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# Trends in VBA Disability Compensation Spending

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# Executive Summary

The National Defense Authorization Act of 2013 established the Military Compensation and Retirement Modernization Commission (MCRMC) to conduct a review of military compensation and retirement systems and to make recommendations to modernize such programs. The Commission asked the Institute for Defense Analyses (IDA) to (1) quantify the main factors contributing to the cost growth experienced by the veterans' disability compensation program, and (2) characterize current expenditures by cohorts. This paper provides the results of IDA's quick turnaround analyses on veterans' disability compensation for the MCRMC as well as recommendations for further analyses possible with the accumulated detailed data sets.

## Quantifying Factors Contributing to Increasing Costs

The cost of the disability compensation program has experienced substantial growth—more than tripling from $14.9 billion in 2000 to $53.9 billion in 2014.

The most recent 15-year period shows a fundamental change in participation in the Veterans Benefit Administration (VBA) disability compensation program. The percentage of veterans receiving disability compensation was remarkably consistent over the 40-year span from 1960 to 1999. Over this period, which starts prior to the Vietnam conflict and extends past the first Gulf War, approximately 8 percent of the veteran population was receiving some form of disability compensation. In the last 15 years, that proportion has more than doubled and is now nearly 18 percent.

The number of disability compensation recipients increased substantially from 2000 to 2014, even as the total number of veterans declined. About 2.3 million veterans were receiving disability compensation as of the year 2000. By 2014, there were nearly 3.8 million recipients—an increase of almost 1.5 million. These new recipients were not necessarily recently separated veterans; our analysis showed that many veterans file for and receive an initial disability compensation award many years after leaving the service. Not surprisingly, there has been a large increase in the number of recent veterans receiving disability compensation. Perhaps surprising to some, however, is that the number of Vietnam era veterans receiving disability compensation in 2014 experienced a net increase of 500,000 over the number in 2000.

Average payments have more than doubled from 2000 to 2014. Much of the increase in average compensation is due to increased payments to veterans who were already receiving disability compensation in 2000. The rising trend in the number of issues claimed

per veteran has also led directly to higher combined ratings and thus higher average payments.

Higher average ratings (both in terms of higher average disability levels and more frequent Individual Unemployability (IU) awards) were found to be the main cause of the escalating costs from 2000 to 2014, accounting for 52 percent of the growth. The increased number of recipients explained 35 percent of the increased expenditures. Annual cost of living adjustments accounted for the remaining 13 percent.

## Current Spending

VBA paid over $50 billion in disability compensation benefits in 2014. IDA analyzed detailed recipient data to better assess how this money is being distributed. One key finding was that veterans with maximum awards—those either rated 100 percent disabled or receiving IU—account for over half of the total cost.

The data broken out by period of service clearly shows that the Vietnam Era (1961–1975) and Gulf War (1990–present)[1] veterans are the two dominant cohorts, receiving over $40 billion of the $51.9 billion in disability compensation benefits. We find some differences between these cohorts, particularly with regard to types of disabilities and maximum awards. Nearly $15 billion (or 69 percent) of the $21.5 billion spent on Vietnam veterans currently goes to pay for maximum awards. A different pattern exists for Gulf War veterans: approximately $6 billion (or 32 percent) of the $19.1 billion goes to veterans rated 100 percent or IU. We also find that average payments have increased over the past 10 years as veterans have successfully reopened and/or appealed their claims. An open question is whether as time passes the newer Gulf War cohort will come to look like the Vietnam cohort, or continue to be unique.

Individual Unemployability alone accounts for a significant portion of the total spending on veterans' disability compensation. The current average yearly payment for an IU recipient is $36,400. In 2014, there were nearly 320,000 IU recipients, receiving a total of $11.6 billion annually. IDA analyzed the 2014 recipient data and computed that the incremental cost of the IU awards (over and above compensation for the veterans' combined degree of disability) is nearly $5.4 billion dollars per year. Furthermore, we found that older veterans are currently the primary beneficiaries of IU. Veterans aged 65 and over currently account for more than half of the 320,000 IU recipients, and many veterans continue to receive IU benefits into their 70s, 80s, and even 90s. Most of these individuals would not be working even if they had no disabilities.

[1] VA categorizes each veteran into a period of service based on their latest separation date. Because no end date has been set by law or Presidential proclamation for the Gulf War conflict, all veterans who separated after August 2, 1990 are categorized as Gulf War veterans.

One clear area of follow-on analysis would be to forecast the future costs of the Department of Veterans Affairs (VA) disability compensation program. This forecast could show the expected total annual costs 5, 10, or even 20 years in the future, and provide insights about the potential impacts of any policy changes. For instance, certain body systems or issues (e.g., post-traumatic stress disorder/mental, cardiovascular, musculoskeletal issues) have become relatively more frequent in recent years. Which issues are likely to continue experiencing the most growth in the future? What populations are most likely to be affected? And what impact will this have on total program costs?

Another related question involves the increasing trend in the proportion of veterans receiving disability compensation. After being nearly constant for 40 years, a dramatic increase occurred over the past 15 years. What has been driving this increase? Is the percent of veterans receiving disability compensation nearing another plateau or will it continue to increase? Are newly separated veterans more likely to apply for and receive disability compensation? And has the increased availability of separation counseling services contributed to any changes in the utilization of the disability compensation program?

A final recommended area for further analysis would be a more detailed examination of IU awards. We noted that the incremental cost of the program is currently $5.4 billion per year and that more than half of the recipients are aged 65 or older. In fact, more than 100,000 are in the 65–69 age cohort. What will happen as time passes and these veterans age? Will most of them continue to receive IU for the rest of their lives? Currently, a far lower proportion of the newer Gulf War veterans are receiving IU than in earlier cohorts. Is this likely to change in the future under current policy? If so, what are the implications for the future total cost of individual unemployability?

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## A. Introduction

The National Defense Authorization Act of 2013 established the Military Compensation and Retirement Modernization Commission (MCRMC) to conduct a review of military compensation and retirement systems and to make recommendations to modernize such programs. The Commission asked the Institute for Defense Analyses (IDA) to support the Commission's deliberations by providing objective, analytically based, insights.

This paper shows the results of IDA's quick turnaround analyses on one of the subjects that IDA was asked to examine: veterans' disability compensation. This paper also identifies further areas of analysis that are possible with existing data but that were out of scope of this analysis or not possible in the time allotted.

IDA was asked by the commission to:

- Attempt to quantify the main factors contributing to the cost increases experienced by the program.
- Examine data on veterans' disability compensation payments and characterize current expenditures by cohorts.

To begin to respond to these requests, IDA collected and analyzed current and historical data on the disability compensation program. These data include publicly available summary data from the Department of Veterans Affairs (VA) budget submissions,[1] the Veterans Benefits Administration (VBA) benefits reports,[2] and the United States (US) Census.[3] More importantly, however, our analyses benefited from having access to complete data on all compensation recipients, provided directly from VBA. This data set enabled IDA to perform far more exhaustive analyses and conduct data explorations simply not possible with the summary data.

The analysis of spending on the disability compensation program described in this paper builds on IDA's more than 10 years of experience performing analysis on veterans' benefits-related issues. In Section B, we provide a brief overview of VA disability compensation for those unfamiliar with the program. Section C examines the reasons for the dramatic growth in disability compensation expenditures. Section D shows some results from our analyses to characterize the current spending on disability compensation. We

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1 U.S. Department of Veterans Affairs, Office of Budget, Annual Budget Submission, http://www.va.gov/budget/products.asp.

2 U.S. Department of Veterans Affairs, Veterans Benefits Administration Reports, Agency Financial Reports, http://www.benefits.va.gov/reports/annual_performance_reports.asp.

