO considered the advantages and disadvantages of eight options and, to the extent that it was possible to do so, estimated their associated budgetary savings or costs for the next 10 years. (Box 1 discusses CBO's approach to estimating the options' budgetary costs and outlines some limitations of that approach.) In keeping with CBO's mandate to provide objective analysis, this report does not make recommendations. The budgetary estimates of the options are based on the assumption that all policy changes would take effect in 2015.[37]

Options That Modify VA's Processes for Identifying Service-Connected Disabilities

VA follows a comprehensive and lengthy decisionmaking process for verifying veterans' service-connected disabilities. Even after a disability rating is assigned, changes in a veteran's medical conditions can affect his or her disability rating and, thus, benefit payments. CBO examined three options that would alter VA's policies for the initial identification of service-connected medical conditions and for longer-term monitoring of disabilities.

Option 1: Institute a Time Limit on Initial Applications. Although some veterans apply for disability benefits while they are in the service or fairly soon after separating, others wait decades to file initial claims. In 2012, for example, 18,300 veterans, or 7 percent of those who were first-time recipients, were over the age of 75, and more than 110,000, or 43 percent, were age 55 or older, even though most service members separate by age 30. Many Vietnam veterans (all of whom are now over the age of 55) began to receive compensation recently for such common medical conditions as hearing loss (35,000 new cases in 2012) and tinnitus (40,000 new cases in 2012).

VA currently imposes few time limits on submission or acceptance of veterans' claims.[38] However, for a few

36. For a history through World War II, see Bernard D. Rostker, *Providing for the Casualties of War: The American Experience Through World War II* (RAND Corporation, 2013), www.rand.org/pubs/monographs/MG1164.html.

37. For a large collection of options for changing federal spending on veterans' programs and other federal activities, see Congressional Budget Office, *Options for Reducing the Deficit: 2014 to 2023* (November 2013), www.cbo.gov/budget-options/2013/44687.

38. Some countries, including Canada, have similar policies; others, such as the United Kingdom, place time restrictions on applying for such benefits.

Box 1.

Estimating Budgetary Costs: CBO's Approach and Its Limitations

Where possible in this report, the Congressional Budget Office (CBO) has estimated the budgetary costs or savings associated with a given option for the next 10 years. All estimates are approximate, however, and all involve considerable uncertainty. Because lawmakers and the Department of Veterans Affairs (VA) could take different approaches to implementing any given option, the estimates should be viewed as illustrations of potential budgetary effects.

The effects of the options on mandatory spending—as compared with CBO's April 2014 baseline projections—are presented in nominal dollars (without adjustment for inflation) for the 2015–2024 period.[1] If the information available did not permit CBO to estimate costs or savings, a general sense is given, if possible, of an option's likely budgetary effect.

Several potential effects of these options are not considered. For example, CBO did not try to analyze whether changing VA's system for disability compensation would affect recruitment or retention of service personnel. Because of evidence that enlisted personnel in particular value future compensation much less than they do current compensation, any such effects are likely to be small, especially for options that involve benefits for elderly veterans.[2]

As another example, some options also could affect veterans' decisions about working and when to retire and whether to apply for Social Security benefits before reaching their full retirement age. Although the literature suggests that low-skilled veterans are less likely to work when they receive VA disability benefits, most disabled veterans under age 65 are employed. Unlike people who receive benefits under Social Security's Disability Insurance (DI) program, disabled veterans are not required either to curtail the amount of hours they work or to leave the labor force to qualify for benefits. Because it was unclear to what extent any of the options would affect employment, CBO did not attempt to estimate such effects.

In addition, CBO did not estimate potential budgetary effects caused by changes in the use of other federal programs or the use of medical care provided by the Veterans Health Administration (VHA). Under current law, disabled veterans can apply for DI and other programs, and their DI eligibility and benefits would not be affected by changes in VA disability compensation. However, Social Security's Supplemental Security Income program does consider VA benefits in determining compensation. Moreover, eligibility for and use of VHA health benefits could be affected by changes in the rules of eligibility for disability compensation because the presence and severity of disabilities are considered in determining priority for VHA enrollment.[3]

The options presented in this report do not involve any major restructuring of the disability compensation system, although the Congress may want to consider such restructuring. As an illustration, the rating schedule has not been updated comprehensively since 1945, and it could be revamped to meet goals beyond compensating for veterans' lost earnings. Also, the recovery of program participants from their disabilities could be addressed by permitting them to automatically enroll in VHA (or by requiring them to do so) or by creating referrals for medical care at the time a veteran applies for disability compensation. To increase efficiency, alternative systems of paying disability compensation, including lump-sum payments, could be considered. In addition, VA's definition of a disability—specifically regarding which conditions are considered to be connected with military service—could be reexamined. Any such broad redesign, however, is beyond the scope of this study.

