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Concurrent Receipt of Military Retirement and VA Disability Benefits: Budgetary Issues

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Summary

House and Senate conferees on the FY2003 National Defense Authorization Act (H.R. 4546) are currently considering provisions that would lift the longstanding prohibition on concurrent receipt (simultaneous payment) of Department of Defense (DoD) retired pay and Department of Veterans' Affairs (VA) disability benefits. The House-passed bill would phase in partial concurrent receipt by providing both retirement and VA benefits for those with disabilities of 60 percent or above by FY2007. The Senate-passed bill provides full concurrent receipt for military retirees with any disability rating in FY2003.

The Administration has threatened to veto a bill that includes either the Senate or the House version of concurrent receipt. The Administration objects to establishing a precedent that would allow beneficiaries to receive more than one type of benefit stemming from the same period of service. The Administration also objects to the cost. According to Congressional Budget Office estimates, the House provisions would cost \$1.1 billion in FY2003 and \$24.8 billion over the next 10 years, while the Senate provisions would cost \$4.3 billion in FY2003 and \$61.2 billion over 10 years.

About 110,000 retirees could receive higher payments under the House measure and about 700,000 under the Senate measure in FY2007 when both versions of concurrent receipt would be fully implemented. At that time, those eligible would receive an annual benefit increase of about \$18,000 under the House provision and \$6,400 under the Senate provision. The largest individual benefits would go to those with the highest disability levels. This report was prepared under the supervision of Gary Pagliano, Specialist in National Defense. It will be updated as warranted.

Background

Resolving the issue of concurrent receipt may be one of the more difficult issues to settle in the FY 2003 National Defense Authorization Act that is currently in conference. The President has threatened to veto the entire bill if either version of concurrent receipts

included.¹ The Administration opposes concurrent receipt because of the cost and because it fears that the change could create a precedent that could lead to costly increases in other similar federal benefit programs.²

Under current law, military retired pay is reduced or offset dollar-for-dollar for any VA disability benefits a retiree receives.³ Proponents of concurrent receipt believe that “retirees are entitled to receive both retired pay for which they contributed years of faithful service and the VA compensation for a service-connected disability intended to recognize a lifelong limitation on earning potential.”⁴ Opponents of concurrent receipt, popularly referred to as “double-dipping,” describe concurrent receipt as “two pays for the same event,” and argue that VA benefits are intended to compensate disabled veterans who had to leave the military, and whose later earnings were affected.⁵

Pressure to lift this prohibition for veterans has grown in recent years. In P.L. 107-107, the FY2002 National Defense Authorization Act, Congress approved concurrent receipt contingent upon the President requesting the change and identifying budgetary offsets. Since this Administration opposes concurrent receipt, the FY2003 budget did not include any proposal. Last year’s DOD Authorization Act did, however, expand special compensation for “severely disabled” retirees determined to have a service-related disability within four years of leaving the military.

Budget Issues for Congress

Permitting concurrent receipt of military retirement and VA benefits raises several important budget issues for Congress:

- ! the coverage and size of additional payments for military retirees;
- ! the effect on immediate and long-term government costs; and
- ! the effect of exempting DOD from carrying in its budget the accrual cost of benefits for current personnel as provided in the House bill.

¹ See “Hill, White House still fighting over retirement pay,” *Army Times*, Sept. 30, 2002. See Statement of Administration Policy on FY2003 DOD Authorization bills, S. 2514, the Senate-reported bill; see [<http://www.whitehouse.gov/omb/legislative/>].

² See CRS Issue Brief IB85159, *Military Retirement: Major Legislative Issues*, by Robert L. Goldich, August 29, 2002; CRS Report 95-469, *Military Retirement and Veterans’ Compensation: Concurrent Receipt Issues*, by Robert Goldich, April 7, 1995, and CRS Report, *Concurrent Receipt of Military Retired Pay and Veterans’ Compensation: Analogies and Issues*, by Carolyn L. Merck and Robert L. Goldich, May 5, 1993.