3 United States Census Bureau, Historical Data, https://www.census.gov/hhes/veterans/data/historicaldata.html.

conclude in Section E with a brief summary of our main findings and a discussion of some important future analyses.

## B. Overview of VA Disability Compensation

VA disability compensation provides cash payments to veterans with disabilities that are the result of diseases or injuries incurred or aggravated during active military service. These payments are made monthly and are tax-free. To qualify, a veteran must have a current disability and show that the disability was service-connected. The standard for determining service connection is if the condition was incurred or aggravated during a period of active service. It is not necessary for the veteran to prove causation.

Veterans may, and frequently do, claim more than one service-connected condition. In adjudicating claims, VA rates each service-connected disability on a scale of 0 to 100 percent, in 10 percent increments. These individual ratings are then combined (not simply added) to compute a veteran's combined degree of disability (CDD). The payments made to the veteran are largely determined by the CDD. Figure 1 shows the yearly payments by CDD for veterans only in 2014.

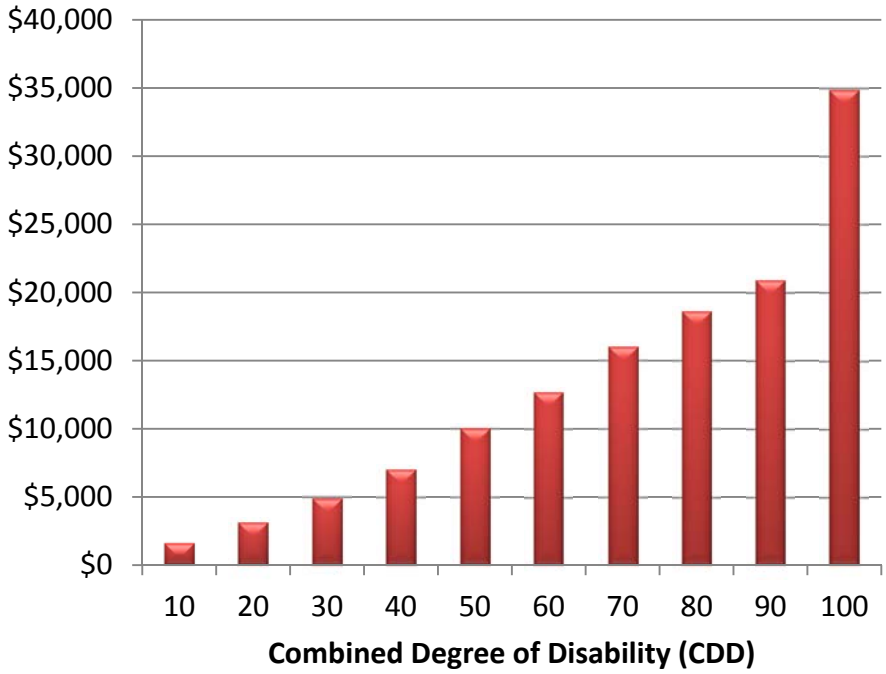


**Figure 1. Yearly Payment Rates for VA Disability Compensation by CDD**

Under some circumstances, the payment received by the veteran will be higher than that shown in Figure 1. Additional payments can be allotted to married veterans, veterans

with dependents, or veterans who qualify for special monthly compensation, which is provided for severe quality of life issues (e.g., missing limbs).

Most notable for our analysis, however, are extra payments for individual unemployability (IU). Veterans receiving IU are paid at the 100 percent rate, even if their CDDs are lower. To be eligible for IU, the veteran must meet the minimum CDD requirement (one condition 60 percent or more, or a CDD of at least 70 percent with one condition rated at 40 percent or more) and show that they are unable to get or keep substantial gainful employment due to their service-connected conditions.

## C. Quantifying Growth in Disability Benefit Expenditures

IDA collected and examined historical data on the program cost and the percent of veterans receiving disability compensation. These data were drawn from VA annual reports, VBA benefits reports, the US Census, and VA veteran population estimates. Figure 2 shows the percentage of veterans receiving disability compensation for the years 1960 through 2014. That percentage is defined as the total number of veterans receiving some level of disability compensation divided by the total estimated veteran population.

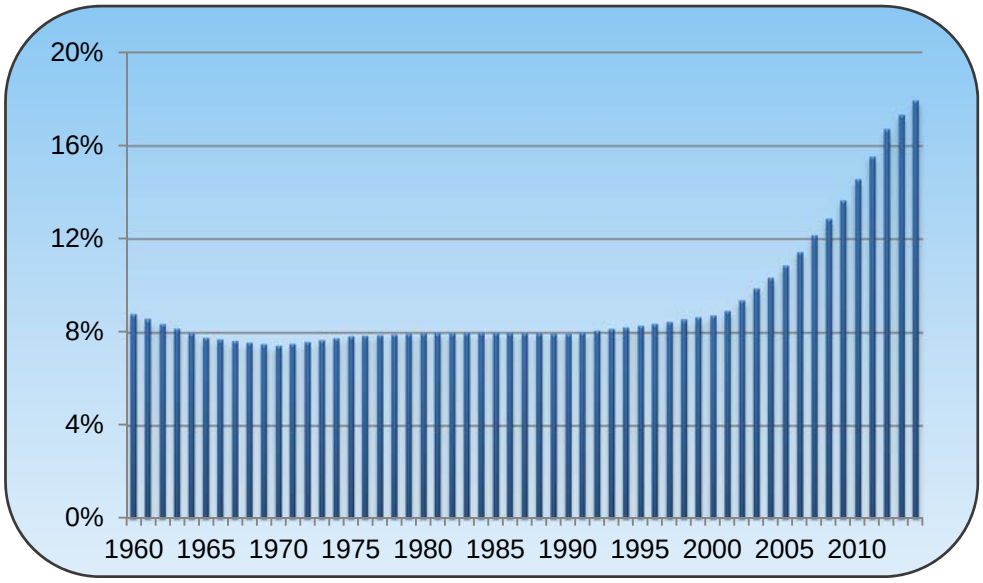


**Figure 2. Percent of Veterans Receiving Disability Compensation from 1960 to 2014**

The percent of veterans receiving disability compensation was remarkably consistent for the 40-year span from 1960 to 1999. Over this period, which starts prior to the Vietnam conflict and extends past the first Gulf War, approximately 8 percent of the veteran population was receiving some form of disability compensation.

The most recent 15 years, from 2000 to 2014, saw a fundamental change in the participation in the VBA disability compensation program. The percentage of veterans

receiving disability compensation more than doubled, from around 8 percent to nearly 18 percent. As a result, the number of disability compensation recipients increased substantially, even while the total number of veterans declined.

The costs of the VA disability compensation program follow a similar trend. Figure 3 shows the costs of the disability compensation program during the period 1960–2014.

