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Research Report

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U.S. Department of Defense Disability Compensation Under a Fitness-for-Duty Evaluation Approach

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About This Report

The joint Department of Defense (DoD)–Department of Veterans Affairs Integrated Disability Evaluation System (IDES) is the process by which DoD determines fitness for duty, separation, or retirement of service members because of disability. Service members who are evaluated for disability undergo a comprehensive medical examination to document all medical conditions and receive a disability rating for every condition documented during the medical examination. These ratings are used by DoD and the Department of Veterans Affairs to determine the amount of disability compensation service members will receive if they are found unfit to continue serving and consequently medically discharged.

The IDES is a lengthy, complex system. Much attention has been paid over the years to the efficiency of the process, and many successful reforms have been put into place to reduce the length of time that service members remain in the system. But it is also a DoD priority to ensure that service members receive adequate and fair disability compensation and that the DoD disability compensation system works efficiently and compatibly with the IDES. As a result, it is important to occasionally review the current compensation system to ensure that it still achieves this goal as the characteristics and needs of DoD and service members evolve over time.

Although proposals for reforming the DoD compensation system have been made, a rigorous evaluation of what those alternatives might look like and what their impact would be on service member benefits and costs to DoD has never been conducted until now. This report describes the results of an evaluation of four alternative disability compensation approaches that would support a simpler, more streamlined disability evaluation process. While these alternatives are hypothetical and none are being pursued by DoD, the report provides relevant analysis should such alternatives be considered in the future.

The research reported here was completed in April 2021 and underwent security review with the sponsor and the Defense Office of Prepublication and Security Review before public release.

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Summary

When a service member incurs one or more conditions that may render the member unfit to perform his or her duties, "has a medical condition that represents an obvious medical risk to the health of the member or to the health or safety of other members, and/or, has a medical condition that imposes unreasonable requirements on the military to maintain or protect the service member," he or she will be referred to the joint Department of Defense (DoD)–Department of Veterans Affairs (VA) Integrated Disability Evaluation System (IDES) (DoDI 1332.18, 2014).[1] The IDES evaluates the service member's fitness for duty and determines disability benefits for those who are found unfit to continue serving and consequently medically discharged. At any given time, thousands of service members are in the IDES; and while they are being evaluated, they are nondeployable, which affects readiness. So there is an incentive for the system to work as efficiently as possible.

This process for determining fitness for duty and disability compensation is complex and involves numerous stakeholders in DoD and the VA. This complexity results from an effort to ensure that service members are given a complete and thorough evaluation for any potentially unfitting condition. The complexity can have adverse consequences, leading to a lengthy and potentially confusing evaluation process for members and extra time and resource costs to DoD. Through a series of reforms, DoD, the VA, and the services have made considerable progress in reducing processing times from an average of 400 days in 2011 to 224 days in 2018 and, through a number of new initiatives, are close to achieving a goal of 180 days (GAO, 2012).

DoD also has a priority to ensure that service members receive adequate and fair disability compensation and that the DoD disability compensation system works efficiently and compatibly with the IDES. As a result, it is important to occasionally review the current compensation system to ensure that it still achieves this goal as the characteristics and needs of DoD and service members evolve over time. Although a number of proposals have outlined alternative approaches to compensating disabled

[1] The full language in U.S. Department of Defense Instruction 1332.18 (2014) states that service members may be referred when they incur one or more "conditions that, singularly, collectively or through combined effect, may render the service member unfit to perform the duties of his or her office, grade, rank, or rating."

service members, a rigorous evaluation of what those alternatives might look like, and what their impact would be on service member benefits and costs to DoD, has never been conducted.

In 2019 the Offices of the Deputy Assistant Secretary of Defense for Health Services Policy and Oversight and the Deputy Assistant Secretary of Defense for Military Personnel Policy asked the RAND National Defense Research Institute to identify alternative disability compensation approaches that would support a more streamlined disability evaluation process and to consider the effects on benefits to the service member, personnel readiness, and, where feasible, the direction and amount of cost change to DoD. Our report examines a streamlined disability evaluation approach referred to as a fitness-for-duty evaluation system (FES) that reduces the reliance on DoD disability ratings for determining DoD disability compensation and focuses primarily on a single decision of whether a service member is fit to perform his or her duties.

We developed four alternative compensation systems that would be compatible with a streamlined FES. We evaluated the effects of each alternative on service member compensation, processing times, end strength, lost skills and experience, and readiness. Our focus in this report is specifically on the DoD disability compensation system. The alternative approaches we consider are hypothetical, and none are being pursued by DoD as of the writing of this document.

In February 2020 DoD directed a parallel ratings process in the IDES. This change, which was fully implemented by the end of 2020, has shown early signs of success in terms of streamlining the IDES and reducing processing time. The parallel processing track of the IDES process includes the medical evaluation board and informal physical evaluation board stages (both DoD responsibility) occurring parallel to the VA proposed rating. Before parallel processing, these stages would occur sequentially. In fiscal year (FY) 2020, 36 days were saved on average in the IDES process because of parallel processing (Department of Veterans Affairs, 2021).[2]

Parallel rating is one of many options that could be used to improve the efficiency of the evaluation process. We developed the alternatives in this report in 2019, before parallel ratings, and they offer distinct options to streamline the system. In some ways, it may be possible to achieve equal or better gains in processing time with parallel rating than with the alternatives we present here. Yet the alternatives in this report also offer potential efficiency gains to other stages in the process that could not be addressed by parallel rating. Our analyses offer an in-depth assessment of alternative ways to streamline the system beyond the current policy initiatives and offer other options that could be implemented should policymakers and DoD decide that such a shift in the DoD disability evaluation and compensation system is warranted.

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[2] Based on preliminary tabulations from Veterans' Tracking Application data, in FY 2020, cases in which DoD and VA stages were processed in parallel averaged 41 days to complete the three stages, whereas sequential processing of those stages averaged 77 days.

Department of Defense Disability Compensation Today

DoD disability compensation is determined based on a complex set of formulas. The DoD disability rating—determined in the IDES—has a direct connection to the disability compensation that a service member receives from DoD. If a service member receives a DoD disability rating of less than 30 percent and has fewer than 20 years of service, he or she will receive a onetime DoD disability severance payment. Service members with DoD disability ratings of 30 percent or higher, or those with 20 or more years of service, receive a disability retirement benefit for the remainder of their lives.

The DoD disability retirement benefit is calculated in two different ways. The rating-based formula uses the DoD disability rating percentage (up to a maximum of 75 percent) to calculate the benefit. The retirement formula uses a retirement multiplier to calculate the benefit based on longevity of service instead of the disability rating. Title 10 USC 1212 states that the member is entitled to the highest benefit payment option.

Our analysis suggests that the retirement formula tends to yield a higher benefit for more-senior personnel; junior personnel tend to receive a higher benefit using the rating-based formula. Since most personnel in the IDES are relatively junior (E-4 to E-6), their disability benefits would be more likely to change (either increase or decrease) if use of DoD ratings were changed or eliminated. These differences need to be taken into account when considering alternative ways to compensate members under a FES, as they make it difficult to develop alternatives that have equal impact for all service members in the IDES.

Alternative Disability Compensation Approaches

We developed four alternatives for redesigning the DoD disability compensation system consistent with a FES:

- *Alternative 1: Compensate based on current objectives*. The current DoD compensation system formula incorporates the nature of the unfitting condition (e.g., musculoskeletal versus respiratory issues), the severity of the disability, and the military career accomplished to date. This alternative maintains these objectives of the current system. It has two options:
  - Alternative 1a: Alternative 1a presents the "lightest touch" option. The benefit for all service members would still rely on a disability rating and maintain the current DoD benefit formula, but unlike in the current IDES process, the rating would occur after discharge. Members would receive a transition benefit between the time that regular military compensation ends and the disability benefit begins.