1. For more information about CBO's baseline projections, see Congressional Budget Office, *Updated Budget Projections: 2014 to 2024* (April 2014), www.cbo.gov/publication/45229.

2. See Congressional Budget Office, *Evaluating Military Compensation* (June 2007), www.cbo.gov/publication/18788; and John T. Warner and Saul Pleeter, "The Personal Discount Rate: Evidence from Military Downsizing Programs," *American Economic Review*, vol. 91, no.1 (March 2001), pp. 33–53, http://tinyurl.com/q3zjo2g.

3. Unlike VA's disability compensation program, VHA's program is funded through discretionary budget authority that is provided and controlled by annual appropriation acts. VHA's funding would change under the options only if in future decisions the Congress chose to appropriate amounts that are different from amounts they would appropriate in the absence of the options.

presumptive conditions, such as chloracne (a skin condition) among Vietnam veterans, the law requires that the condition appear within a specified period or that the application for benefits be filed within a specified period after a veteran has separated from the service.

Under this option, veterans would be required to file initial disability claims within a fixed period after leaving active duty. CBO considered three variants of this option, corresponding to limits of 5 years, 10 years, or 20 years, because some conditions can take longer than others to develop or become apparent. (This option would not limit the application period for veterans with medical conditions that VA designates as presumptive.) Veterans who received disability benefits under this restriction would still be able to request reevaluation if their conditions changed or if secondary or new conditions developed.

CBO expects that under this option some veterans would apply for benefits earlier than they might otherwise so as not to miss the deadline, although the agency nonetheless anticipates that the total number of beneficiaries would be smaller than it would be without the time restriction.[39] CBO estimates that mandatory spending would be $28 billion lower during the 2015–2024 period, including $5 billion in 2024 alone, if the application period was restricted to 5 years (see Table 1 on page 3). If applicants were required to file claims within 10 or 20 years instead, the 10-year savings would drop to roughly $19 billion and $9 billion, respectively. (Savings and costs for all of the options in this study are expressed in nominal dollars, without adjustments for inflation.)

39. For this estimate, CBO did not have data to identify the distribution of time elapsed from military separation to application for VA disability benefits under current law. Instead, the agency used detailed information on the age of new recipients of disability compensation for the 2002–2006 period (the most recent for which data were made available by VA) and information on the ages at which members leave military service. Using those data and additional assumptions, CBO estimated the period from separation from military service to receipt of disability compensation. CBO estimated that, under current law, 40 percent of veterans who would begin receiving benefits in the future will do so within 5 years of leaving the service, that 60 percent will do so within 10 years, and that 80 percent will do so within 20 years. CBO's estimates also incorporated the expectation that some veterans would apply for and receive benefits sooner than they would have in the absence of the time limits. That response would reduce the savings from establishing such limits.

An argument in favor of this option is that it would focus disability compensation on medical conditions that are more clearly linked to military service and that are exhibited fairly soon after separation from the military. It would not provide such compensation for later-emerging conditions that are more likely the result of lifestyle or aging. Another advantage is that, in the longer term, the adjudication workload for VA would be reduced. (That reduction would produce additional savings in discretionary costs that are not quantified here.)

An argument against this option is that service-connected conditions can arise at any time in a veteran's life. Moreover, veterans who did not apply for disability compensation within the time limit might be ineligible for other VA benefits (for instance, because they did not meet income or other restrictions). In addition, by encouraging some veterans to apply for and receive benefits sooner than they would under current policy, the savings in mandatory spending would be lessened (as is reflected in CBO's estimate), and additional work would be generated for claims processors immediately after the policy change was announced.