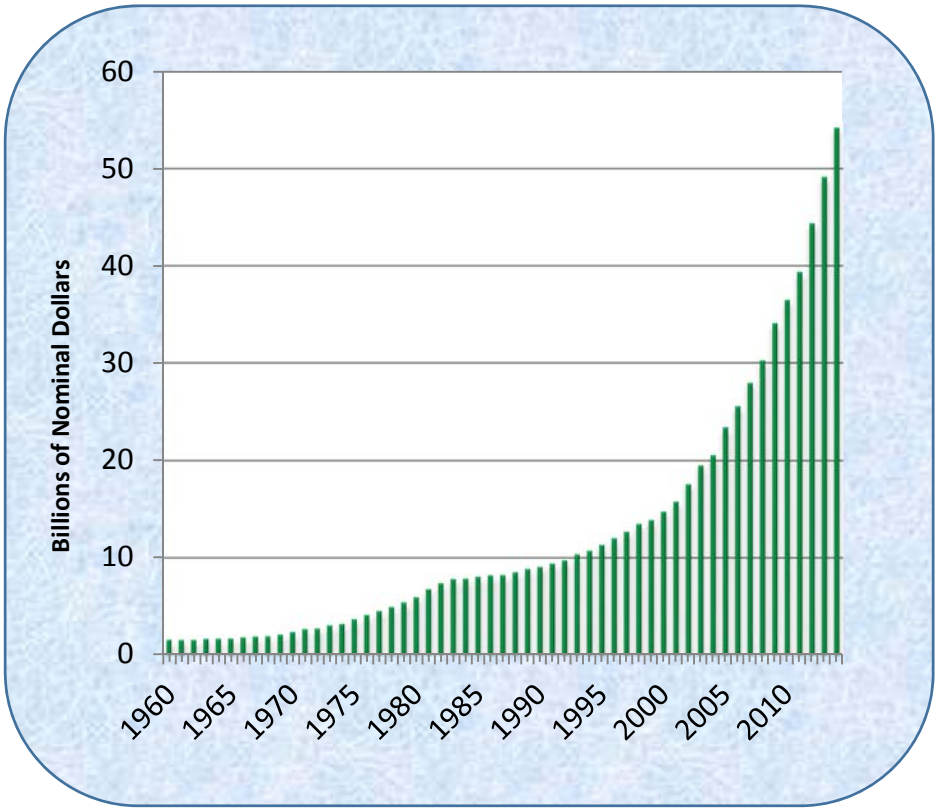


**Figure 3. Yearly Costs of VA Disability Compensation Benefits**

We normalized these expenditures to account for cost of living increases, shown in Figure 4 in constant fiscal year (FY) 2014 dollars.

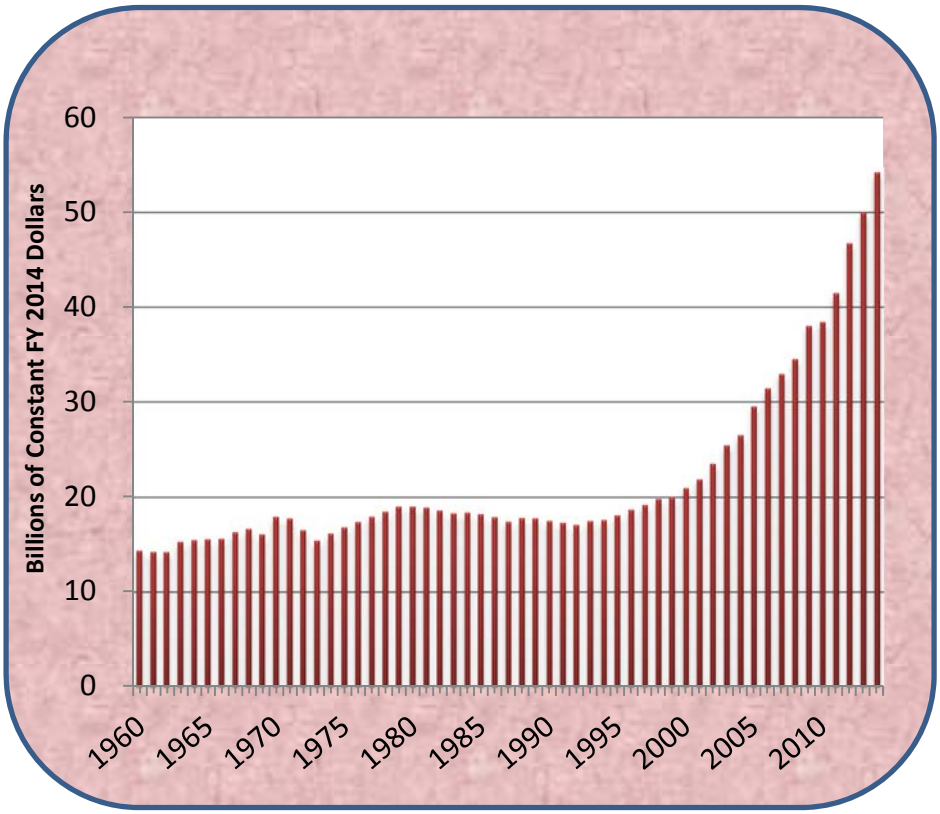


**Figure 4. Yearly Costs of VA Disability Compensation Benefits in Constant FY 2014 Dollars**

Figure 4 shows that little growth in the cost of the program occurred, in real terms, over the 40-year period 1960–1999. A sharp and persistent increase in costs, however, is observed in the most recent 15-year period. In the remainder of this section, we will examine the period 2000–2014 by exploring various subpopulations to characterize drivers of the growth.

One way to examine the data is by the period of service of the recipients. Period of service is one characteristic used by VBA to categorize disability compensation recipients. A unique period of service is assigned to each recipient based on the time frame associated with the most severe disability. Table 1 shows the criteria for assigning period of service.

**Table 1. Definitions of Periods of Service within VA**

| Period of Service Name | Start Date | End Date |
|---|---|---|
| World War II | December 7, 1941 | December 31, 1946 |
| Korean Conflict | June 27, 1950 | January 31, 1955 |
| Vietnam Era | February 28, 1961 | May 7, 1975 |
| Gulf War | August 2, 1990 | Current[a] |
| Peacetime | All time periods other than the above | |

[a] No end date for the Gulf War conflict has been set by law or Presidential proclamation.

Because no end date has been set by law or Presidential proclamation for the Gulf War conflict, all veterans who separated after August 2, 1990 are categorized as Gulf War veterans. This nomenclature can be misleading, as it includes veterans serving in the early 1990s as well as veterans serving in more recent conflicts (Operation Enduring Freedom, Operation Iraqi Freedom, etc.). However, for consistency, IDA uses the VA nomenclature throughout this paper as it is defined in Table 1. Note that the analysis performed here could potentially be even more insightful had there been a finer division of periods of service, particularly for the more recently separated veterans. While we were unable to parse out the recently separated veterans during the timeline of this analysis, the data exist so that future analysis could explore such a partition and discover how recent veterans might compare to earlier cohorts.

IDA collected and analyzed detailed data sets on recipients from September 2000 and April 2014 for comparison. Note that since the detailed 2014 data set is from April 2014, reported totals differ from the end of FY 2014 values. These data show that annual expenditures for VA disability compensation benefits have tripled from 2000 to 2014 and have now exceeded $50 billion a year, as shown in Figure 5.