  - Alternative 1b: Disability compensation for junior and senior personnel would be based on different formulas. Junior personnel would receive a disability rating and be compensated as they are under the current system. Compensation for senior personnel who are found unfit to continue serving would be based on a benefit formula that uses career metrics. This alternative formalizes the general pattern by which compensation is determined under the current system.
- *Alternative 2: Compensate for military career*. Service members would be evaluated for fitness for duty, and those found to be unfit would be compensated based on career metrics only. This alternative has three options:
  - Alternative 2a: This alternative takes a prospective approach. The current disability benefit would be replaced with a benefit based on an estimate of the expected value of the lost military career.
  - Alternative 2b: This alternative takes a retrospective approach. The disability benefit would be based on the career already served, using the current retirement pay formula with a floor of 12 years of service.
  - Alternative 2c: This alternative also takes a retrospective approach. The benefit would be based on the career already served, using the current retirement pay formula, but without any year-of-service floor, resulting in a lower cost than Alternative 2b.
- *Alternative 3: Compensate for unfitting conditions*. Service members would receive a fitness determination for each medical condition and receive a fixed payment for each condition that makes the member unfit for service. The severity of individual conditions would not be taken into account. Unfitting conditions could be defined using the Veterans Administration Schedule for Rating Disabilities.
- *Alternative 4: Compensate like U.S. allies*. As in the United Kingdom, Australia, and Canada, compensation under Alternative 4 would entail two payments: one payment to compensate for the disability itself and an annuity payment to compensate for the loss of the military career. In practice, this option would combine parts of Alternatives 2 and 3.

These alternatives highlight various possibilities of what a fitness-for-duty approach could look like. None of them is necessarily preferred. Any of these alternatives could be implemented by DoD, depending on its goals and priorities.

Changes in Disability Compensation Under the Alternatives

We considered how disability compensation could change under each of the alternatives. Although each compensation alternative would be feasible under a FES, each would change the value of compensation relative to the status quo for at least some

service members or result in an increase in cost to DoD. The specific change in the disability benefit and the exact service members who would be affected depend on how the alternative would be implemented, but some general trends emerged from these assessments.

Alternative 1a would maintain benefits as under the current system. However, it moves the assignment of a DoD rating until after a member is discharged, which is not entirely compatible with the design of parallel ratings. Alternative 1b would also maintain benefits at the status quo level for most members, but senior members with relatively severe disability ratings would experience a decrease in benefit relative to the status quo.

Alternatives 2 and 3 yield mixed results, with some service members seeing an increase, others seeing a decrease, and others having no change relative to the status quo. Alternatives 2b, 2c, and 3 tend to result in larger decreases in benefits for service members with more severe disabilities (as measured by DoD ratings used under the current system). Under Alternative 2a, many service members would experience an increase in benefits relative to the status quo.

Alternative 4 would combine the benefits provided under 2a and 3. Both Alternatives 2a and 3 independently offer scenarios where service members could experience a decrease in benefits, and it is unclear which direction the effect will go when the benefits are combined. It is possible that many service members could see an increase in benefits relative to the status quo.

In sum, with the exception of Alternative 1a, none of the alternatives guarantee that all service members would see benefits at least as large as the benefits they would qualify for under the status quo. These alternatives also could have implications for costs to DoD. While a complete cost assessment is beyond the scope of our report, we provide estimates of the effect on cost for some alternatives. In particular, Alternative 1a would increase the overall cost to DoD due to the addition of a transition benefit and would require coordination with the VA to change the timing of the ratings step in the evaluation process.[3] Figure S.1 summarizes our findings on the effects on compensation and costs (where feasible) across each alternative.

Other Implications of a Fitness Evaluation System

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

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

Figure S.1
Summary of Findings Under DoD Disability Compensation Alternatives

Compensation objective	Change in disability benefits relative to status quo	Notes
Alternative 1a Compensate based on current objectives	↔	No change in disability benefits, but total cost increases due to transition benefit if end strength is maintained
Alternative 1b Compensate based on current objectives	↔ ↓	• No change for junior or for senior members whose current benefit is based on retirement • Decline for senior members whose current benefit is based on ratings
Alternative 2 (a–c) Compensate for military career	↓ ↑	Benefits increase for some, decrease for others, depending on rating under current system, grade, and years of service
Alternative 3 Compensate for unfitting conditions	↓ ↑	Benefits depend on fixed payment amount: could increase for those with lower payments and fall for those with higher payments under status quo
Alternative 4 Compensate like U.S. allies	↓ ↑	Hybrid of Alternatives 2 and 3: results vary depending on size of fixed payment

- *IDES processing time*. Eliminating or delaying ratings until after discharge would reduce the length of the IDES process by approximately 29 days on average, or about 13 percent of the average duration in 2018, and may also reduce some of the variability in the process. This time savings could be a lower-bound estimate if eliminating ratings lead to efficiencies in other steps in the process, such as the medical evaluation or appeals.

  This assessment of the time savings is estimated based on alternatives that do not make use of parallel ratings, and this reduction is based on data reflecting the average duration of the ratings stage under a sequential process. As noted earlier, preliminary estimates from FY 2020 suggest that 36 days were saved in the IDES process because of parallel processing, meaning that the implications of a parallel ratings system could be similar to what we estimate would be achieved under the FES alternatives we analyze.
- *Change in end strength.* Army enlisted represents the majority of IDES referrals. Under a FES, active-duty end strength for the Army enlisted force would fall by at most 0.2 percent more than under a sequential ratings system. We estimate that there would be similar, though slightly smaller, effects on the other services. This drop is among people who are not deployable, so the services could choose to maintain end strength with deployable members (through accessions or by increasing retention), thereby increasing readiness. Our analysis of one common

occupation, Army-enlisted infantry soldiers (11B), showed that increasing accessions is the most cost-effective way of restoring end strength.
- *Human capital loss*. The loss of personnel who are discharged because of disability represents a loss of skills and experience. The process envisioned under the alternatives would accelerate human capital loss relative to the status quo as members are discharged faster. The most common occupations for members discharged through the IDES are general infantry and general medical care, supply, law enforcement, and automotive occupations. On average, the training associated with these occupations is relatively modest, although the training and experience of officers who exit the military as a result of disability are substantial.
- *Policies and legislation.* Finally, the policies and legislation underpinning the current system are complex and interconnected, and many of them directly rely on, or reference, disability ratings. For example, the term *rating* is used numerous times in Title 10, Chapter 61, and the DoDI for the IDES. Nearly all of these references are substantive in nature in that they serve to delineate how determinations of compensation are made, as well as what appellate options are available to those service members who are designated disabled. As a result, many aspects of Title 10, Chapter 61, would likely require repeal or amendment under a shift to a FES, and associated authorities would then require rescissions, changes, or reissuances.

Concluding Thoughts

While alternative approaches for compensation under a FES are possible, our analyses indicate that numerous process, legal, and compensation-related changes would be required. However, any FES should be evaluated not only on the direct costs and benefits but also on what objectives policymakers want the DoD compensation system to achieve.

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

A choice of any one of these alternatives over another is beyond the scope of this report, and none of these alternatives is actively under consideration at the time this report was published. However, the analyses discussed in this report offer a framework that decisionmakers could reference should the department consider moving to a FES in the future.

