

DRC BRIEF

DRC BRIEF NUMBER: 2016-07

Disability Benefits for Veterans: Interactions Among Department of Defense, Department of Veterans Affairs, and Social Security Administration Programs

June 2016

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Reference Number: 40112.D-MP-13-10

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INTRODUCTION

There are five major benefit programs that provide financial support to veterans with disabilities: The Department of Defense (DoD) Disability Retirement program; the Department of Veterans Affairs (VA) Disability Compensation and Veterans Pension programs; and the Social Security Disability Insurance (SSDI) and Supplemental Security Income (SSI) programs. These programs vary widely in terms of purpose, eligibility criteria, beneficiary characteristics, amount of benefits, interactions with other programs, and the effect of employment on continued eligibility and cash benefit amount. The differences are complex and difficult to understand, often making it extremely difficult for veterans with disabilities to make fully informed financial and employment choices.

In addition to the cash benefit programs, veterans may be accessing healthcare through one or more federal government programs including TRICARE, Medicare, Medicaid, and/or the VA Healthcare System. Each of the programs has its own eligibility requirements (including income and resource limits in some cases) and each has its own set of rules governing participating providers, covered services, limits of coverage, and out-of-pocket costs. For individuals who receive health care coverage from multiple programs, enrollment requirements and payment for services may involve complex program interactions and require veterans to make decisions about their healthcare choices.

The purpose of this brief is to provide a detailed discussion of the financial benefit programs available to military veterans through the DoD, VA, and the Social Security Administration. This brief will review the DoD, VA, and SSA eligibility determination criteria, describe the components and regulations of the various benefit programs, examine the effect of benefit receipt on eligibility for other benefit programs, and describe the effect of increased earnings on program eligibility and benefit amounts.

OVERVIEW OF THE MAJOR BENEFIT PROGRAMS AVAILABLE TO VETERANS WITH DISABILITIES

The DoD, VA, and Social Security programs vary widely in the scope and purpose of their disability evaluation processes. A veteran could conceivably receive three different assessments of disability resulting in three different determinations, depending on his or her medical condition. A veteran could qualify for benefits based on disability from all three federal agencies, establish eligibility for just one or two, or not qualify for any. Determinations are based on the nature and severity of the disabling conditions and other factors relevant to the examining agency.

Table 1 illustrates the contrasting purposes of the various benefit programs. SSDI is the only program that is based on the premium contributions the individual made to a public program during their career. SSDI is a wage replacement insurance program designed to compensate individuals who are forced to disengage or retire early from the workforce due to a significant disability. The benefit amount is based on an individual's prior earnings. In contrast, the VA Disability Compensation program attempts to project an individual's future earnings in the civilian economy and compensate for the shortfall relative to their non-disabled peers' future earnings. The DoD Disability Retirement benefits is a wage replacement program that compensates veterans whose disability prevents them from returning to their pre-disability position in the armed forces; the amount of compensation is based on their wages in the military, without regard for their potential earnings as a civilian.

TABLE 1. PURPOSE OF DOD, VA, AND SOCIAL SECURITY BENEFIT PROGRAMS AVAILABLE TO VETERANS WITH DISABILITIES

Department of Defense	Department of Veterans Affairs	Social Security
Disability Retirement: Provide financial support to service members whose disabling conditions render them unable to perform their military duties.	Disability Compensation: Compensate veterans for average reduction in earnings capacity due to their service-connected disabilities. Veterans Pension: Provide a needs-based benefit to a veteran because of permanent and total non-service connected (NSC) disability.	SSDI: Replace lost wages for workers under age 66 who have paid into Social Security but can no longer work because of a disability. SSI: Provide cash payments ensuring a minimum income for aged, blind, or disabled beneficiaries who have very limited income and assets.

Source: GAO-09-762. (2009). p. 54

Number of Individuals Receiving Disability Benefits

Disability programs for veterans vary widely in the number of beneficiaries and total costs. Table 2 illustrates the relative size of each of the programs. The DoD Military Disability Retirement, Concurrent Retirement and Disability, and VA Disability Pension programs are quite small, providing a combined \$10 billion in benefits to 700,000 beneficiaries in 2013.