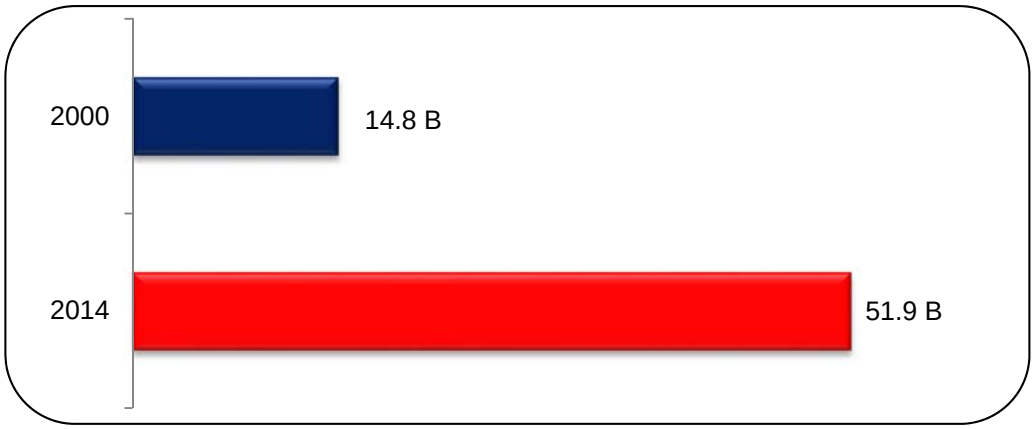


**Figure 5. Total Disability Compensation Payments to Veterans in 2000 and 2014**

The recipient mix has also changed over the past 15 years. Figure 6 shows the total payments broken out by period of service. In comparing 2000 to 2014, we see an unsurprising growth in the share of payments to Gulf War veterans (since all new veterans in this 15-year period are categorized as Gulf War veterans). We also see a predictable decrease in payments to the World War II cohort with the passing of many veterans from that generation. Perhaps most striking is the continued prevalence of Vietnam Era veterans, who in both time periods received more than 40 percent of the total benefits.

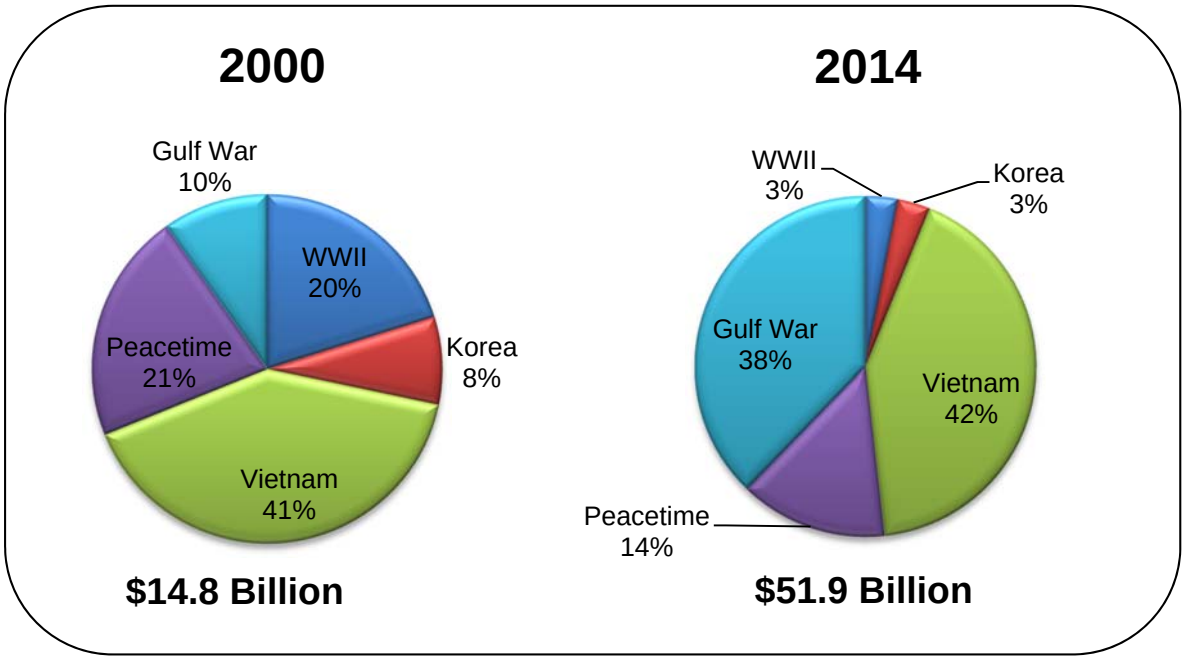


**Figure 6. Total Disability Compensation Payments by Period of Service in 2000 and 2014**

Vietnam Era and Gulf War veterans are the two groups that had the largest increase in compensation from 2000 to 2014. Total disability compensation for Vietnam veterans rose from $6 billion a year to over $21 billion. Compensation to Gulf War veterans jumped from $1.5 billion to nearly $20 billion.

There are two basic ways that disability benefit outlays can increase: (1) the number of veterans receiving disability compensation could increase; and (2) the average amount paid to veterans receiving disability compensation could increase. We will show that both of these mechanisms have contributed to the growth in disability compensation outlays, and will further analyze the factors driving the increase in average compensation.

We begin with higher average awards, which turned out to be the primary driver of the escalating costs of the program.

### 1. Higher Average Awards

Average annual awards have more than doubled from 2000 to 2014. This is the single largest factor driving the increased cost of the disability compensation program. In 2000, the average yearly award for a disability compensation recipient was $6,400. By 2014 this had increased to $13,500. A minor part of this increase was due to cost of living adjustments applied across the board to all VBA disability compensation. A more significant factor was a combination of higher combined ratings and more frequent IU awards.

The majority of the cost growth was due to veterans being rated as more disabled, on average. To estimate the magnitude, IDA performed a counter-factual analysis. We compared the cost growth of the program to the growth that would have occurred (due to the increased number of recipients) if average awards had remained constant. We calculate that 52 percent ($19.4 billion) of the cost growth is attributable to higher combined ratings. In particular, an increase in maximum awards, both 100 percent and IU, were key contributors to the higher average combined ratings.

VA periodically provides cost of living adjustments (COLAs) to disability compensation payment rates to account for inflation. By law, the VA COLAs are the same percentage as for social security benefits. Again through counter-factual analysis, we estimated that COLAs account for 13 percent ($4.8 billion) of the increase in overall disability compensation cost from 2000 to 2014. Note that we include here solely the COLAs from 2000 to 2014 attributable to the veterans already receiving compensation in 2000. We do not include here COLAs associated with other increased costs. For example, we exclude any COLAs associated with the increased number of veterans on the rolls post-2000. Those costs are captured in the "more recipients" category, discussed in the next section.

The increase in average awards has been universal across all periods of service. Figure 7 shows the average annual compensation for all recipients by period of service. We see that for each group there is a large increase in the average awards from 2000 to 2014.

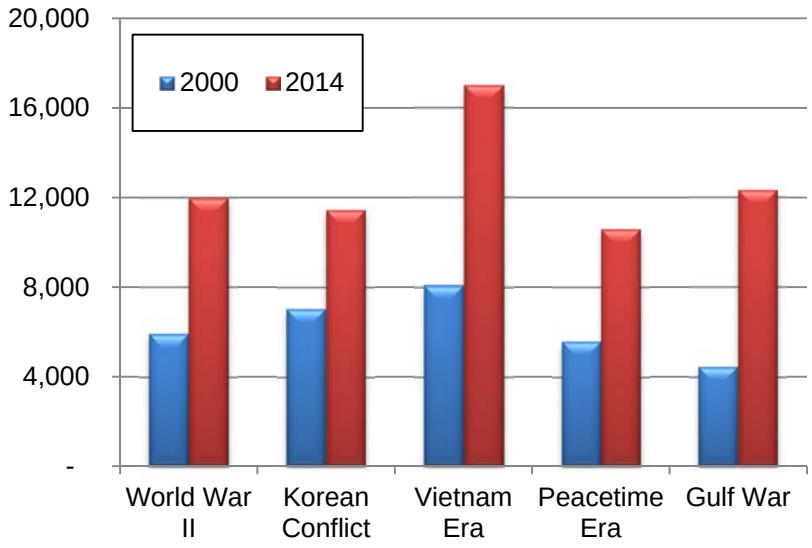


**Figure 7. Average Awards by Period of Service in 2000 and 2014**

## 2. More Recipients

About 2.3 million veterans were receiving disability compensation as of the year 2000. By 2014, there were nearly 3.8 million recipients—an increase of almost 1.5 million. We explore the implications of this increase in the next section, which examines the cost growth of the program.