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Abbreviations

AC	active component
ADM	Active Duty Master
ADP	Active Duty Pay
AFCS	Armed Forces Compensation Scheme
C.F.R.	Code of Federal Regulations
CRDP	Concurrent Retirement and Disability Pay
CRSC	Combat-Related Special Compensation
DEERS	Defense Enrollment Eligibility Reporting System
DES	disability evaluation system
DMDC	Defense Manpower Data Center
DoD	Department of Defense
DoDI	U.S. Department of Defense Instruction
DoDM	U.S. Department of Defense Manual
D-RAS	Disability Rating Activity Site
DRM	dynamic retention model
DTM	Directive-Type Memorandum
FES	fitness-for-duty evaluation system
FPEB	formal physical evaluation board
FY	fiscal year
GIP	Guaranteed Income Payment
IDES	Integrated Disability Evaluation System
IPEB	informal physical evaluation board
MEB	medical evaluation board
OACT	Office of the Actuary
PDBR	Physical Disability Board of Review
PEB	physical evaluation board

PEBLO	physical evaluation board liaison officer
PIP	Personal Independence Pay
PTSD	posttraumatic stress disorder
RC	reserve component
RMC	regular military compensation
SM	service member
SSDI	Social Security Disability Insurance
SSI	Supplemental Security Income
SSSN	scrambled Social Security number
TDRL	Temporary Disability Retired List
U.S.C.	U.S. Code
VA	Department of Veterans Affairs
VASRD	Veterans Administration Schedule for Rating Disabilities
VTA	Veterans' Tracking Application
YOS	years of service

CHAPTER ONE

Introduction

When a service member incurs one or more conditions that, singularly, collectively, or through combined effect, may render the service member unfit to perform the duties of his or her office, grade, rank, or rating, "has a medical condition that represents an obvious medical risk to the health of the member or to the health or safety of other members, and/or, has a medical condition that imposes unreasonable requirements on the military to maintain or protect the service member," he or she will be referred to the joint Department of Defense (DoD)–Department of Veterans Affairs (VA) Integrated Disability Evaluation System (IDES) (DoDI 1332.18, 2014). The IDES is the process by which DoD determines whether ill or injured service members are fit for continued military service and by which DoD and the VA determine appropriate benefits for service members who are separated or retired for disability.

Service members who are evaluated for disability undergo a comprehensive medical examination to document all medical conditions. The findings from the medical examination are used to determine fitness and disability ratings. Between 26,000 and 30,000 service members were referred to the IDES annually from fiscal year (FY) 2012 to FY 2018 (approximately 1 percent of overall active-duty end strength in any given year). Approximately two-thirds of these referrals are for cases in the Army, while the remaining third is spread evenly between the Air Force, Navy, and Marines. As a result, at any given time, thousands of service members are in the IDES; and while they are being evaluated, they are nondeployable.

The process of determining fitness for duty and disability compensation must take into account many factors, including the service member's current health, the potential for changes in the service member's health over time, the physical and mental requirements of the service member's current occupation, the expected requirements for future service, and the career already served. As a result, the evaluation process and the formulae for determining disability compensation are inherently complex. Although thought has been given to alternative approaches to compensating disabled service members, a rigorous evaluation of what those alternatives might look like and what their impact would be on service member benefits and costs to DoD has never been conducted.

In 2019 the Offices of the Deputy Assistant Secretary of Defense for Health Services Policy and Oversight and the Deputy Assistant Secretary for Military Personnel Policy asked the RAND National Defense Research Institute to identify alternative disability evaluation compensation approaches that would support a simpler, more streamlined disability evaluation process; and to consider the effects on benefits to the service member, personnel readiness, and, where feasible, the direction and amount of cost change to DoD. Our report examines a streamlined disability evaluation approach referred to as a fitness-for-duty evaluation system (FES) that reduces the reliance on DoD disability ratings for determining DoD disability compensation and focuses primarily on a single decision of whether a service member is fit to perform his or her duties. We developed four alternative compensation systems consistent with this streamlined approach and evaluated the effects of each alternative on service member compensation, processing times, end strength, lost skills and experience, and readiness.

Over the years, the disability evaluation process has been reformed, including the move to combine two previously separate disability systems—one for DoD and one for the VA—into the IDES, which began in 2007, and the introduction of the parallel ratings process between DoD and the VA in 2020.[1] DoD and the services have made a concerted effort to reduce IDES processing times, setting a goal of having the process take no more than 180 days from referral to separation. Processing time has decreased from approximately 400 days in 2011 to 224 days in 2018 (GAO, 2012).

New initiatives, including parallel ratings, have also proved to be successful: Before the coronavirus pandemic, processing times were indeed nearing the goal of 180 days. The parallel ratings track of the IDES process includes the medical evaluation board (MEB) and informal physical evaluation board (IPEB) stages (both DoD responsibility) occurring parallel to the VA proposed rating. In FY 2020, cases in which DoD and VA stages were processed in parallel averaged 41 days to complete the three stages, whereas sequential processing of those stages averaged 77 days (VA, 2021). Thus, on average, 36 days were saved in the IDES process because of parallel processing.

In addition to process changes, reforms to the way that disability compensation is determined have also been proposed. For example, in 2007, the President's Commission on Care for America's Returning Wounded Warriors, also known as the Dole-Shalala Commission, recommended a major overhaul of the disability determination and compensation systems (Dole and Shalala, 2007). The commission recommended that DoD determine fitness for service and that, for those found not fit for duty, DoD provide payment for years served while the VA established the disability rating, compensation, and benefits. Thus, each branch of the armed services would retain the authority to determine whether a member is fit for continued service, but DoD would

[1] In parallel processing, two previously sequential steps in the IDES happen concurrently. While the military department determines the service member's fitness, the VA simultaneously assigns ratings to all medical conditions. According to policy, parallel processing was to be fully implemented by December 31, 2020 (Directive-Type Memorandum [DTM] 20-001, 2020).

not provide a DoD disability rating. Instead, members would get a "fit or not fit" decision from DoD. Those found medically unfit would receive a DoD annuity payment where the dollar value would be based solely on rank and length of service, and not on rating.

In September 2011 the Office of the Secretary of Defense convened a working group of senior representatives throughout DoD to conduct a comprehensive review of military compensation, focusing particularly on retirement compensation, including disability retirement compensation. The working group issued a working paper in 2014 that recommended a streamlined disability retirement benefit that better compensates for the value of a lost career (Asch, Hosek, and Mattock, 2014; U.S. Department of Defense, 2014). Under the proposed system, the amount of the disability benefit would be based solely on years of service, not also on the DoD disability rating, as under the current system, although qualification would depend on the disability rating. The U.S. Government Accountability Office (2012) and the Congressional Research Service (Henning, 2011) also discuss an approach based on a "fit or not fit" decision.

In the remainder of this chapter, we describe the status quo disability evaluation process, how it could be streamlined under alternative disability compensation approaches, and our methodology for evaluating these alternatives.

Streamlining the Current System

Figure 1.1 illustrates the major steps of the disability evaluation process under the current IDES approach and an alternative fitness-for-duty approach, which we define shortly. Service members with medical conditions or impairments can be referred by a physician to the IDES for evaluation.[2] As shown in the left panel of Figure 1.1, the main steps of the IDES process include a medical examination, a MEB, a physical evaluation board (PEB), rating determination, final disposition, and medical discharge.[3] At both the MEB and the PEB steps, service members have an opportunity to appeal the board's decision.