TABLE 2. BENEFIT PROGRAMS AVAILABLE TO VETERANS WITH DISABILITIES

Program	Number of Beneficiaries/Recipients	Total Expenditures
DoD Military Disability Retirement ^a	103,000	1.4 Billion
Concurrent Retirement and Disability Pay ^b	310,000	\$5.1 Billion
VA Disability Compensation ^c	3,700,000	\$49.1 Billion
VA Veterans Pension ^d	315,000	\$3.5 Billion
Social Security Disability Insurance ^e	8,800,000	\$136.9 Billion
Supplemental Security Income ^f	4,800,000	\$25.8 Billion

^a <http://actuary.defense.gov/Portals/15/Documents/statbook13.pdf>

^b <http://militarypay.defense.gov/RETIREMENT/CONCURRENT/> 2/12/13

^c Recipients under age 65 - Annual Disability Statistics Compendium: 2013

^d Veterans Benefits Administration Annual Report May 17, 2014

^e Data for disabled workers. Social Security Administration Annual Statistical Supplement 2013.

^f Blind or disabled age 18-65. Social Security Administration Annual Statistical Supplement 2013

VA Disability Compensation and Social Security Disability Insurance are by far the largest programs providing financial benefits to veterans with significant disabilities. Both programs have grown at an extremely rapid rate since 2000. Spending on veterans' disability benefits has increased from \$20 billion in 2000 to \$54 billion in 2013 (Congressional Budget Office, 2014). During the same time period, the SSDI program grew at a similar rate. The number of beneficiaries rose from 5.2 million disabled workers in 2000 to 8.8 million in 2013, while expenditures increased from \$51 billion to \$137 billion over the same time period.

Department of Defense Disability Retirement

It is commonly believed that the only benefits provided to veterans based on disability originate from the Department of Veterans Affairs, but this is not accurate. Military members with physical or mental health conditions that render them unfit to perform required duties may be separated or retired from the military for medical reasons (Title 10, U.S.C., Chapter 61). Separation or retirement from the military due to medical reasons will often result in a cash payment being provided by the DoD.

The DoD evaluates disability to determine if the service member is fit to perform the duties required for active military service. Members determined to be “unfit” for duty are separated from service and are entitled to disability benefits. Disability benefits are intended to compensate the individual for the loss of their military career. DOD determinations are not related to how the disability occurred and do not consider how the disability might affect future employment outside of military service.

Service members are eligible for disability retirement if they are found unfit for duty with a disability rating of 30% or greater. A member whose condition is not stable may be placed on the temporary disability retired list (TDRL) for up to five years at which point they must be either discharged, retired or returned to duty. Members whose condition stabilizes at a disability rating of 30% or higher may be placed on the permanent disability retired list (PDRL).

DoD benefit amounts are based on a complex algorithm that takes into account prior military pay, years of service, spouse, number of child and parental dependents, disability rating percentage, and receipt of special compensation awards.

The Veterans Disability Compensation

VA Disability Compensation is a monetary benefit paid to veterans who are disabled by an injury or disease that was incurred or aggravated during active military service. These disabilities are considered to be service-connected. The monthly amount of disability compensation varies with the degree of disability and the number of the veteran’s dependents. To be eligible for disability compensation, the service of the veteran must have been terminated through separation or discharge under conditions other than dishonorable.

The VA disability program is required by law to compensate veterans for the average loss in their civilian occupation earning capacity that results from service connected disability. As a result, the VA evaluates disability on the basis of how the presenting medical conditions are expected to diminish the individuals’ future civilian earnings capacity (GAO, 1997). Disability is rated by percentages on a continuum of 0% - 100%. Ratings are made in increments of 10 (i.e., 10, 20, 30, etc.). The higher the disability rating, the greater the benefit paid. In the Disability Compensation program, the VA is only concerned with medical conditions they determine be service connected, meaning that they were incurred during a period of active military service. Disability Compensation benefits may last until death and include survivor benefits.