Naturally, costs rose with the increase in the number of recipients. Again employing a counter-factual analysis technique, we calculated that 35 percent ($12.9 billion) of the total cost growth in this period was due solely to this increase in the number of recipients. As noted previously, this 35 percent includes any COLAs received during the period 2000 to 2014 owed to these new recipients.[4]

It is important to note that new recipients are not necessarily newly separated veterans; our analysis showed that many veterans file for and receive an initial disability compensation award many years after leaving the service. Figure 8 shows the breakout of recipients by period of service for 2000 and 2014. Not surprisingly, there has been a large increase in Gulf War veterans, defined as veterans leaving service after August 2, 1990. Perhaps surprising to some, however, is the sizeable increase in the number of Vietnam era veterans receiving disability compensation—more than 500,000 additional Vietnam era veterans began receiving disability compensation after 2000.

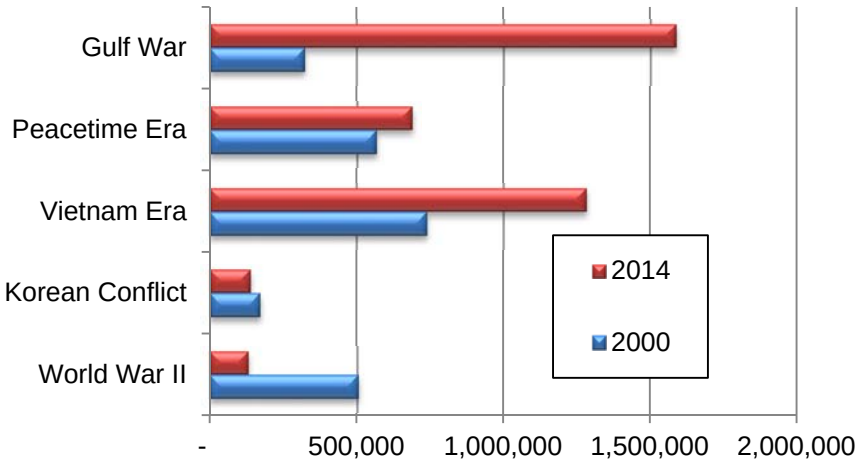


**Figure 8. Number of Disability Compensation Recipients in 2000 and 2014**

[4] Note: The COLAs provided to the new recipients could have justifiably been accounted for in either the "COLA" or the "new beneficiaries" buckets within this analysis. IDA included this cost within "new beneficiaries," since without the new beneficiaries there would be no COLA to new beneficiaries.

## 3. Contribution to Cost Growth

Higher combined ratings and an increase in the number of recipients caused almost all of the cost growth in the VA disability compensation program between 2000 and 2014; the COLAs were only a minor contributor. Figure 9 shows the contributions of each factor to the overall $37 billion cost increase.

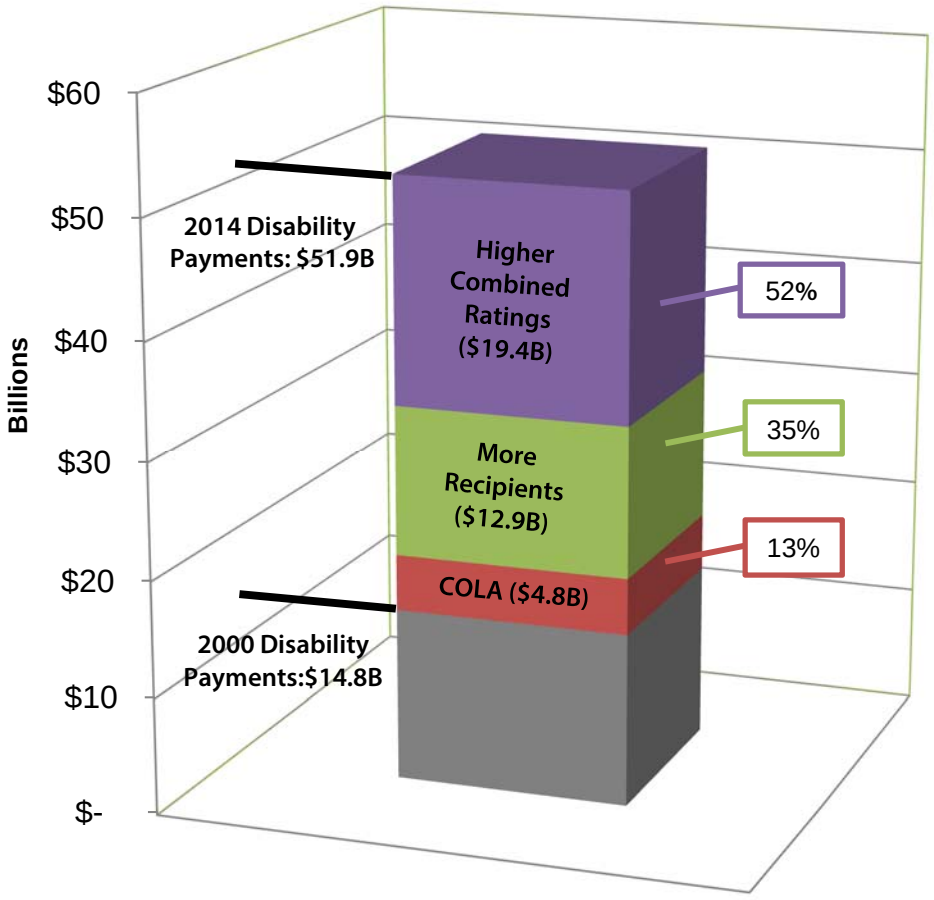


**Figure 9. Characterizing the Cost Growth in Disability Compensation from 2000 to 2014**

## 4. Detailed Analyses

Next, we drill down further into the data to examine a few of the underlying factors that contributed to the dramatic increase in disability compensation expenditures. The results shown in this section represent only a small sampling of the types of analyses that are possible on the detailed data sets.

Average awards to individuals have tended to increase over time as veterans reopen and appeal claims. In fact, much of the increase in average compensation from 2000 to 2014 was due to increased awards to veterans who were already receiving disability compensation in 2000. We examined data from the past 10 years to illustrate this point.

Figure 10 shows data on all recipients in 2014 categorized by period of service and grouped into four categories based on activities since 2005:

- **No change in 10 years.** These veterans had the same disability rating in 2005 and 2014. The only change to their payment was due to the COLAs.
- **Original award**. These veterans first began receiving disability compensation between 2005 and 2014.
- **Reopened claim.** These veterans were on the rolls in 2005 and subsequently reopened their claim. This could be to add an additional issue, re-evaluate an existing service-connected disability, or both.
- **Appealed claim.** These veterans were on the rolls in 2005 and subsequently filed an appeal of a rating decision.

These data show that veterans who appealed or reopened their claims have a substantially higher average annual compensation compared to veterans with initial claims or veterans with no changes over the past 10 years. This is a consistent trend for recipients across all periods of service.