Option 2: Require VA to Expand Its Use of Reexaminations. VA initiates a reexamination of a veteran's disability rating after a temporary rating is given (for example, because a veteran's condition, such as cancer, could improve) or when there is evidence that the current rating could be incorrect. When temporary ratings are assigned, VA's regulations generally require a reexamination within two to five years of the most recently completed examination. However, in the recent past, some reexaminations have not been scheduled or performed as required by those regulations.[40]

This option would require VA to expand the circumstances under which it initiates a reexamination. Under current policies, VA generally does not reexamine veterans who are over the age of 55, veterans whose conditions have persisted without material improvement for five years or more, or veterans who are receiving the

40. See Department of Veterans Affairs, Office of Inspector General, Office of Audits and Evaluations, *Inspection of the VA Regional Office, Boise, Idaho* (April 2013), http://go.usa.gov/BkXA (PDF, 172 KB); *Inspection of the VA Regional Office, Montgomery, Alabama* (February 2012), http://go.usa.gov/BkX9 (PDF, 203 KB); and *Inspection of the VA Regional Office, Wichita, Kansas* (September 2012), http://go.usa.gov/BkX3 (PDF, 164 KB).

minimum benefits for their conditions. Those criteria could be changed. In addition, because of rapid advances in medical technology and therapies, certain conditions might become more responsive to medical treatment, which could justify changing policies regarding reexamination and reevaluation.

Depending on how it was implemented, this option could increase or decrease mandatory spending. For example, if VA initiated more reexaminations of elderly veterans, the department probably would find that their conditions were worsening and spending could rise. However, if VA expanded its reexaminations of conditions that were more likely to improve over time, spending probably would fall. VA has not released data on the extent of VA-initiated reexaminations or their implications for benefits. Because of the range of specific policy changes possible under this option and the lack of detailed data, CBO has not estimated savings or costs for this option.

An argument in favor of this option is that it would lead to benefit amounts that are better aligned with a veteran's degree of disability at the time the benefits are received. Veterans who received higher ratings would be better able to defray additional costs resulting from their disabilities. The change also would allow some veterans to have access to additional services on the basis of a higher rating.

An argument against this option is that some veterans would either lose eligibility or receive smaller benefits, which could cause hardship in some cases. The option also would require VA to add staff or shift personnel from other duties to perform the larger number of reexaminations.

Option 3: Change the Positive-Association Standard for Declaring Presumptive Conditions. VA sometimes presumes that specific medical conditions have been caused by veterans' military service. There are several possible motivations for designating presumptive conditions. They remove from veterans the burden of establishing the connection between their military service and the onset of a medical condition. They also streamline the adjudication process. However, presumptions can result in providing benefits for conditions that are common in the general population and that may be more strongly associated with non–service-related risk factors such as genetics, aging, or lifestyle.

VA's complex process for establishing presumptions relies on the recommendations of internal advisory committees, research findings, and reports from the Institute of Medicine.[41] Although designating a condition as presumptive is largely controlled by VA, current law prescribes certain parts of the process. For example, the law requires that VA establish a presumption of disability for Vietnam and Gulf War veterans if the evidence for a positive association between exposure to a hazard and a disease is equal to or outweighs the evidence against such a link.[42] VA interprets the positive-association standard to mean that once a positive association has been scientifically established, the agency cannot consider other risk factors, or the contribution of those factors, to the likelihood of a veteran's developing the condition.[43] However, association is not the same as causation; in particular, a positive association does not prove that the occurrence of a disease results from exposure to a particular hazard.

This option would continue to make a positive association between exposure to a hazard and onset of a disease a necessary criterion for establishing the presumption that a condition is connected to military service, but it would no longer have such an association constitute the sole factor for establishing that presumption. Instead, VA would be obligated to consider additional scientific criteria,

41. Institute of Medicine, *Improving the Presumptive Disability Decision-Making Process for Veterans* (National Academies Press, 2008), p. 58, www.nap.edu/catalog.php?record_id=11908.

42. More specifically, the provision regarding Vietnam veterans states that "an association between the occurrence of a disease in humans and exposure to an herbicide agent shall be considered to be positive for the purposes of this section if the credible evidence for the association is equal to or outweighs the credible evidence against the association" (see Presumptions of Service Connection for Diseases Associated With Exposure to Certain Herbicide Agents; Presumption of Exposure for Veterans Who Served in the Republic of Vietnam, in Chapter 11—Compensation for Service-Connected Disability or Death, 38 U.S.C. §1116(b)(3) (2011), http://go.usa.gov/kStJ). The U.S. Code has similar provisions for Gulf War veterans (see Presumptions of Service Connection for Illnesses Associated With Service in the Persian Gulf During the Persian Gulf War, in Chapter 11—Compensation for Service-Connected Disability or Death, 38 U.S.C. §1118(b)(3) (2011), http://go.usa.gov/kStJ).