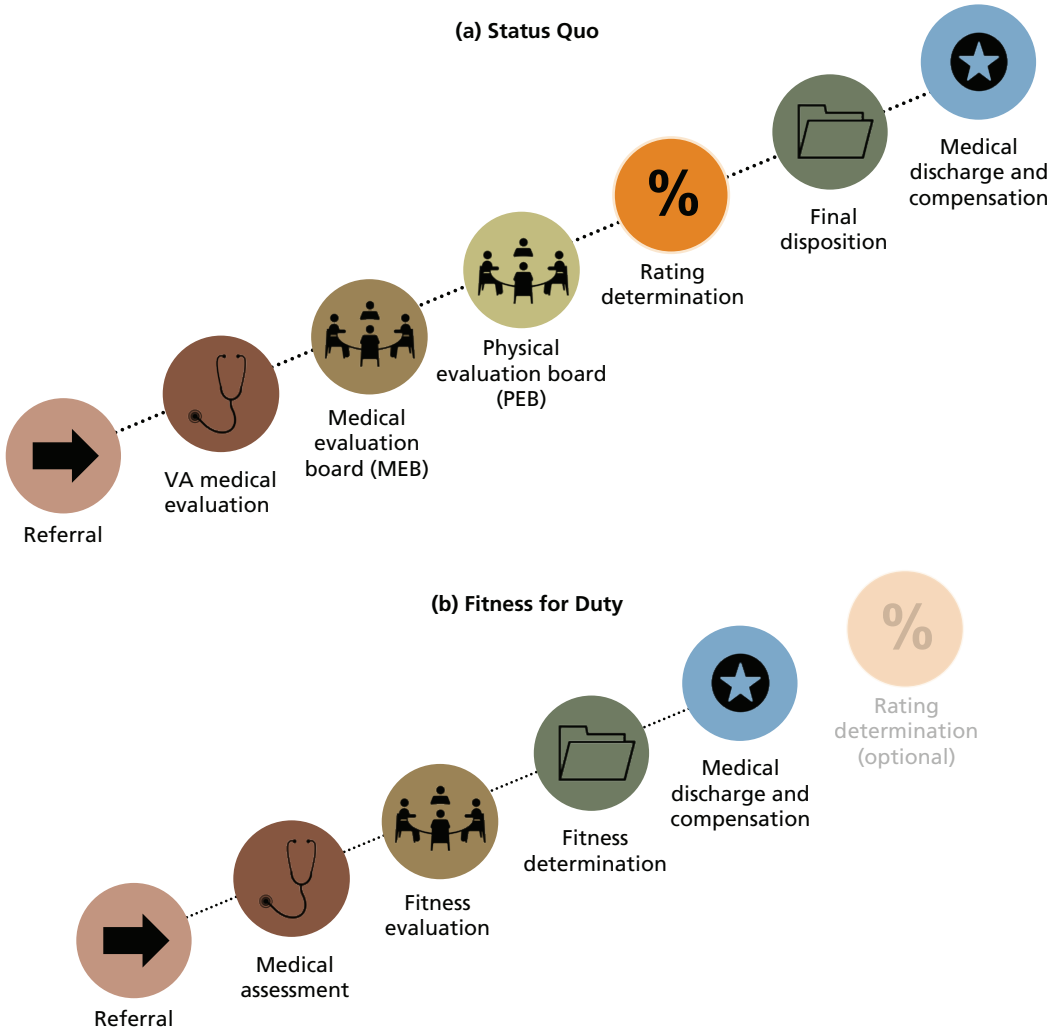
Since 2012, following integration of the DoD and VA systems, the medical examination has been conducted by the VA, though the results of the exam are relevant to whether the member meets DoD retention standards. The MEB reviews all medical conditions, determines whether the service member meets medical retention standards, and refers these cases to the PEB.[4] The service member is counseled after the MEB

[2] The physician's decision is often informed by whether the service member appears to meet medical retention standards, although this is not the sole factor in the referral decision.

[3] See Simmons et al., 2021, for a more detailed description of these steps.

[4] Not all military departments rely on medical retention standards to the same degree. Each MEB will refer service members to the PEB when the MEB believes a service member has one or more medical conditions that

Figure 1.1
Major Steps in Evaluation Process Under Status Quo and FES



stage and has the option to rebut the finding or request an impartial medical review. Next, the PEB includes an IPEB, which makes an initial decision on the member's fitness to be retained in service, and a formal physical evaluation board (FPEB), which acts if the member chooses to appeal the decision of the IPEB. The PEB determines which specific conditions make the member unfit for duty, and the VA determines the disability rating for each medical condition. The service member is again counseled

singularly, collectively, or through combined effect will prevent the service member from reasonably performing the duties of his or her office, grade, rank, or rating (U.S. Department of Defense Instruction [DoDI] 1332.18, Enclosure 3, paragraph 2.d).

after the proposed ratings and disposition and can accept the IPEB findings or request an FPEB. Finally, service members can request a ratings reconsideration after the PEB.[5]

The disability ratings determined by the VA are used to calculate both VA and DoD disability compensation. Each unfitting condition is given a rating intended to reflect the severity of the condition. The PEB calculates the DoD disability rating by combining the individual ratings for all medical conditions determined to be unfitting. Using the same ratings, the VA calculates a combined VA disability rating for all service-related medical conditions, not just for conditions determined to be unfitting. The DoD rating is used to determine both the service member's final disposition and the level of DoD disability compensation, and the VA rating is used to set the level of VA disability compensation.

The current evaluation system does not just make a determination of fitness for duty. It goes beyond a determination of fitness by assessing the severity of each unfitting condition and assigning ratings. One way to streamline the disability evaluation is to have the DoD evaluation focus on the "fit or not fit" decision. Under such a framework, a FES would cut out or defer the assignment of the DoD rating and associated appeals. The bottom panel of Figure 1.1 outlines a hypothetical process that would be consistent with a FES. In lieu of the MEB and PEB stages, service members could undergo a general evaluation of fitness based on their medical assessment. The medical assessment could remain as the VA medical examination under the status quo or could be streamlined if the information required to make a "fit or not fit" decision is available elsewhere. For example, DoD could consider using medical records or a more streamlined exam, similar to the Separation History and Physical Examination, to determine fitness for duty rather than a VA exam.[6]

Our analysis focuses on the implications of the removal or deferral of the ratings stage. After the fitness assessment, Figure 1.1 shows how service members would undergo a fitness determination to determine whether they are unfit for duty and if so, discharged. Under some of the alternatives we consider, ratings may be assigned after discharge, as indicated by the final (optional) ratings step. At a minimum, this more streamlined approach would save time relative to a sequential process by eliminating the ratings step from the IDES evaluation process before discharge. The shift to fitness for duty would also eliminate the need to assess each referred condition under some of our proposed alternatives, which could further reduce the length of the process. Under others, an assessment of conditions would still be required. By removing or deferring the ratings process, many of these alternatives would also offer a DoD

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[5] See DTM-18-004, 2018, for more details on each of these steps.

[6] Note that the consolidation of the MEB and PEB, and any changes to the VA medical examination, are purely hypothetical changes that in practice would be quite significant to implement. A thorough evaluation of changes to these stages of the evaluation process are beyond the scope of our report, and we do not evaluate the effects of any potential changes to the medical examination. These hypothetical changes are simply further ways a FES could streamline the process.

system that could be decoupled from the VA system, as suggested by the Dole-Shalala Commission.

However, if IDES were streamlined under a FES, how would the DoD disability compensation system have to change to support the FES? This is the critical question. Because ratings are used to determine final dispositions and compensation, if the ratings steps were eliminated, the compensation system would also have to change. Moreover, the disability rating is also currently used to determine other benefits for members who are discharged, including eligibility for lifetime health care. As a result, any consideration of a FES approach must also integrate consideration of broader reforms to the structure of DoD disability compensation.

Study Objective and Research Approach

The purpose of this report is to identify and evaluate hypothetical alternative disability compensation structures that would be feasible under a FES. The report evaluates four alternatives by comparing benefits to service members with a career-ending medical condition under each alternative with benefits under the current system. In addition, it examines the effects of alternative compensation systems on personnel readiness and costs to DoD where feasible, and it discusses other legal and policy parameters that would need to be addressed in tandem with a change to the FES.

We developed four hypothetical alternatives in 2019; none is being pursued by DoD as of the writing of this document. As mentioned, a recently implemented initiative was the parallel processing system, which is one of many options that could be used to improve the efficiency of the evaluation process. The options to streamline the system discussed in this report do not take into account parallel processing. In some ways, it may be possible to achieve equal or better gains in processing time with parallel rating than with the alternatives we present here. Yet the alternatives in this report could also offer potential efficiency gains to other stages in the process not addressed by parallel rating (e.g., by separating the DoD and VA systems or by offering the option for a more streamlined medical examination or MEB or PEB). As a result, they may be of interest to DoD policymakers in the future if the department decides that such a shift in the DoD disability evaluation and compensation system would be warranted.