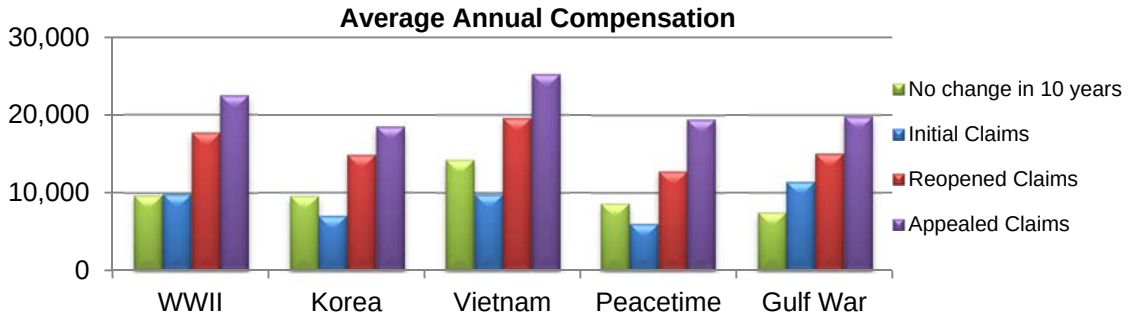


**Figure 10. Average 2014 Compensation by Activity in the Past 10 Years and by Period of Service**

The next question is: what portion of veterans fall into each of these categories? We find that quite a large percentage are veterans who reopened or appealed a claim. Figure 11 shows the distribution of veterans in the above categories. We see that nearly 600,000 Vietnam Era veterans reopened their claim, while 400,000 made no change. Even for the more recent Gulf War veterans, we see a similar pattern. More than 550,000 Gulf War-era veterans reopened a claim, compared to 367,000 who made no change in the past 10 years. Appeals are less common, but still number in the hundreds of thousands. Veterans

with successful appeals have the highest average compensation, regardless of period of service.

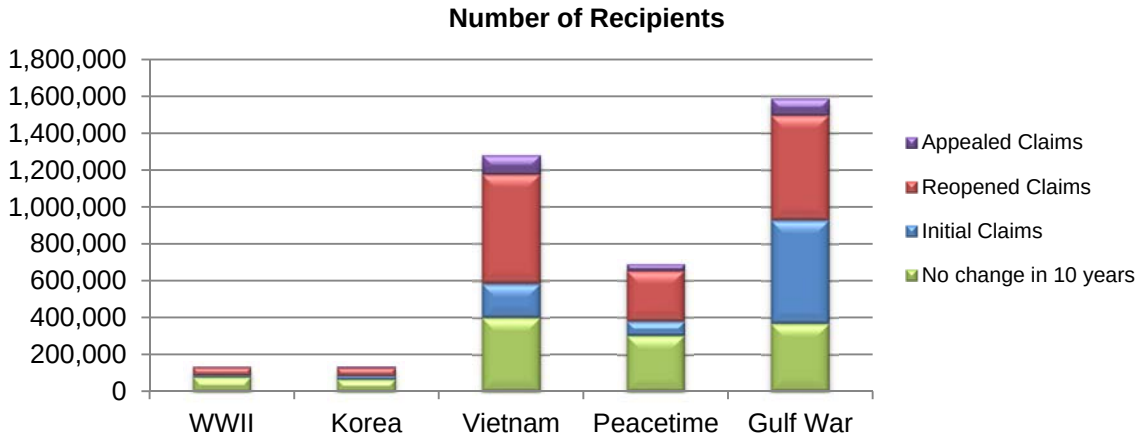


**Figure 11. Frequency at Which Veterans have Appealed and Reopened Claims in the Past 10 Years**

Higher combined ratings are not necessarily due to individual issues being rated differently. Payments are based on a veteran's CDD. The trend has been for veterans to include more and more issues on their claims. Combining multiple service-connected issues will result in a higher CDD. Thus, average payments may increase without any underlying change to the rating pattern for a particular injury or illness.

Higher combined ratings are evident from an examination of the changes in the two largest period of service cohorts. Figure 12 shows the number of recipients in 2000 and 2014, grouped by CDD. Veterans receiving IU are shown as a separate category, because their awards are paid at the 100 percent level regardless of CDD.

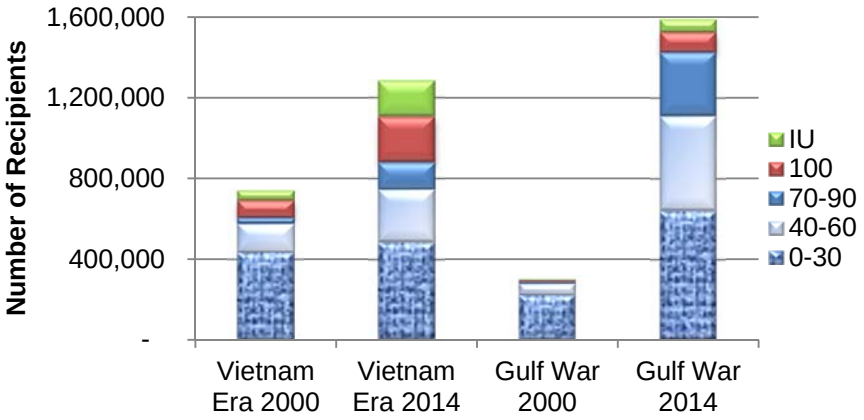


**Figure 12. Growth in the Number of Recipients and the Combined Degree of Disability for Vietnam Era and Gulf War Veterans**

The Vietnam Era recipients have increased in number and the distribution has shifted toward the higher disability levels. As previously noted, the number of Vietnam Era recipients increased by nearly 500,000 and has reached over 1,200,000. The number of recipients in the low 0–30 CDD range, however, has remained nearly unchanged. All of the growth has occurred in the higher disability levels, most notably 100 percent and IU. Between 2000 and 2014, the number of Vietnam Era recipients in the 70–90, 100, and IU categories increased by over 370,000.

The Gulf War cohort has also seen growth in both number of recipients and average CDD, but there are notable differences from the Vietnam cohort. One difference is the size of the increase. The number of recipients from the Gulf War era has quadrupled over the past 15 years. Gulf War disability compensation recipients now represent the largest cohort in terms of number of recipients, but not in terms of dollars. Just as with the Vietnam cohort, the percent of Gulf War recipients in the low 0–30 CDD bracket decreased as veterans shifted into the higher brackets. A difference, however, from the Vietnam cohort is that most of the Gulf War veterans shifted to the 40–60 and 70–90 groups. A much smaller percent of recipients are receiving maximum awards (100 percent or IU) compared to the Vietnam era recipients.

If we delve deeper, a detailed examination of the primary body systems and issue-level data reveals other differences between the Vietnam and Gulf War cohorts. Both experienced growth in mental health conditions (e.g., Post-Traumatic Stress Disorder (PTSD)). The other main areas of cost growth, however, differed between these cohorts. For the Vietnam Era recipients, the other growth drivers included some presumptive[5] conditions (i.e., Cardiovascular (heart diseases), Endocrine (Diabetes), and Genitourinary (cancer)). The other main drivers of growth for the Gulf War recipients, were Musculoskeletal (knee, ankle, etc.), Neurological (traumatic brain injury, migraines), and Respiratory (sleep apnea) issues.

## D. Characterize Current Spending

VBA provided disability compensation benefits totaling $51.8 billion in 2014. In this section, we examine this spending in more detail to characterize where the money is being spent.

[5] This VA presumptive policy applies to veterans who served in Vietnam. It removes the normal requirement that the veteran prove that a condition was incurred or aggravated during a period of active military service. A more detailed description of the qualifying requirements can be found online at U.S. Department of Veterans Affairs, Compensation, Veterans Exposed to Agent Orange (http://www.benefits.va.gov/compensation/claims-postservice-agent_orange.asp).

## 1. Influence of Maximum Awards

Veterans with maximum awards account for the majority of the cost of the disability compensation program. These maximum awards are payments to veterans either rated at 100 percent disabled or receiving IU. The share of program cost attributable to veterans with maximum awards for 2014 is shown in Figure 13.