43. VA may deny benefits to people who apply for a presumptive condition if it can be proved that some other intervening event or behavior caused the condition. See Presumptions Rebuttable, in Chapter 11—Compensation for Service-Connected Disability or Death, 38 U.S.C. §1113, http://go.usa.gov/kStJ. Such causation, however, could be difficult to establish.

including the relative importance of exposure and other known risk factors, such as diet and aging, in the development of the medical condition.

Under this option, CBO anticipates, fewer new conditions would be deemed presumptive, and the shorter list of presumptive conditions would reduce the number of veterans receiving compensation and thus reduce spending for the program. However, because the conditions that VA might declare presumptive in the future under current law or under this option are not known, CBO could not produce a quantitative estimate of the savings for this option.

One argument in favor of this option is that it would increase the likelihood that veterans are receiving benefits for conditions that are clearly connected to their military service. And even if fewer presumptions were declared, veterans could still apply for benefits; under current law, cases of reasonable doubt are resolved in favor of the veteran.

An argument against this option is that changing the existing standard could prevent some veterans who were harmed during active duty from receiving compensation if they could not prove that the conditions were associated with their military service. Another argument is that implementation of the option would increase the administrative burden in determining claims on a case-by-case basis. Moreover, claims processing would become less uniform if there was disagreement among rating specialists about whether to grant claims for similar circumstances.

Options That Change Payments to Disabled Veterans

CBO considered several options that would increase or decrease payments to disabled veterans, change rules regarding the concurrent receipt of military retirement and disability benefits, or change the tax treatment of benefits.

Option 4: Restrict Individual Unemployability Benefits to Veterans Who Are Younger Than the Full Retirement Age for Social Security. VA supplements regular disability compensation payments with IU payments for low-income veterans that it deems unable to engage in substantial work. To qualify, veterans' wages or salaries cannot exceed the federal poverty guidelines for a single person, and applicants generally must be rated between 60 percent and 90 percent disabled. A veteran qualifying for the IU supplement receives a monthly disability payment equal to the amount that he or she would receive with a 100 percent disability rating. In 2014, IU benefits boosted monthly disability payments by an average of about $1,600 per recipient for married veterans who received the supplement. The largest increases were paid to married veterans who were rated 60 percent disabled; the supplement raised their monthly payments by nearly $2,000, on average. In 2013, nearly 310,000 veterans received IU payments.

VA regulations require that IU benefits be based on a veteran's inability to maintain substantial employment because of the severity of a service-connected disability, and benefits cannot be denied because of a veteran's age, voluntary withdrawal from work, or other circumstances. Consequently, veterans may begin to receive IU payments, or continue to receive them, after they have begun collecting Social Security retirement benefits. In 2013 more than 180,000 veterans who received the IU supplement, or almost 60 percent of the total number in that year, were over the age of 65. Also in that year, 60 percent of new recipients (25,000) were age 60 or older and 5 percent (3,000) were over the age of 75.

Under this option, VA would no longer make IU payments to veterans who were past Social Security's full retirement age, which varies from 65 to 67, depending on a beneficiary's birth year. Therefore, at the full retirement age, VA disability payments would revert to the amount associated with the disability rating. By CBO's estimates, the savings from this option between 2015 and 2024 would be $17 billion. If this option was implemented gradually, the savings would be smaller. For example, if IU payments to recipients currently over the age of 65 continued while payments to recipients who would be between the ages of 61 and 65 in 2015 were phased out over the next five years, CBO estimates, savings over the 2015–2024 period would be $8 billion.

One rationale for this option is that most veterans who are older than Social Security's full retirement age would not be in the labor force, so for that group, a lack of earnings would probably not be attributable to service-connected disabilities. In particular, in 2012, about 37 percent of men who were 65 to 69 years old nationwide were in the labor force; that share dropped to 11 percent for men who were age 75 or older. In addition, most recipients of IU payments who are over age 65 would have other sources of income: They would continue to receive regular VA disability payments and might collect Social Security benefits as well. (Most recipients of the IU supplement began collecting disability benefits in their 50s, and many worked long enough to earn Social Security benefits.)