³ Military retirees typically accept the offset because VA benefits are tax-exempt and military retirement is not. For example, if a retiree is eligible for \$100 in retired pay and \$20 in VA disability benefits and wants to collect both benefits, he would receive a total of \$100 including \$80 in taxable retired pay (\$100 - \$20 offset) plus \$20 in untaxed VA benefits. See Title 38, U.S. Code, Sections 5404 and 5405 for the relevant provisions.

⁴ H.Rept. 107-436, (May 3, 2002) p. 320.

⁵ Armed Forces Press Service, “Double-Dip Retirement measure May Become a Law,” American Forces Information Service, September 25, 2002; see [http://www.defenselink.mil/news/Sep2002/n09252002_200209253.html]

Coverage and Size of Payments to Beneficiaries. The Senate bill would cover over 700,000 retirees with average benefit payments of \$6,400 in 2007. The House bill would cover about 110,000 retirees with average payments of \$18,000.⁶ Most of those eligible are non-disabled retirees who collect regular military retirement and are later determined by the VA to have some service-related disability (see **Table 1**). Neither bill increases benefits for those who have to leave the military because of service-related disabilities but who have fewer than twenty years of service.⁷

Senate bill. The Senate version of concurrent receipt covers *all* retirees who have a disability rating and that coverage begins immediately.⁸ The broad coverage in the Senate bill reduces average benefit payments because benefits are lower for those with lesser disabilities. For example, a retiree with a 20% disability rating would collect an additional \$2,400 whereas a retiree with a 60% disability would collect \$7,500 more a year. (See **Table 2**.)⁹ About three-quarters of military retirees have disability ratings below 60%.

House bill. The House version limits coverage to retirees with disability ratings of 60 percent or above and phases in benefits over the next five years.¹⁰ By targeting those with ratings of 60% or higher, the House bill covers fewer veterans with higher benefit payments. Since those eligible in the House bill have higher benefit levels, the average payment is higher (see **Table 1**).

Table 1. Number eligible and average payments under House and Senate versions of Concurrent Receipt in FY2007

Number eligible and average annual benefit	Current Payments to severely disabled	House: Partial Concurrent Receipt	Senate: Full Concurrent Receipt
Number eligible	40,300	111,000	712,000
Non-disabled retirees	Not applicable	87,000	679,000
Disabled retirees	Not applicable	24,000	33,000
Average new benefit	\$1,700	\$18,000	\$6,400
Non-disabled retirees	Not applicable	\$20,000	\$5,700
Disabled retirees	Not applicable	\$13,500	\$8,900

⁶ CRS selected FY2007 to reflect full implementation of the House bill's provisions. Both bills cover only retirees who leave after twenty years of service.

⁷ See Section 641 (Title X, Section 1414 (b) (2) in H.R. 4546 as passed by the House on May 9, 2002 and as Section 641 (Title X, Section 1414 (c) as passed by the Senate on June 27, 2002.

⁸ See Section 641 in H.R. 4546 as passed by the Senate on June 27, 2002.

⁹ To be conservative, CRS calculated annual rates from VA Compensation Rate Table for "veteran alone;" retirees with spouse and dependents collect more. Ratings reflect conditions ranging from large hemorrhoids to heart disease. See VA Compensation Rate Table on [<http://www.vba.va.gov/bln/21/Rates/comp01.htm>] and DoD, "Schedule for Veterans Affairs System for Rating Disabilities (VASR-D)."

¹⁰ See Section 641 in H.R. 4546 as passed by the House on May 9, 2002.

Sources: CBO, *Updated cost estimate for Senate-passed FY 2003 DOD Authorization bill*; CBO, *Cost Estimate for H.R. 4546, May 3, 2002*, CBO, *Cost Estimate for S.170, Retired Pay Restoration Act of 2001, May 22, 2001*; see cost estimates under [<http://www.cbo.gov>].

Notes: CRS selected FY2007 when both the House and Senate versions of concurrent receipt would be fully implemented. Special compensation provisions would be eliminated in both bills; current levels are shown for comparative purposes.