The VA uses the Combined Rating Table to calculate a combined disability rating for a veteran with multiple disabilities. Disability ratings are not additive. For example, if a veteran has a disability rated 50 percent and a second disability rated 30 percent, the combined rating is not 80 percent. This is because the second rating of 30 percent is applied to the residual of the 50 percent disability rating. Using the Combined Ratings Table, a veteran with a 50 percent and 30 percent rating would be 65 percent. This is rounded to the nearest increment of 10, so the rating for this individual would be 70 percent.

In addition to the percentage rating system, the VA also designates certain veterans as having “total disability” and “permanent total disability.” Total disability is any impairment of mind or body that is sufficient to render it impossible for the average person to pursue a substantially gainful occupation. Total disability may or may not be permanent. Total disability ratings are authorized for any disability or combination of disabilities for which the Schedule for Rating Disabilities prescribes a 100% evaluation. In the VA system, the terms “*100% Disability Rating*” and a VA “*Total Disability Rating*” are synonymous.

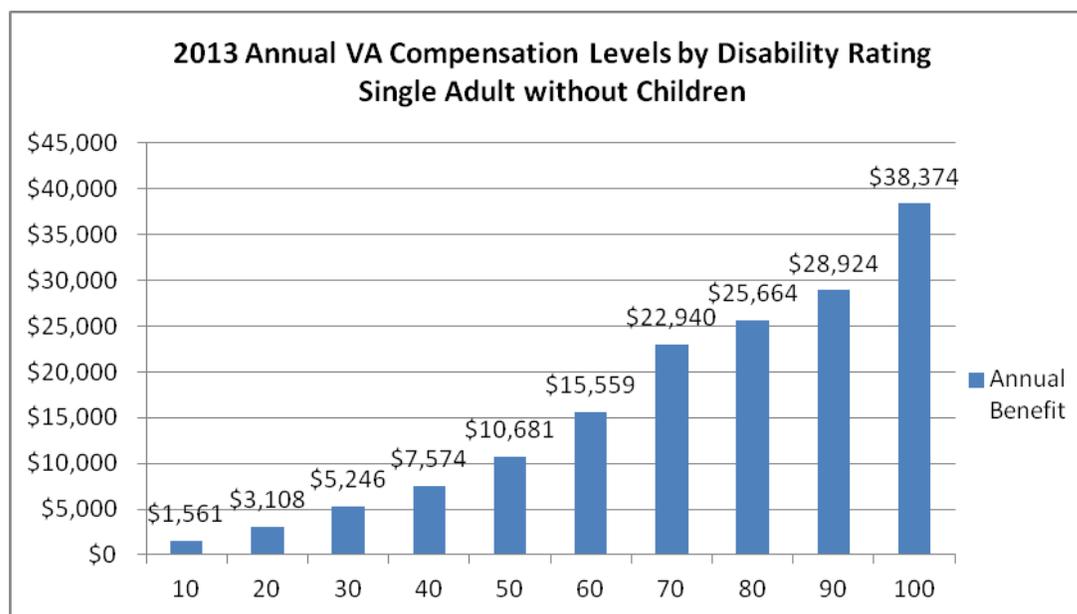
Individual Unemployability – In certain circumstances, total disability ratings for VA disability purposes may also be assigned even though the schedule rating is actually less than 100%, (the usual standard for total disability). If the rating agency determines that the individual with the disability is unable to secure or follow a “substantially gainful occupation” as a result of service connected disabilities, that individual may be deemed to have total disability for the purposes of VA compensation. VA refers to this designation as “*individual unemployability*” (IU) and it may occur under the following circumstances:

1. If there is only one disability, this disability is rated at 60 percent or more; or
2. If there are two or more disabilities, there must be at least one disability rating at 40 percent or more and sufficient additional disabilities to bring the combined rating to 70 percent or more.

The long-term financial benefits of establishing IU status are significant and increase substantially for veterans with dependents, for whom additional monetary compensation may be received.