An argument against this option is that IU is intended to compensate for the inability to work because of service-connected disabilities, so age might appropriately have no bearing on its receipt. In addition, some disabled veterans would find it difficult or impossible to replace the income provided by the IU supplement. If they had been out of the workforce for a long time, their Social Security benefits might be small, and they might not have accumulated much in personal savings.

Option 5: Supplement Payments to Veterans Who Have Mental Disorders. Benefits for veterans with mental disorders may not provide adequate compensation for lost earnings. VA applies a single rating formula to all mental disorders (other than eating disorders). The severity of a condition—whether post-traumatic stress disorder, depression, dementia, or some other—is judged according to criteria that are not specific to the condition and may not correspond to a condition's particular symptoms. In addition, evaluation of occupational and social impairment is part of the process for determining mental disability ratings, although that is not the case for physical disability ratings. Thus, for a veteran to receive a 100 percent disability rating for a mental disorder, VA must have determined that the veteran cannot sustain employment and is unable to interact socially because of the disorder.

Some research indicates that the rating schedule does not fully compensate for losses in earnings among most working-age veterans whose primary disability is a mental disorder; the income of veterans with physical disabilities—when including their disability compensation payments—is, on average, more nearly equal to that of the general population.[44] The research results suggest that an additional $5,000 per year in disability payments for veterans with mental disorders would yield total benefits that compensated many working-age veterans for their earnings losses. However, such payments would lead to overcompensation for some veterans, particularly those who are past the full retirement age for Social Security.

This option would increase annual benefits by $5,000 for two years for veterans whose primary disability is a mental disorder. The higher benefits would continue through 2016, when VA is expected to implement a revised rating schedule for mental disorders that better offsets losses in earnings from those disorders. CBO estimates that this option would increase payments for more than 800,000 veterans and increase spending by about $9 billion for 2015 and 2016 combined. A variation on this option would provide the additional payments only to veterans who have not yet reached their full retirement age for Social Security. The rationale is that the earnings losses for veterans who are past retirement age are much smaller, on average, because most of them would already have left the labor force. The age restriction would result in an increase in spending of about $7 billion for 2015 and 2016 in payments to more than 600,000 working-age veterans.

An argument in favor of this option is that the additional benefits would make total benefits more closely approximate the average earnings losses of veterans with mental disorders. That supplemental income would lessen those veterans' financial difficulties while VA is making the transition to a new rating system.

An argument against the option is that some veterans would receive benefits that exceed their lost earnings, particularly if they received benefits after reaching the age of retirement. In addition, the appropriate benefit amounts are not well quantified; further research could provide policymakers with useful information.

Option 6: Change the Cost-of-Living Adjustment. Each year for the past several decades, the Congress has enacted legislation that increased veterans' disability benefits (including payments to survivors) to keep pace with inflation. Without such increases, the amount of goods and services that disabled veterans could purchase from their VA payments would have declined over time.

The annual COLA has been tied to the consumer price index (CPI), a measure of inflation that is calculated by the Bureau of Labor Statistics. There are several versions of the CPI; the one that the federal government uses for

44. See Department of Veterans Affairs, *A Study of Compensation Payments for Service-Connected Disabilities, Volume I: Executive Report* (prepared by Economic Systems, September 2008), http://go.usa.gov/BkRk (PDF, 1.4 MB); and Eric Christensen and others, *Final Report for the Veterans' Disability Benefits Commission: Compensation, Survey Results, and Selected Topics* (CNA Corporation, August 2007), http://tinyurl.com/n3dveox.

adjusting VA (and Social Security) payments is the CPI-W (the index for urban wage earners and clerical workers). This option would use a chained version of the index for all urban consumers, or the CPI-U.[45]

The chained CPI-U generally grows more slowly than the CPI-W does (about 0.25 percentage points more slowly per year on the basis of the average from 2001 through 2011), and CBO expects that gap to persist. Therefore, this option would reduce federal spending, and savings would grow each year as the effects of the change compounded. Although the COLAs for VA benefits are not permanently authorized, the budgetary cost of such increases is incorporated in CBO's baseline.[46] As a consequence, reducing the COLA would result in budgetary savings relative to that baseline. CBO projects that savings on veterans' disability compensation (and survivors' payments) for 2015 through 2024 would total $10 billion under this option.[47] In 2024, savings would total $2 billion.