Our approach involved several steps:

1. We identified alternative compensation systems that would support a FES. The specific parameters of the four alternatives included in our analysis were informed by our review of the current DoD disability compensation system, past proposals to reform the IDES, and military disability compensation systems used by selected U.S. allies.

2. We assessed how each alternative would affect service member compensation by estimating how each would change the DoD disability benefits provided to service members with a career-ending injury under each new structure relative to the current system. These analyses used data from the Veterans' Tracking Application (VTA) database provided to us by DoD as well as personnel and pay records from the Defense Manpower Data Center (DMDC). Where feasible, we provided an assessment of how the alternative would affect DoD costs.
3. We determined the impact of these alternatives on processing times relative to the sequential system, end strength, and skills and experience lost for service members who would exit via the IDES. In addition, because reducing the length of time that a member spends being evaluated in the IDES would decrease the number of personnel who are nondeployable at a point in time, we also assess the impact on personnel readiness. These analyses also relied on the VTA database.
4. Finally, we reviewed other factors that must be considered if the IDES and the DoD disability compensation system were redesigned. These include the criteria for qualification for health care benefits and receipt of a lump sum versus annuity payments and a review of the policy and legislation changes that would need to occur if these systems were reformed.

Road Map of Report

The remainder of the report details the results of our analysis. Chapter Two provides a review of the current DoD disability compensation system. Chapter Three describes the alternative courses of action for redesigning the DoD disability compensation system to support a FES and the compensation objectives that help motivate them. Chapter Four describes the methodologies we employed to analyze each alternative system and shows our assessment of how each alternative system would change disability compensation. Chapter Five provides our estimates of the reductions in IDES processing time and end strength under a FES and an analysis of alternative policies to restore strength. In Chapters Six and Seven, we consider other factors that should be recognized when contemplating reform, including legal and policy considerations, whether disability compensation should be paid as an annuity or a lump sum, and implications for health care eligibility. Chapter Eight presents our conclusions.

CHAPTER TWO

Overview of the Current Department of Defense Disability Compensation System

Before exploring alternative methods of compensation, it is important to understand how ratings contribute to DoD disability compensation under the current system, and for whom. DoD disability compensation is paid either as severance pay or as disability retirement compensation, depending on the service member's DoD disability rating and years of service (YOS). For service members who receive disability retirement, the level of compensation may also depend on the disability rating. In this chapter, we describe the current formula for determining disability compensation.

The amount of DoD disability compensation received by disability retirees also is related to other types of compensation a member may qualify for—including VA disability compensation, Concurrent Retirement and Disability Pay (CRDP), and Combat-Related Special Compensation (CRSC). Thus, we describe these other types of pay and their relationship to net DoD disability compensation payments in our discussion.

Our analyses of the current disability compensation system reveal that DoD disability ratings are most likely to affect compensation for more-junior personnel, while more-senior personnel are likely to have their compensation calculated using the retirement formula, which does not rely on disability ratings even under the status quo. However, the most-junior personnel could also see their DoD benefit offset by VA disability compensation. As a result, if DoD ratings were eliminated from the DoD disability compensation system under a FES, retirees in their middle years of service would be most likely to experience a change in compensation relative to the status quo.

Department of Defense Disability Severance and Disability Retirement

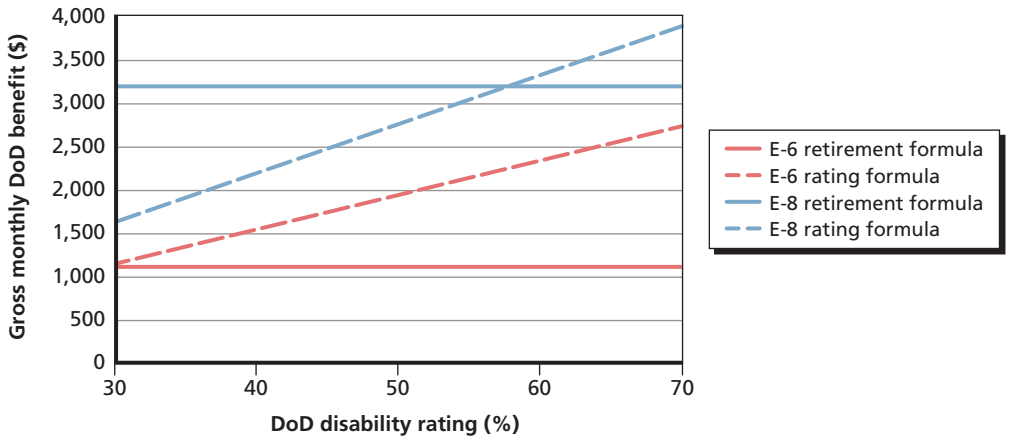
As mentioned in the introduction, the disability rating determines a service member's final disposition in terms of DoD disability compensation. Service members who are found unfit and have a DoD disability rating of less than 30 percent and have fewer than 20 YOS receive a separation disposition and receive disability severance pay. The formula for severance pay is two times YOS times current monthly basic pay, with a

floor of 6 YOS for a disability incurred in the line of duty in a combat zone or during the performance of duty in combat-related operations, or 3 YOS in the case of any other member (DoDI 1332.18, 2014). At 6 YOS, severance pay equals one year of basic pay. Members receiving disability severance pay also receive 180 days of health care benefits.

Members found unfit with a DoD disability rating of 30 percent or higher are medically retired from the military and receive a disability retirement benefit for the remainder of their lives. They are also eligible for DoD health care benefits for life. The monthly annuity payment is calculated to be the retired pay base times a multiplier. The retired pay base is the average monthly basic pay for the last three years of military service. There are two options for the multiplier, and the member presumably chooses the one that gives a higher payment: (1) the rating-based formula, which is the DoD disability rating percentage; and (2) the retirement formula, which is a member's YOS times 2.5 percent if the member was under one of the legacy retirement systems before incurring the disability, or YOS times 2.0 percent if the member was under the Blended Retirement System.[1] Regardless of which formula is used, the multiplier is capped at 75 percent.

Figure 2.1 illustrates the values of DoD disability retirement compensation based on each formula for two example cases of enlisted personnel: an E-6 with 12 YOS (orange lines) and an E-8 with 23 YOS (black lines). These examples demonstrate the

Figure 2.1
Gross DoD Disability Compensation Based on Legacy Retirement Formula Versus Rating Formula for an E-6 and E-8



SOURCE: Authors' computations based on current DoD disability compensation formulas using the 2019 pay table.

[1] This formula for DoD disability retirement is for active-duty members. The formula is the same for reservists except YOS is computed as total number of qualifying YOS equal to number of retirement points divided by 360. Also, reservists who are medically retired do not have to wait until age 60 to start receiving benefits.

way that seniority affects the value of disability compensation that is calculated under each formula. The solid and dashed lines show the computation assuming the legacy retirement formula and rating formula, respectively, for each grade. The graph shows that the rating formula yields a higher amount for nearly all possible ratings for the E-6. Consequently, the E-6 would typically choose the rating-based formula rather than the retired pay formula. In contrast, the more senior E-8 will typically choose the retired pay formula, except at a rating of 60 percent or higher, where the rating formula leads to a higher DoD disability benefit.