Effect of concurrent receipt on retired pay. The higher benefits that military retirees would receive with concurrent receipt would increase their current retirement income significantly. As illustrative examples, **Table 2** below shows the effect on retired pay of concurrent receipt for an O-5 and an E-7, the most common rank of those who retire with twenty or more years of service.¹¹

Table 2. Annual Change in Benefits with Concurrent Receipt for an O-5 and E-7 By Disability Level

Disability Level	Annual concurrent receipt benefit ^a	Annual retired pay for O-5	Percent inc. in O-5's benefit	Annual retired pay for E-7	Percent inc. in E-7's benefit
20%	\$2,400	\$35,600	7%	\$14,900	16%
40%	\$5,300	\$35,600	15%	\$14,900	35%
60%	\$9,500	\$35,600	27%	\$14,900	64%
80%	\$13,900	\$35,600	39%	\$14,900	93%
100%	\$26,000	\$35,600	73%	\$14,900	174%

Sources: CRS calculations of annual rate from VA Compensation Rate Table; see [<http://www.vba.va.gov/bln/21/Rates/comp01.htm>]

^a Benefit levels for a veteran alone with no dependents.

Effect of concurrent receipt on retiree income. Because many military personnel retire in their early to mid-forties after twenty years of service, most work after retirement, and hence have income in addition to their retired pay. Based on a 1996 DoD survey, over three-quarters of veterans under 65 with disability ratings below 70%, and about half of those with higher disability ratings work.

At \$63,000, the average family income of those with disability levels of 60% or less are about \$1,000 below those retirees who have no disability rating. (Family income includes retirement income.) Retirees with these disability ratings also typically earn \$33,000, or \$1,000 less than the average earnings of retirees without any disability.

Those with disability ratings of 70% or higher, however, are likely to have family incomes and earnings that are lower than retirees without disability ratings. DoD's survey found their average income was about \$59,000 and their earnings levels was about \$26,000.¹²

¹¹ About one-third of all officers retire as O-5s (lieutenant colonel or Navy commander) and about 40% of enlisted personnel retire as E-7s (sergeants, chief petty officers); see DoD, Office of the Actuary, "Number of Military Retirees Receiving and Not Receiving Retired pay from DoD as of Sept., 30, 2000."

¹² DoD, Tables 2B, 4B, and 5B, "Earnings of Disabled Veterans," *1996 Survey of Disabled* (continued...)

Effect of Concurrent Receipt on Costs. According to CBO estimates, the Senate version of concurrent receipt would cost \$4.3 billion in FY2003 to cover immediately all retirees with any level of disability. With its phase-in of benefits over the next five years for those with disabilities of 60% or above, the cost of the House version grows from \$1.1 billion in FY 2003 to \$2.7 billion in 2007 (see **Table 3** below).¹³

Over ten years, the Senate bill is estimated to cost \$61 billion or about two and a half-times the House bill's cost of \$24.8 billion. Both bills provide benefits that are ten times higher, on average, than special compensation now provided for the "severely disabled," those determined to have service-related disabilities of 60% or above within four years of leaving the military. The Administration's estimates of ten-year costs are higher than CBO estimates: \$29 billion for the House bill and \$74 billion for the Senate bill.¹⁴

Table 3. Estimates of First, Five and Ten-year costs of House and Senate versions of concurrent receipt in H.R. 4546

(Dollars in billions)

Fiscal Years and Type of Spending	Payments to severely disabled retirees	House: Partial Concurrent Receipt	Senate: Full Concurrent Receipt
TOTAL COST, FY2003 including:	0.1	1.1	4.3
Direct spending for current retirees	0.1	0.5	3.2
Accrual payments for workforce	NA	0.6	1.1
Total Cost, FY 2007 including:	0.1	2.7	6.0
Direct spending for current retirees	0.1	2.0	4.5
Accrual payments for workforce	NA	0.7	1.5
FY 2003-2007 including:	0.3	8.8	26.0
Direct spending for current retirees	0.3	5.8	19.5
Accrual payments for workforce	NA	3.0	6.5
FY2003-FY 2012 including:	0.7	24.8	61.2
Direct spending for current retirees	0.7	17.8	45.8
Accrual payments for workforce	NA	7.0	15.4

Sources: CBO, Cost estimate, H.R. 4546, Bob Stump National Defense Authorization Act for Fiscal Year 2003, May 3, 2002; reported version is the same as House-passed; CBO, updated estimate for Senate-passed bill.