An argument in favor of switching to the chained CPI-U is that the index is generally viewed as a better measure of overall inflation, for two reasons. First, it more fully accounts for the way that people respond to price changes. Consumers often adjust to the effects of inflation by purchasing fewer goods or services that have risen in price and more goods or services with prices that have not risen or that have not risen as much. Unlike the traditional index, the chained CPI-U fully incorporates the effects of changing buying patterns. Second, the index is largely free of an error known as small-sample bias. That bias, which is significant in the traditional CPI-W, arises when certain statistical methods are applied to price data for only a small portion of the items in the economy.

An argument against indexing with the chained CPI-U is that certain prices faced by some people may rise faster than those faced by the population at large. About 60 percent of disabled veterans are age 55 or older. A larger percentage of spending by older people is for items whose prices may rise especially quickly, such as medical care, although that effect for disabled veterans may be mitigated by the availability of low-cost or free health care through VHA. In addition, the change in benefits resulting from the new calculation would prove more onerous for those disabled veterans for whom VA compensation represents a large source of income. Furthermore, the option would generally have the greatest effects on veterans who collect benefits for a long time—very likely the oldest group of veterans—because the smaller COLAs would compound over time.[48]

Option 7: Change Concurrent Receipt. Military service members who retire after 20 years or more of service under DoD's longevity-based retirement program and those who retire earlier than that because of a DoD-verified disability can receive retirement annuities from DoD. Until 2003, military retirees could not receive both a full retirement annuity and VA disability compensation. Instead, they could choose either to receive a full retirement annuity and forgo VA disability benefits, or they could choose to have the amount of the DoD annuity reduced by the amount of their VA disability benefits. That reduction in the retirement annuity is often called the VA offset. Because the DoD retirement annuity for longevity generally is taxable, whereas VA disability compensation is nontaxable, most retirees in that situation chose to keep their VA benefits and forgo part of the DoD annuity.

45. The CPI-W is calculated for a subset of the CPI-U consumer population but varies over time in a similar way. For further discussion of the chained CPI-U, see the testimony of Jeffrey Kling, Associate Director for Economic Analysis, Congressional Budget Office, before the Subcommittee on Social Security of the House Committee on Ways and Means (April 18, 2013), www.cbo.gov/publication/44083; and Congressional Budget Office, *Using a Different Measure of Inflation for Indexing Federal Programs and the Tax Code* (February 2010), www.cbo.gov/publication/21228.

46. The COLA is included in CBO's baseline because Section 257 (b)(2)(B) of the Balanced Budget and Emergency Deficit Control Act requires CBO to include in its projections of veterans' disability compensation the COLA amount that is required in law for veterans' pensions. Other legislation (Section 5312 of Title 38) directs VA to increase veterans' pensions by the same percentage as any increase in Social Security.

47. Some proposals have been advanced in favor of adjusting payments for a wide range of mandatory programs, including Social Security, retirement annuities for retired federal civilian employees and military personnel, and veterans' pensions, in addition to those that would affect veterans' disability payments and survivors' compensation. The estimate shown here applies solely to that last category of payments.

48. For additional discussion, see Congressional Budget Office, *Technical Appendix: Indexing With the Chained CPI-U for Tax Provisions and Federal Programs* (February 2010), www.cbo.gov/publication/21228.

Several pieces of legislation, starting with the National Defense Authorization Act for 2003, have made it possible for two groups of retired military personnel who receive VA disability compensation (including those who retired before the enactment of those laws) to receive payments that make up for part or all of the VA offset. Those veterans benefit from what is often called concurrent receipt. The first group consists of those whose disabilities arise from combat; they are eligible for combat-related special compensation. The second group consists of those who have 20 or more years of military service and have received a VA disability rating of at least 50 percent; they are eligible for what is termed concurrent retirement and disability pay. Combat-related special compensation is exempt from federal taxes, but concurrent retirement and disability pay typically is not; some veterans qualify for both types of payment, but they must choose between the two.