The results shown in the figure are more general. Typically, more-senior personnel will find that the retired pay formula leads to a higher benefit than the rating formula, while more-junior personnel will find that the rating formula leads to a higher benefit. Table 2.1 shows the results presented in Figure 2.1 and for additional grade

Table 2.1
Monthly Department of Defense Disability Compensation Based on Either the Retirement Formula or the Department of Defense Disability Rating Formula for Selected Grades and Years of Service

Grade	YOS	Retirement Formula	OR	Rating Formula				
				30%	40%	50%	60%	70%
E-3	2	$101		$632	$842	$1,053	$1,263	$1,474
E-4	4	$243		$767	$1,022	$1,278	$1,533	$1,789
E-5	8	$614		$962	$1,283	$1,604	$1,924	$2,245
E-6	12	$1,119		$1,162	$1,550	$1,937	$2,325	$2,712
E-7	19	$2,233		$1,410	$1,880	$2,350	$2,820	$3,290
E-8	23	$3,182		$1,660	$2,214	$2,767	$3,320	$3,874
E-9	27	$4,717		$2,097	$2,795	$3,494	$4,193	$4,892
O-1	2	$162		$996	$1,328	$1,659	$1,991	$2,323
O-2	4	$466		$1,494	$1,992	$2,491	$2,989	$3,487
O-3	9	$1,382		$1,872	$2,497	$3,121	$3,745	$4,369
O-4	17	$3,376		$2,383	$3,177	$3,971	$4,766	$5,560
O-5	23	$5,422		$2,829	$3,772	$4,714	$5,657	$6,600
O-6	27	$7,753		$3,446	$4,495	$5,743	$6,892	$8,041
O-7	30	$9,804		$3,922	$5,229	$6,536	$7,843	$9,150

SOURCE: Authors' computations based on current DoD disability compensation formulas using the 2019 pay table.

NOTE: Grayed cells mean that the disability compensation using the indicated formula provides a smaller benefit than the alternative formula.

and YOS combinations. The table shows the gross DoD benefit computed using both the rating formula and the retired pay formula. Cells that are grayed out indicate cases in which the values are lower and would not be chosen. For example, the cell for the retired pay formula for the E-4 (equal to $243) is grayed out because it is less than any of the values produced by the rating formula, implying that the E-4 would always choose the rating formula over the retired pay formula.

An important implication of the results shown in Figure 2.1 and Table 2.1 is that ratings tend to be more relevant to the computation of DoD disability retirement compensation for more-junior personnel, while the retired pay formula is more relevant to senior personnel. If DoD ratings were eliminated under a fitness-for-duty disability evaluation approach, these results imply that this change would have the least impact on disability compensation levels for senior personnel, whose compensation levels are typically computed using the retired pay formula rather than the ratings formula.

To understand the share of service members who would be affected by eliminating the ratings formula, we tabulated descriptive statistics of service members who have been medically discharged. We developed an analysis file using data from DMDC along with VTA data on all service members who were medically discharged in FY 2015 with either severance pay or medical retirement benefits. Using this file, we computed the grade and YOS distribution of recent discharges from the IDES. We describe the analysis file and how we developed it by merging different data sources in Appendix B.

We find that active-duty members receiving DoD disability compensation are typically in grades E-4 to E-6, as shown in Table 2.2, which gives the percentage distribution of separations and retirements in 2015 by grade. Nearly 10 percent are in the grades of E-1 to E-3, and 78.1 percent are in the grades of E-4 to E-6. DoD disability compensation for members in these grades will typically be based on the DoD rating rather than the retired pay formula. Further, nearly half of all disability separations have four or fewer YOS at the time of discharge. Consequently, eliminating ratings from the computation of the DoD disability compensation benefit would likely affect a large number of active-duty members who are medically discharged.

Department of Veterans Affairs Disability Compensation

Individuals are not generally permitted to receive both DoD disability compensation and VA disability compensation concurrently. As a result, VA benefits are deducted from DoD benefits. This deduction is known as an offset. The net DoD disability retirement benefit is the DoD benefit minus the VA benefit, after taxes. We describe VA disability compensation's role in determining the level of benefits under the current system, in order to understand how VA disability compensation may affect compensation under the alternatives we consider. We also describe two laws that allow some members to receive a full or partial restoration of the offset.

Table 2.2
2015 Active-Duty Disability Separations and Retirements, by Grade and by Years of Service

Grade or YOS	Separations (%)	Retirements (%)	Total (%)
Grade			
E-1 to E-3	14.8	7.5	9.3
E-4 to E-6	81.7	76.9	78.1
E-7 to E-9	1.3	9.0	7.0
O-1 to O-3	1.8	3.4	3.0
O-4 to O-6	0.2	2.1	1.6
Warrant	0.2	1.2	0.9
Total	100.0	100.0	100.0
YOS			
1	4.0	1.6	2.2
2	13.5	5.0	7.2
3	16.3	8.1	10.2
4	13.3	8.3	9.6
5	9.2	8.0	8.3
6	7.5	7.9	7.8
7	5.8	7.0	6.7
8	5.5	6.5	6.3
9	4.6	5.9	5.6
10–15	15.6	24.8	22.4
16–19	3.6	6.8	6.0
20+	0.7	10.2	7.8
Total	100.0	100.0	100.0

SOURCE: Authors' computations based on data from DMDC: Retiree Pay file, Active Duty Master (ADM) file, Active Duty Pay (ADP) file, Defense Enrollment Eligibility Reporting System (DEERS); and VA: VTA data.

NOTES: Analyses based on the cohort of service members medically discharged in FY 2015. Percentages do not sum to 100 because of rounding.

A service member's disability may have a negative effect on long-term civilian earnings. The VA disability compensation is a monthly payment intended to replace the resulting decrease in future civilian earnings. VA disability compensation depends on the VA disability rating and does not depend on YOS or rank. It also depends on family structure: there are different benefit values for veterans with no dependents, veterans without children and alone or with a spouse or dependent parents, and veterans with children and with a spouse or dependent parents. Unlike DoD disability compensation, VA benefits are not taxed. Additionally, veterans receiving disability payments through the VA are eligible for VA health care benefits.[2]

The VA disability compensation schedule consists of a payment for a veteran alone plus additional increments depending on family structure, as shown in Table 2.3. For example, VA disability compensation for a veteran with a VA disability rating of 50 percent who has a spouse and two children under age 18 is $1,068 per month. In general, VA disability benefits are higher for those with more dependents. Within

Table 2.3
Elements of the Department of Veterans Affairs Disability Compensation Schedule for 2019

	VA Disability Rating							
	30%	40%	50%	60%	70%	80%	90%	100%
Veteran alone	$428.83	$617.73	$879.36	$1,113.86	$1,403.71	$1,631.69	$1,833.62	$3,057.13
Without children								
Parent (no spouse)	$469.83	$671.73	$947.36	$1,195.86	$1,498.71	$1,740.69	$1,956.62	$3,193.92
Spouse	$479.83	$685.73	$964.36	$1,215.86	$1,522.71	$1,767.69	$1,986.62	$3,227.58
With children								
Parent and child	$503.83	$716.73	$1,003.36	$1,263.86	$1,577.71	$1,940.69	$2,181.62	$3,444.70
Spouse and child	$516.83	$735.73	$1,026.36	$1,290.86	$1,609.71	$1,867.69	$2,098.62	$3,352.41
Child (no spouse or parent)	$462.83	$662.73	$935.36	$1,181.86	$1,482.71	$1,722.69	$1,935.62	$3,171.12
Each additional child < 18 years old	$25.00	$33.00	$42.00	$50.00	$59.00	$67.00	$76.00	$84.69
Each additional child > 18 years old[a]	$82.00	$109.00	$136.00	$164.00	$191.00	$218.00	$246.00	$273.58

SOURCE: VA, 2020.

NOTES: Veterans with a 10 percent rating receive $142.29 and with a 20 percent rating receive $281.27, with or without dependents.

[a] The child must be in school.

[2] See Eibner et al., 2015, for a description of eligibility for VA health care benefits.