VA ratings may fluctuate with time, depending upon the progress of the condition (Moulta-Ali, 2012). After the initial VA disability rating has been made, veterans may be subject to periodic re-examinations. The VA requests re-examinations when it determines there is a need to verify either the continued existence or the current severity of a disability. Generally, reexaminations will be required if it is likely that a disability has improved, if evidence indicates there has been a material change in a disability, or that the current rating may be incorrect. Earnings do not directly affect the disability rating, other than as a potential indicator of an improved medical condition. Individuals for whom reexaminations have been authorized are required to report for such reexaminations.

VA Disability Compensation Rates - In FY 2013, a total of 3,743,259 veterans received Disability Compensation benefits totaling \$49.1 billion (Figure 1). Of those, 292,675 began receiving benefits for the first time (Veterans Health Administration, 2014).

FIGURE 1. VA COMPENSATION LEVELS BY DISABILITY RATING, 2013

VA Veterans Pension

The VA Veterans Pension is a needs-based benefit paid to veterans who have a permanent and total non-service connected disability or who are age 65 or older. Benefits may also be paid to a surviving spouse or child because of a wartime veteran's non-service connected death. Veterans Pension payments are made to bring the veteran's total income, including other retirement or Social Security income, up to a minimum level set by Congress. In 2014, the maximum Veterans Pension was \$12,652 for an adult with no dependents, which represents 108 percent of the current Federal Poverty Level. Maximums for veterans who are housebound or have dependents are higher.

Unlike the Disability Compensation program, the Pension program is means-tested. This means that eligibility is based upon meeting certain income and asset tests. In addition, Veterans Pension payments are reduced dollar for dollar by the amount of countable income of the veteran, spouse, or dependent children. The VA will consider all income from sources such as wages, salaries, earnings, bonuses from employers, income from a business or profession or from investments or rents as well as the fair value of personal services, goods, or room and board received in lieu thereof. Furthermore, salary is not determined by "take-home" pay, but is based on "gross pay" before any deductions made under a retirement act or plan and amounts withheld by virtue of income tax laws.

The Social Security Administration

Social Security evaluates disability in relation to how the physical or mental conditions limit an individual's capacity for self-supporting work. The Social Security disability benefits represent a partial wage replacement program for individuals who have disabilities so severe that they are determined unable to engage in any *substantial gainful activity* (SGA) for a period of at least 12 months or until death. Disability evaluations under Social Security law do not consider varying levels of disability. If an individual is judged to be unable to perform SGA level work

then disability is determined and eligibility for benefits is established. If the individual retains the ability to engage in SGA, disability status is denied and no benefits are provided.

In addition to the medical requirements, to be found eligible for SSDI an individual must have worked and earned enough credits to have established insured status. To be found eligible for SSI, an individual must have countable income below the current Federal Benefit Rate and have countable resources of less than \$2,000 (\$3,000 for a couple). As of July 2014, 14.3 million individuals were receiving over \$160 billion each year in disability benefits from Social Security programs (both SSDI and SSI). Of these beneficiaries, 8 million received SSDI benefits only, 4.7 million received Supplemental Security Income (SSI) only, and 1.6 million received both SSDI and SSI benefits. Most SSDI recipients receive benefits totaling between \$300 and \$2,200 per month. The average SSDI payment in 2014 is \$1,148 per month and the maximum disability benefit is \$2,642. For SSI beneficiaries, the mean payment was \$553 per month for individuals 18-64 years of age (Social Security Administration, June 2014).

Once Social Security determines that an individual has sufficient quarters of coverage to permit entitlement for SSDI, they calculate the Primary Insurance Amount (PIA) and payments based on wages or self-employment income (SEI) on which taxes were paid. There are many different calculations and the appropriate one is chosen based on the worker's date of birth and the date the disability began. Essentially, the longer a beneficiary has worked and the more the individual has earned, the higher the SSDI cash payment will be. Re-computations occur automatically when an individual has additional earnings that positively affect the potential benefit.