Just over half of the roughly 2 million military retirees in 2013 were subject to the VA offset; more than 40 percent of the people in that group—or about 465,000 retirees—were eligible for concurrent receipt and were awarded a total of $8 billion in such payments that year. Spending on those payments, which was just over $1 billion in 2005, has climbed sharply in recent years both because of the phase-in of the program and because of an increase in the share of military retirees receiving VA disability compensation. In particular, among military retirees who receive longevity-based retirement benefits, the share that also receives VA disability compensation rose from 33 percent in 2005 to 47 percent in 2013. The U.S. Treasury, rather than DoD or VA, makes accrual payments to account for the cost of concurrent receipt. The amount of those payments on behalf of future retirees, which are distinct from payments to current retirees, was estimated by DoD at $6.7 billion in 2013 and is projected to grow to $7.2 billion (in nominal dollars) by 2018.[49]

CBO examined a pair of alternatives for changing concurrent receipt: Eliminate the program altogether or extend eligibility to any DoD retiree who is or would be subject to the VA offset. If concurrent receipt was eliminated in 2015, military retirees who currently draw combat-related special compensation or concurrent retirement and disability pay would no longer receive those payments, nor would future retirees. That approach would return the coordination of DoD and VA benefits to the long-standing policy in effect before 2003 and reduce federal spending by $119 billion between 2015 and 2024, CBO estimates.

Alternatively, eligibility could be extended to the groups of veterans who cannot benefit from concurrent receipt under current law: those who retire with less than 20 years of military service because of a non–combat-related disability verified by DoD, and those who retire with 20 or more years of service and receive a VA disability rating of less than 50 percent. Expanding concurrent receipt in that way would increase federal spending by $30 billion in the 2015–2024 period, CBO estimates.

One argument in favor of eliminating concurrent receipt (or an argument against expanding it) is that disabled veterans would no longer be compensated twice for their service, in keeping with the reasoning underlying the creation of the VA offset. Because VA disability benefits are not taxed, military retirees who receive VA disability payments would still receive higher after-tax payments than would retirees who are not disabled but who have the same DoD retirement annuity.

An argument against eliminating concurrent receipt (or an argument in favor of expanding it) is that the DoD retirement system and the VA disability program compensate for different characteristics of military service: DoD's system rewards longevity whereas VA's program remunerates veterans for their service-connected medical conditions. In addition, determination of disability by VA is a first step toward eligibility for some other VA services (such as vocational training). If fewer retirees applied for VA disability compensation because they could not collect benefits from two sources at the same time, some of those veterans might not seek additional VA services to which they were entitled.

Option 8: Tax VA Disability Payments. The statutory goal of the VA disability system is to replace average earnings losses for veterans on the basis of the severity of their service-connected disabilities. However, the current disability system does not account for differences in lost earnings that are attributable to differences in veterans' education, training, occupation, or motivation to work. If, contrary to current law, VA disability payments were included in taxable income under the federal income tax, after-tax disability payments would be better aligned with

49. Department of Defense, Office of the Actuary, *Valuation of the Military Retirement System, September 30, 2012* (April 2014), p. 29, http://actuary.defense.gov.

individual earnings losses. Specifically, because the federal income tax is progressive, taxing disability payments would generally result in less after-tax compensation for veterans who have higher labor (and other) income; those higher-income veterans are likely to have smaller losses in earnings as a result of their disabilities than are lower-income veterans with similar disability ratings.

This option would subject all VA disability benefits to federal income taxes. The staff of the Joint Committee on Taxation estimates that this option would increase federal revenues by $64 billion for the 2015–2024 period.[50]

An argument in favor of this option is that higher-income recipients—who are likely to have a smaller reduction in earnings capacity—would receive smaller net disability benefits than would lower-income recipients. Also, taxing disability compensation benefits for military veterans would make the tax treatment of those benefits more comparable to the tax treatment of some disability benefits that are available to civilians and to many military retirees who separate from the service because of their disabilities. More generally, eliminating income exclusions in the tax system moves the system toward one in which people in similar economic circumstances face more similar tax rates.

An argument against this option is that taxable income is determined not only by the earnings of the veteran in the labor market but also by the amount a spouse earns, by income from investments, and by the amount the taxpayer claims in deductions. Veterans whose family income is higher or who have fewer deductions would pay more if their disability payments became taxable. Using the tax code to adjust benefits may be more akin to means-testing benefits than to setting benefits to replace earnings losses. Another argument against this option is that VA disability compensation is connected to military service and that service justifies different treatment of income.

50. That estimate incorporates behavioral changes that would be expected to occur in response to such a change in law.

About This Document

This Congressional Budget Office (CBO) report was prepared at the request of the Ranking Member of the House Committee on Veterans' Affairs. In keeping with CBO's mandate to provide objective, impartial analysis, the report makes no recommendations.

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