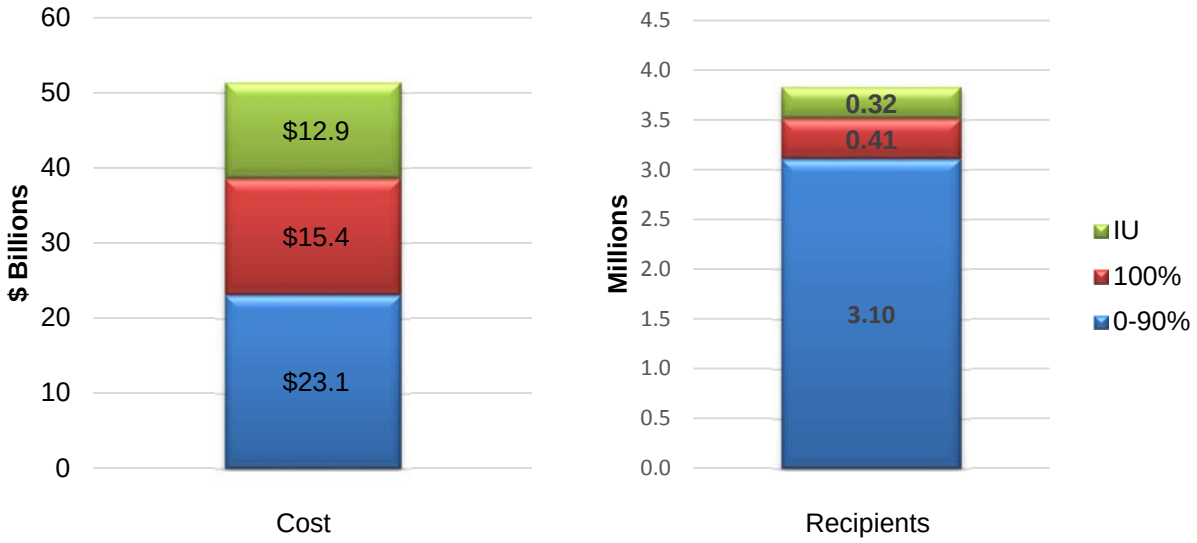


**Figure 13. Disability Compensation Costs and Recipients in 2014**

Comparing the payment data with the distribution of the recipients highlights the leverage of the maximum awards. Most veterans receiving disability compensation are not receiving maximum awards. In fact, in 2014, only about 735,000 of the 3.8 million compensation recipients (or almost 20 percent) were rated 100 percent or IU. The fact that the majority of payments go to this group is the direct result of the nonlinear pay scale for disability ratings, as shown previously in Figure 1. As an example, the annual pay difference between a 90 percent and 100 percent award is around $13,000 per year, which is larger than the increase in annual payment going from 0 to 50 percent disabled.

The payment data broken out by period of service (Figure 14) are revealing, and perhaps hint at potential future growth in the cost of the program. The Vietnam Era veterans received compensation of $21.5 billion, with over 60 percent of that total going to veterans rated 100 percent or IU. Korea and WWII veterans have the same distribution, just on a smaller scale. Peacetime veterans are similar, with only slightly less (57 percent) of the benefits going to pay for maximum awards.

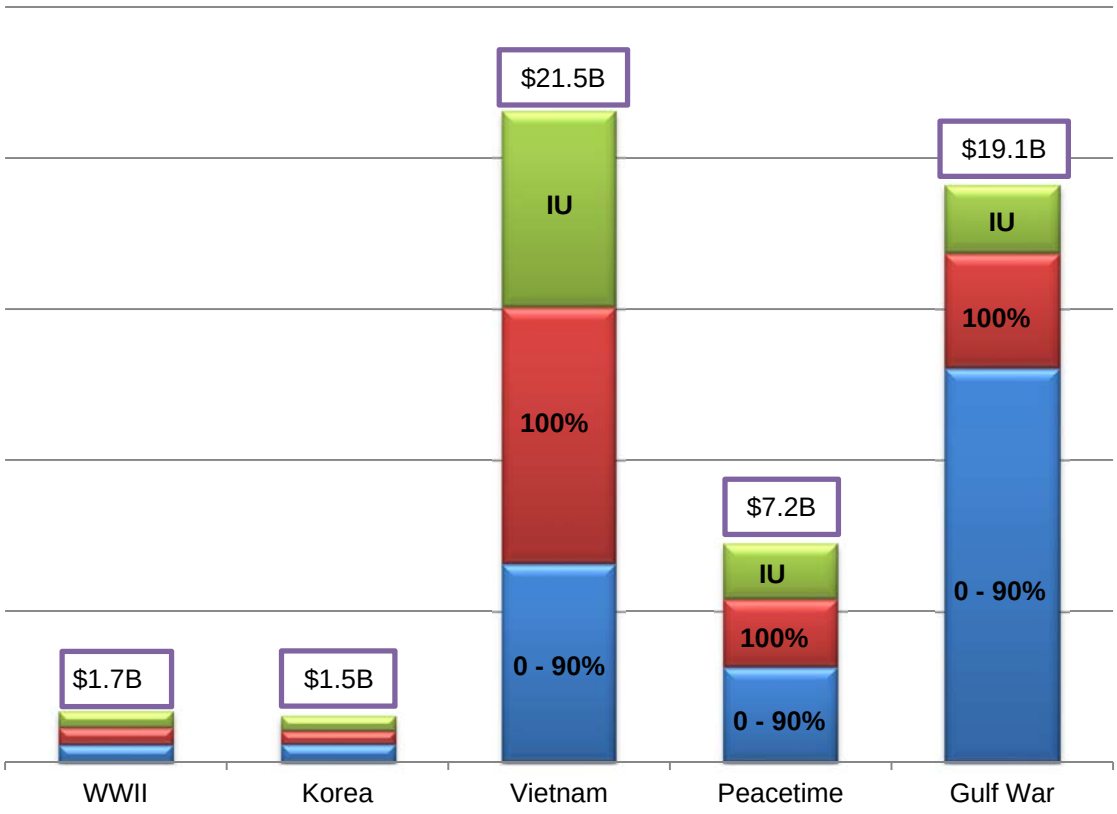


**Figure 14. Spending on Disability Compensation Benefits in 2014 by Period of Service**

Gulf War recipients are currently notably different. Less than one-third of the cost for Gulf War veterans in 2014 was for veterans with a maximum award—a much different pattern than seen in all the other cohorts.

So what could explain this pattern? Recall that the analysis presented earlier on the behavior of recipients over the past 10 years showed that, over time, veterans have continued to increase their benefits by reopening and/or appealing their claims. A growth and progression of costs has already been experienced by the cohorts prior to the Gulf War. It seems quite likely that many veterans in the younger Gulf War cohort are relatively new recipients, and their payments are likely to increase over time as a higher percentage of recipients in this cohort reach the maximum awards.

## 2. Individual Unemployability

IU accounts for a large portion of the total spending on veterans' disability compensation. In 2014, there were nearly 320,000 IU veterans receiving a total of $11.6 billion, or an average of $36,400 per recipient. Of course, these costs would not entirely go away if there were no IU awards. Recall that IU is an incremental award that provides 100 percent benefits to veterans that already have a service-connected disability and meet a

certain eligibility threshold. Thus, without IU, these veterans would still be eligible to receive some compensation based on their CDD.

IDA analyzed the 2014 recipient data and computed the marginal cost of the IU awards. For each veteran receiving IU, we computed the payment they would have received absent the IU determination. This analysis revealed that the average marginal cost of an IU award is $16,700 per veteran per year. Currently, with more than 320,000 veterans receiving IU, the incremental cost of Individual Unemployability awards is nearly $5.4 billion dollars per year.