The SSI cash payment amount is dependent upon multiple variables. Social Security counts an individual's or SSI eligible couple's countable income on a monthly basis. To determine the SSI payment amount, income not excluded through work incentives or other provisions is subtracted from the SSI Federal Benefit Rate (FBR). The FBR is a monthly amount that changes in January of each year, and is the highest SSI federal payment an individual or eligible couple may receive. Some states provide a State Supplement Payment in addition to the federal FBR. Unlike SSDI benefits, SSI payments are reduced when countable income is in evidence. The more countable income an individual or SSI eligible couple has, the lower the cash payment will be. If an individual or SSI eligible couple has countable income which exceeds the current FBR, they will not be eligible for a cash payment at all.

Payments to veterans in the Disability Compensation program are much higher than in the SSDI program. In contrast to the SSDI mean of \$1,148, the monthly benefit of comparable individuals in the Disability Compensation program whose earnings would not meet the standard for substantially gainful employment would exceed \$2,800 per month.

THE INTERACTION OF SOCIAL SECURITY, DEPARTMENT OF DEFENSE, AND VETERANS BENEFITS

In many situations, veterans may be receiving financial benefits from more than one of the five major disability benefit programs. The impact of benefit receipt across multiple programs varies widely. Often, veterans receiving certain benefits, particularly Disability Compensation, are able to receive benefits in other programs with no effect on their program eligibility and benefit amount. In other instances, receipt of a benefit in one program may have a significant effect on benefit amounts in another program.

DoD Disability Retirement – As of January 1, 2004, qualified disabled military retirees are paid both their full military retirement pay and their VA disability compensation. The legislation that created the Concurrent Retirement and Disability Pay (CRDP) program phased out (over 9 years) the VA disability offset, which means that military retirees with 20 or more years of service and a 50% (or higher) VA rated disability no longer have their military retirement pay reduced by the amount of their VA disability. DoD retirement is not affected in any way by eligibility for Social Security benefits of any type. However, Social Security Disability Insurance (SSDI) and SSI payments may be reduced or eliminated due to receipt of military disability and retirement benefits, as described below. DoD retirement benefits are subject to State and Federal income tax.

VA Disability Compensation - This benefit is not affected in any way by receipt of Social Security benefits or military retirement. VA Compensation is also specifically exempt from State and Federal income tax. In addition, while Social Security Disability Insurance (SSDI) benefits are typically reduced or “offset” by Federal public disability benefits (PDB), such as military retirement based on disability, this does not include benefits paid by the Department of Veterans Affairs under Title 38 U.S.C. These benefits are specifically excluded from the PDB offset by Federal law. Veterans with disabilities are encouraged to apply for disability benefits available from Social Security in addition to VA Disability Compensation.

Social Security Disability Insurance (SSDI) - As previously stated, SSDI benefits are not affected in any way by VA Disability Compensation, Veterans Pension, or any other cash benefit provided by the VA. However, DoD disability retirement is a form of Public Disability Benefits (PDB) and as such is subject to Social Security’s PDB offset rules. The Social Security Act requires SSA to reduce Social Security DI cash payments when the beneficiary is also eligible for periodic or lump-sum PDB benefits so that the combined amount of PDB and Social Security DI benefits does not exceed 80 percent of the worker’s average current earnings (Social Security Administration, 2015, POMS DI 52130.015).

Supplemental Security Income (SSI) - The SSI program is strictly means-tested and, in most cases, eligibility for SSI and/or the SSI payment amount would be affected by receipt of VA Disability Compensation and military retirement benefits. These benefits would be counted as unearned income for SSI purposes with only the \$20 general income exclusion available to reduce the amount of this benefit that SSI would count. There are certain special cash benefits programs provided by the VA which are specifically excluded as income for the SSI program. VA Veterans Pension payments are counted as unearned income to which the \$20 general income exclusion does NOT apply. This means that the SSI cash payment would be reduced dollar-for-dollar by VA Pension payments.

VA Veterans Pension - Eligibility for the Veterans Pension program and the monthly payment amount may be affected by receipt of all Social Security disability, retirement, and survivor benefits. Every dollar of Social Security benefits received will result in a dollar being taken away from the Veterans Pension payment. However, the VA Pension program does NOT count SSI payments as income. SSI is considered to be a benefit received under a “noncontributory program” (i.e., a form of welfare) that is subject to the rules applicable to charitable donations. SSI counts the Veterans Pension as unearned income with no exclusions so it is very unlikely that these two benefits would be received concurrently.