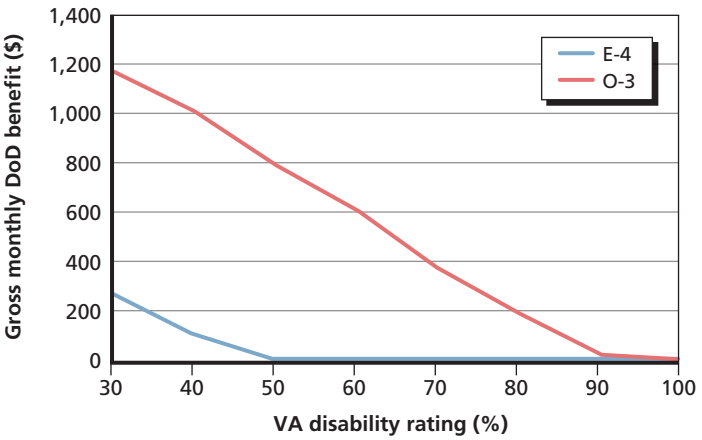
a given family structure, benefits increase as the VA rating increases, with the largest increase occurring between ratings of 90 and 100 percent.[3]

If a member receives disability severance from DoD and is eligible to receive VA disability compensation, VA benefit payments will be decreased by the disability percentage related to the DoD disqualifying condition until the DoD severance has been "paid back." However, if the disqualifying disability occurred in the line of duty in a combat zone or during performance of combat-related operations, there is no VA offset.

For example, in 2020, an E-5 with 12 YOS and a DoD rating of 20 percent would receive severance of $85,024 (i.e., 2 × 12 × $3,501). If the E-5 had a spouse and two children under age 18 and an overall VA rating of 50 percent, the VA disability benefit would be decreased by the amount of the DoD rating (20 percent) and now be based on a rating of 30 percent until the $85,024 is "paid back."

If a member receives DoD disability retirement, those monthly benefits are reduced by the amount of the monthly VA benefit. If the VA benefit exceeds the DoD retirement benefit, the net benefit a service member receives from DoD is $0. Figure 2.2 provides an example for an E-4 with 4 YOS and a 30 percent DoD disability rating. The figure shows the net DoD benefit (after taxes, assuming a 20 percent tax rate) for different VA ratings. In this example, the E-4 would receive a net benefit of $0 from DoD at VA ratings above 40 percent. For cases in which the net DoD benefit is

Figure 2.2
Net DoD Disability Compensation for an E-4 and an O-3 Assuming a DoD Rating of 30%, Without CRSC or CRDP



SOURCE: Authors' computations based on DoD and VA disability compensation formulas using the 2019 pay table.

[3] Veterans with specific disabilities, such as the loss of a limb or eyesight, or with other circumstances, such as need for aid and attendance, are eligible for additional Special Monthly Compensation. We have not included these extra payments in the tables in this chapter.

$0, the individual would only receive a benefit from the VA. The figure also shows the net benefit for an O-3 with 9 YOS and a 30 percent DoD rating. In this example, the net DoD benefit is $0 only when the VA rating is 100 percent.

Because the VA rating affects net DoD disability compensation, it is of interest to understand the extent to which members discharged for a disability receive higher or lower VA ratings, given their DoD rating. We consider this issue in Table 2.4 for E-4s with 4 YOS, E-5s with 8 YOS, O-3s with 9 YOS, and all personnel regardless of grade or YOS among 2015 active-duty disability discharges.

The table shows that for each of these groups, disability discharges are concentrated among those with higher DoD ratings and higher VA ratings. For example, among E-4s with 4 YOS, 29.7 percent of these personnel have a 70 percent rating,

Table 2.4
Department of Defense and Department of Veterans Affairs Rating Percentage Distribution Among All 2015 Active-Duty Disability Discharges and Discharges That Are E-4 with 4 Years of Service, E-5 with 8 Years of Service, and O-3 with 9 Years of Service

a. All

DoD Rating	VA Disability Rating								
	30%	40%	50%	60%	70%	80%	90%	100%	Total
30%	3.0	1.1	1.0	3.1	1.5	2.3	1.7	1.2	14.9
40%	0.0	2.3	0.6	1.8	1.3	2.5	1.8	1.6	11.8
50%	0.0	0.0	4.2	3.2	2.1	4.0	3.4	2.5	19.5
60%	0.0	0.1	0.1	2.9	1.3	3.6	3.6	2.3	13.8
70%	0.0	0.0	0.1	0.5	5.0	6.0	11.0	17.3	39.9
Total	3.1	3.6	5.9	11.4	11.2	18.3	21.6	24.9	100.0

b. E-4 with 4 YOS

DoD Rating	VA Disability Rating								
	30%	40%	50%	60%	70%	80%	90%	100%	Total
30%	4.3	1.9	1.4	3.9	1.6	2.7	1.9	1.4	19.1
40%	0.0	4.2	0.7	2.3	2.1	3.3	1.9	2.2	16.6
50%	0.0	0.1	4.1	3.9	3.3	3.9	2.4	1.7	19.5
60%	0.0	0.0	0.1	4.5	1.4	4.1	3.2	1.8	15.1
70%	0.2	0.0	0.2	0.7	5.0	5.4	7.3	11.0	29.7
Total	4.5	6.2	6.5	15.2	13.3	19.5	16.7	18.0	100.0

Table 2.4—Continued

c. E-5 with 8 YOS

DoD Rating	VA Disability Rating								
	30%	40%	50%	60%	70%	80%	90%	100%	Total
30%	3.7	0.2	0.5	3.2	1.4	3.1	1.5	0.8	14.3
40%	0.0	2.6	0.5	1.5	1.2	2.3	1.8	2.3	12.3
50%	0.0	0.0	4.9	2.3	2.0	2.9	3.7	2.5	18.3
60%	0.2	0.2	0.0	2.5	1.5	5.1	3.4	3.4	16.2
70%	0.0	0.0	0.0	0.3	5.4	8.0	11.8	13.4	38.9
Total	3.8	2.9	5.8	9.8	11.5	21.4	22.3	22.3	100.0

d. O-3 with 9 YOS

DoD Rating	VA Disability Rating								
	30%	40%	50%	60%	70%	80%	90%	100%	Total
30%	5.0	0.0	0.0	10.0	0.0	0.0	0.0	0.0	15.0
40%	0.0	0.0	0.0	2.5	0.0	0.0	0.0	0.0	2.5
50%	0.0	0.0	0.0	2.5	2.5	2.5	2.5	5.0	15.0
60%	0.0	0.0	0.0	10.0	0.0	0.0	5.0	2.5	17.5
70%	0.0	0.0	0.0	0.0	2.5	5.0	25.0	17.5	50.0
Total	5.0	0.0	0.0	25.0	5.0	7.5	32.5	25.0	100.0

SOURCE: Authors' computations based on data from DMDC: Retiree Pay file, ADM file, ADP file, DEERS; and VA: VTA data.

NOTES: The table shows the percentage of disability separations or retirements in 2015 with a given DoD and VA rating for the selected grade and YOS combination. Percentages do not sum to 100 because of rounding.

as do 38.9 percent of the E-5s with 8 YOS and 50 percent of the O-3s with 9 YOS. Among the overall sample, 39.9 percent of personnel have a 70 percent rating. Among the E-4s, 54.2 percent of these personnel have a VA rating of 80 percent and above, while 66 percent of the E-5s and 65 percent of the O-3s have a VA rating of 80 percent and above. On average in the entire cohort, 64.8 percent of personnel have a VA rating of 80 percent or higher. For 43 percent of the disability retirements in 2015, the VA disability compensation for these personnel exceeded their DoD disability retirement benefit, resulting in zero net benefits (in the absence of either CRDP or CRSC, programs that are described in the next subsection).

Net Department of Defense Benefit with Combat-Related Special Compensation or Concurrent Retirement and Disability Pay

Two programs permit restoration of all or part of the VA offset to DoD disability compensation: CRDP and CRSC. CRDP was established by Congress in 2004 and allows concurrent receipt of both VA disability compensation and DoD retired pay. Disability retirees can qualify for CRDP if they have a VA disability rating of 50 percent or more, but only if they also qualified for retirement in a way other than disability—for example, as a regular or reserve retirement. Members who retired from active duty with 20 or more YOS qualify for regular retirement. Reserve retirees must have 20 qualifying YOS and have reached the retirement age of 60 (or somewhat less, depending on how often the reservist has been deployed). Service members are automatically enrolled in CRDP and do not need to apply. Also, CRDP is taxable.