Older veterans are currently the primary beneficiaries of IU. This fact is revealed by examining data on the current IU recipients broken out by age as shown in Figure 15. Veterans aged 65 and over currently account for over half of the 320,000 IU recipients. Additionally, many veterans are continuing to receive IU benefits into their 70s, 80s, and even 90s.

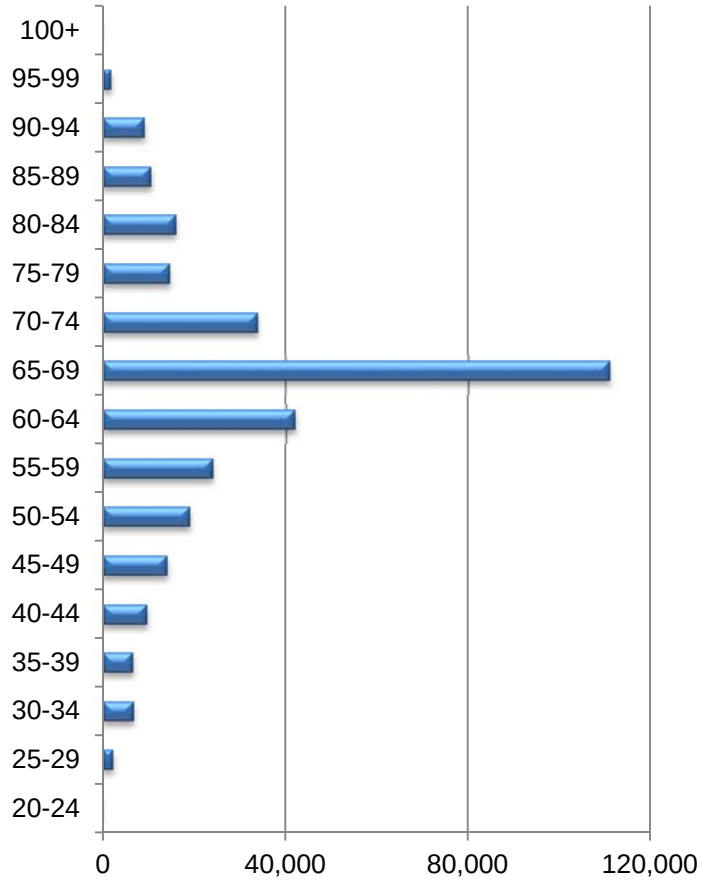


**Figure 15. Number of IU Recipients in 2014 by Age Ranges**

Gulf War veterans have not yet seen the same percentage with maximum awards. In 2014, the fraction of Gulf War recipients receiving maximum awards was 10 percent, up from 4 percent in 2000. If growth patterns of veterans in other periods of service are indicative of growth for the Gulf War-era veterans, this percentage is likely to continue to increase, causing the cost of compensation to rise. Additionally, as these Gulf War recipients begin to transition from the lower CDDs into the higher categories, more of these veterans may be eligible to receive IU awards. The cost of IU is currently estimated at $5.4 billion per year over all cohorts. How will this change as more and more Gulf War-era veterans become eligible?

## E. Summary and Next Steps

### 1. Summary of Analysis

The disability compensation program has experienced substantial cost growth. The percent of veterans receiving disability compensation, which was around 8 percent for the 40-year period 1960–2000, has more than doubled in the past 15 years. Costs have more than tripled from $14.9 billion in 2000 to $53.9 billion in 2014. Higher average ratings (both in terms of higher average CDD and more frequent IU awards) were found to be the main cause of the escalating costs, accounting for 52 percent of the growth. The increased number of recipients explained 35 percent of the cost growth. Annual COLAs accounted for the remaining 13 percent.

IDA also analyzed detailed data on 2014 disability compensation recipients to characterize the current spending. We highlight the influence of maximum awards and note that over half the spending is for veterans either rated at 100 percent disabled or receiving IU. We classified veterans using the period of service categories provided by VBA, and find that the Vietnam Era and Gulf War veterans are the two dominant cohorts, receiving over $40 billion of the $51.9 billion in disability compensation benefits. We identify some differences between these cohorts, particularly with regard to maximum awards. Nearly $15 billion (or 69 percent) of the $21.5 billion spent on Vietnam veterans currently goes to pay for maximum awards. A different pattern exists for Gulf War veterans in that approximately $6 billion (or 32 percent) of the $19.1 billion goes to veterans rated 100 percent or IU. We show that awards have increased over the past 10 years as veterans have successfully reopened and/or appealed their claims. The question is whether as time passes the newer Gulf War veterans will begin to look like the other cohorts or continue to remain an outlier.

### 2. Important Future Analyses

The IDA analysis identified and explored several of the factors contributing to the costs of the VBA disability compensation program. This work was performed on a short

timeline and therefore many areas of exploration were not possible in the time allotted. We note in this section a few of the topics that are ripe for future analysis with the accumulated data sets. Results from these analyses could provide insights beneficial to government decision makers.

One clear area of follow-on analysis would be to examine and estimate the potential future costs of the VA disability compensation program. This forecast could show the expected total costs at 5, 10, or even 20 years in the future and provide details about where the money is likely to be going. Such forecasts could be parsed in many different ways—for example, by periods of service or CDD.

Relatedly, we observe that particular body systems or issues (e.g., PTSD/mental, cardiovascular, musculoskeletal issues) are experiencing more growth than others, and can vary across veteran cohorts. It could be useful to gain an understanding of which issues are experiencing the most growth, the associated growth rate, and which populations are affected. Furthermore, it would be valuable to forecast the cost implications of that growth. It may also be useful to explore implications of policy changes, as applicable, for particular issues. For example, if a particular issue becomes presumptive for a particular cohort, the frequency and cost implications can be investigated. Another related question involves the increasing trend in the proportion of veterans receiving disability compensation. After being nearly constant for 40 years, a dramatic increase occurred over the past 15 years. What has been driving this increase? Is the percent of veterans receiving disability compensation nearing another plateau or will it continue to increase? Are newly separated veterans more likely to apply for and receive disability compensation? And has the increased availability of separation counseling services contributed to any changes in the utilization of the disability compensation program?

A final recommended area for further analysis would be a more detailed examination of the individual unemployability awards. We computed that the incremental cost of the program is currently $5.4 billion a year and that over half the recipients are aged 65 or older. Furthermore, over 100,000 are in the 65–69 age cohort. What will happen as time passes and these veterans age? Will most of them continue to receive IU for the rest of their lives? Currently, far fewer of the younger veterans are currently receiving IU. Is this likely to change in the future under current policy? If so, how high will costs go?

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# Abbreviations

| | |
|---|---|
| B | Billion |
| CDD | Combined Degree of Disability |
| COLA | Cost of Living Adjustment |
| FY | Fiscal Year |
| IDA | Institute for Defense Analyses |
| IU | Individual Unemployability |
| MCRMC | Military Compensation and Retirement Modernization Commission |
| PTSD | Post-Traumatic Stress Disorder |
| US | United States |
| VA | Department of Veterans Affairs |
| VBA | Veterans Benefits Administration |
| WWII | World War II |

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The National Defense Authorization Act of 2013 established the Military Compensation and Retirement Modernization Commission (MCRMC) to conduct a review of military compensation and retirement systems and to make recommendations to modernize such programs. The Commission asked the Institute for Defense Analyses (IDA) to attempt to quantify the main factors contributing to the cost growth experienced by the veterans' disability compensation program and to characterize current expenditures by cohorts. This paper shows the results of IDA's analyses on veterans' disability compensation for the MCRMC.

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