THE EFFECT OF EMPLOYMENT ON DISABILITY BENEFITS

The various disability benefit programs available to veterans treat earned income differently. The impact of earnings on DoD Retirement, VA Disability Compensation, VA Veterans Pension, SSDI and SSI are described below.

DoD Disability Retirement Benefits

Military disability retirees are permitted to work at any earnings level without any effect on DoD retirement benefits. There is neither reduction in benefits nor risk of becoming ineligible for benefits due to employment.

VA Veterans Pension

The Veterans Pension program is means-tested and earned income from employment significantly impacts both a veteran's eligibility for this program and the amount of payment due each month.

VA Disability Compensation

Disability Compensation benefits are not means-tested so they are not affected by income or resources. Neither wages nor net income from self-employment affects Disability Compensation payments in the sense that in and of themselves they would cause a reduction or "offset" in the VA payment amount. Other forms of income (not related to employment) and assets are also not taken into consideration by the Disability Compensation program and have no impact on benefit eligibility or amount of monthly payment.

The economic impact of the relatively high Disability Compensation benefits, particularly for those with high disability ratings, may create a work disincentive for veterans with serious medical conditions, those who have struggled to maintain employment, those who do not have the requisite skills or experience to secure higher-paying jobs, or older veterans who may have a difficult time finding employment in the civilian economy (Tsai & Rosenheck, 2013).

Social Security Disability Insurance

SSDI beneficiaries who become employed do not see an immediate impact on their cash benefit. However, earned income above certain levels for over 12 months (not necessarily consecutive) may result in suspension or termination of all cash benefits. In 2014, a non-blind beneficiary can earn up to \$1,070 per month after disregards for work expenses and continue to receive his or her full benefit amount, but after 12 months at that level SSA would suspend or terminate payments completely. SSDI has an array of work incentive provisions to minimize the impact of earned income for SSDI beneficiaries as they attempt to obtain or return to employment.

Supplemental Security Income

Within the SSI program, earned income will lead to a reduction and potential elimination of benefits. After a basic exclusion of \$85 per month, the SSI payment will be reduced \$1 for every \$2 dollars in earned income. As with the SSDI program, a number of work incentive rules have been developed to lessen the reduction in benefits for SSI beneficiaries, many of whom have limited prior work experience, to obtain and succeed in employment. These work incentives are designed to enable the beneficiary to attempt to increase earnings, while limiting the immediate impact of employment attempts on benefit status and amount.

SUMMARY

Military veterans with disabilities may be eligible to receive financial benefits from the DoD, VA, and Social Security. Eligibility for a specific program is determined by when and where the disability onset occurred (as determined by the program), the veteran's military status at the time of the onset of the disability, and the severity of the disabling condition. DoD benefits are intended to compensate veterans for their loss of a military career, while VA Disability Compensation benefits are designed to offset the loss of future earnings in the civilian workforce. To achieve these purposes, DoD and VA benefits are significantly higher than those paid by Social Security.

The DoD and VA benefit programs for veterans with service connected disabilities generally treat earned income very favorably, with the exception of veterans in the individual unemployability category for whom employment will often affect their disability rating. In contrast, the VA Veterans Pension program for veterans who have sustained a non-service connected disability is a means tested program intended to provide a base income roughly equivalent to the federal poverty level. The Veterans Pension does not provide a strong incentive for a veteran to attempt employment because any earnings will lead to an immediate reduction in the amount of the pension benefit. However, the amount of the pension payments is relatively small, and some individuals may wish to forego the benefit to attempt to earn significantly higher wages.

A sizeable number of veterans with disabilities receive Social Security disability benefits. For veterans with VA Disability Compensation program, receipt of SSDI and SSI will lead to increased overall income, while VA Veterans Pension recipients will see their benefit significantly affected by Social Security disability benefits.

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