Note: Includes beneficiaries from DoD, Coast Guard, Public Health Service and NOAA.

¹² (...continued)

Military Retirees, 2002.

¹³ The House version of H.R. 4546 provides that VA benefits increase each year until by FY2007, retirees receive the full amount of both benefits. For example, the annual VA benefit for a retiree with 60% disability would rise from \$1,500 in FY 2003 to \$10,200 in FY 2007.

¹⁴ For example, a severely disabled retiree with a 60% disability today receives \$600 a year but would receive \$9,480 under the House or Senate bills. See OMB, *Statement of Administration Policy for S. 2514* for Administration's estimates of costs.

Effect on the Deficit. Concurrent receipt would establish a new entitlement program by providing higher benefits for current retirees. Those funds (direct spending) make up most of the cost and would outlay immediately and persist over time. This could lead to additional pressure to cut other programs that are funded annually in order to reduce any deficit.

Potential that costs may be higher. If more military retirees apply for benefits or disability levels grow beyond those that are assumed by either CBO and DoD, then costs could prove to be higher than anticipated. In contrast to CBO, the Department of Veterans Affairs expects that the number of eligible military retirees could more than double from current levels because retirees would have a significant incentive to apply for benefits as well as get their disability levels re-evaluated as they can do at any time. Both DoD and CBO assume that the effect of this incentive would be more modest.¹⁵

Who Pays for the Accrual Costs of Today's Military. The future cost of concurrent receipt for DoD's current military workforce - known as the *accrual costs* that finance benefits as they accrue over time - could increase DoD's budget by \$0.7 billion in the House bill and \$1.7 billion in the Senate bill. Including these costs in DoD's budget is intended to give DoD visibility on the full cost of military personnel when choosing between funding investments in equipment or infrastructure and increasing the number of military personnel.¹⁶ DoD is concerned that concurrent receipt will squeeze other military requirements.¹⁷

The Senate bill makes no changes in current statute so DoD would continue to pay the accrual cost as part of its total budget request (see **Table 3** above). The House bill, however, reverses this precedent and requires that the Treasury Department (i.e. general revenues) cover the additional military retirement cost of providing concurrent receipt.¹⁸ Changing this requirement that DoD carry the burden of adopting new benefits might establish a precedent for transferring other benefit costs to the Treasury from individual agencies. That would reduce the cost for agencies but would not reduce the cost to the government.

¹⁵ Ibid; see Mark Dye and Patrick Mackin, SAG Corporation, *Prohibition on Concurrent Receipt of Military Retired Pay and Veterans Disability Compensation, A Review*, March 25, 2002, p. 23ff. Although military retirees are evaluated for disabilities only once by DoD when they leave military service, retirees can get additional, as well as revised evaluations, from the VA at any time (see Ibid, p. 5).

¹⁶ For the same reason, most of the cost of benefits for civilian government employees are carried in individual agency budgets.

¹⁷ Armed Forces Press Service, "Double-Dip Retirement Measure May Become a Law," American Forces Information Service, September 25, 2002; see [http://www.defenselink.mil/news/Sep2002/n09252002_200209253.html]

¹⁸ See H.Rept. 107-436, *Bob Stump National Defense Authorization Act for Fiscal Year 2003*, p. 477-481. To implement this change, the House bill changes the underlying code, specifically, Title X, sections 1414, 1465, and 1466; see also, CBO Cost Estimate, *H.R. 4546, Bob Stump National Defense Authorization Act for Fiscal Year 2003*, May 3, 2002, p. 15.