CRSC also allows concurrent receipt of both VA disability compensation and DoD retired pay for service members eligible to receive a DoD retirement benefit—including those with fewer than 20 YOS but with a disability retirement. The member must have a VA disability rating of at least 10 percent and be able to demonstrate that the VA disability rating is attributable at least in part to a combat related injury. The CRSC benefit is not taxable, but the service member must apply for it. The CRSC benefit equals the amount of VA disability compensation that is combat related—that is, it is based on a subset of conditions used to determine the overall VA rating. Also, like CRDP, the maximum CRSC payment cannot be greater than retired pay based on the YOS-based retirement formula. This means the highest CRSC benefit an individual can receive equals the individual's retired pay, even if the individual's disability retirement benefit was based on the rating formula.[4]

Based on data on disability separations and retirements from active duty in 2015, we find that CRDP and CRSC receipt is relatively infrequent among disability separations and retirements. In total, 4 percent of disability separations or retirements in 2015 received CRDP, while 12 percent received CRSC.[5] Receipt of either benefit varies with pay grade, as shown in Table 2.5. The table shows that over 85 percent of those receiving CRSC were in the grades of E-4 to E-6, while over 60 percent of those receiving CRDP are in the grades of E-7 to E-9. The table also shows the grade distribution

[4] If the gross DoD disability benefit is less than the VA disability compensation that is combat related, then CRSC equals the individual's retired pay. On the other hand, if the gross DoD disability benefit exceeds the VA disability compensation that is combat related so net DoD disability compensation is positive, then CRSC equals the VA disability compensation that is combat related with a deduction for the difference between the DoD disability benefit and the benefit computed based on the retirement formula. Note that if this CRSC formula gives a negative value, as would be the case if the deduction exceeds the VA disability compensation that is combat related, then CRSC is set to zero.

[5] Note that while CRDP is relatively infrequent among disability separations and retirements, retirees (including regular and reserve retirees) may later get evaluated or revaluated by the VA and qualify for CRDP or CRSC. According to the Congressional Research Service (2020a), 36 percent of retirees in 2018 received either benefit, with far more retirees receiving CRDP than CRSC.

Table 2.5
Percentage of 2015 Active-Duty Disability Separations and Retirements with Combat-Related Special Compensation or Concurrent Retirement and Disability Pay

Grade	CRSC	CRDP	Retirements, Neither CRSC Nor CRDP	Separations	Total
E-1 to E-3	3.6	0.0	8.4	14.8	9.3
E-4 to E-6	85.3	16.5	78.8	81.7	78.1
E-7 to E-9	6.7	62.1	6.6	1.3	7.0
O-1 to O-3	1.9	3.9	3.6	1.8	3.0
O-4 to O-6	1.2	11.9	1.7	0.2	1.6
Warrant	1.2	6.0	0.9	0.2	0.9
Total	100	100	100	100	100

SOURCE: Authors' computations based on data from DMDC: Retiree Pay file, ADM file, ADP file, DEERS; and VA: VTA data.

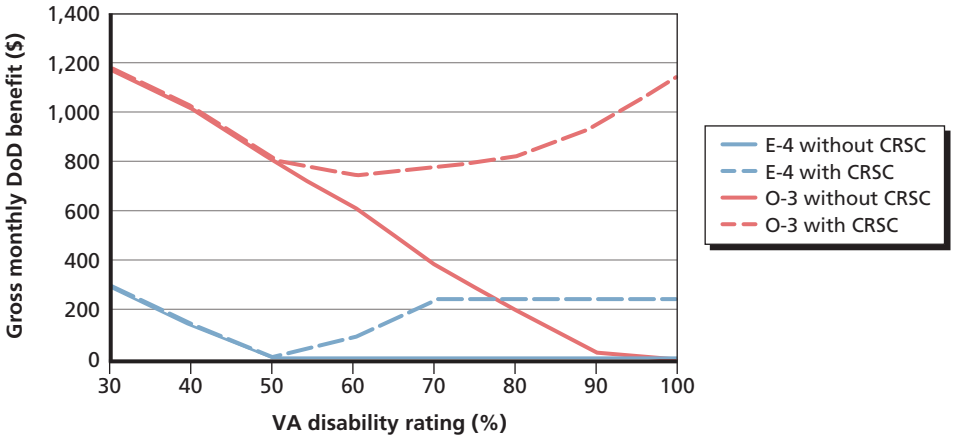
NOTES: Tabulations based on the cohort of service members medically discharged in FY 2015. Percentages do not sum to 100 because of rounding.

of disability retirements (neither CRSC nor CRDP), of disability separations, and of total separations or retirements. The table shows that those who receive CRDP are far more likely to be in the grades of E-7–E-9 than retirees without CRSC or disability separations.

CRDP and CRSC can have important implications for disability benefits. The restoration of the offset under CRDP only applies to the retirement or YOS-based formula for computing the DoD disability retirement compensation and not the rating percentage formula. For example, suppose the disabled retiree's retired pay is based on the retirement formula because it gives a greater benefit than the rating-based computation of disability compensation. In this case, CRDP restores the VA offset fully, and the net DoD disability benefit equals retired pay without the offset. But suppose, instead, that the rating-based computation exceeded the retirement formula computation, so the DoD disability retirement benefit is based on the rating formula. In this case, CRDP restores the VA offset only up to the amount of disability retirement that a member would have received based on the retirement benefit.

In Figure 2.3, we illustrate how CRSC affects total benefits received by the member for the E-4 with 4 YOS and the O-3 with 9 YOS examples shown earlier in Figure 2.2. The total benefit equals the DoD net disability compensation plus CRSC, assuming a 30 percent DoD rating. The solid lines in Figure 2.3 replicate the solid lines in Figure 2.2. The dashed lines show the net DoD benefit when CRSC is added. When the VA rating is lower, below 60 percent, the total benefit equals the DoD net benefit because CRSC is $0. The reason is that for both the E-4 and the O-3 in the

Figure 2.3
Net Department of Defense Disability Compensation for an E-4 and an O-3 Including Combat-Related Special Compensation, Assuming a Department of Defense Rating of 30%



SOURCE: Authors' computations based on DoD and VA disability compensation formulas using the 2019 pay table.

NOTES: The chart shows the net DoD benefit including CRSC which is equal to the net DoD benefit plus CRSC where the net DoD benefit equals the gross DoD disability benefit minus the VA disability benefit, after taxes.

example, the gross DoD benefit is based on the rating formula rather than the retirement formula. Consequently, the difference between the rating formula and retirement formula exceeds the VA disability benefit that is combat related, so CRSC is $0.

At VA ratings above 50 percent, CRSC is positive and gets added to the net DoD disability benefit.[6] The net DoD disability benefit is $0 for the E-4 at VA ratings above 50 percent without CRSC (same as in Figure 2.2) and CRSC is set to the value of retired pay, equal to $243. Since the most that CRSC can equal is retired pay, CRSC does not increase with VA rating for the E-4. For the O-3, the deduction is small enough that CRSC is positive and increases with VA rating.

Summary

The DoD disability rating affects current DoD disability compensation in several ways. First, the rating determines the service member's final disposition and whether the service member will receive a onetime lump-sum severance pay or a disability

[6] We assume that the VA rating for combat-related conditions is 20 percentage points less than the total VA rating. The mean difference between an individual's VA rating and VA combat-related rating was just over 15 percent for disability retirees in 2015, 20 percent when rounded to the nearest 10. For example, we assume that a service member with a VA rating of 50 percent would have a combat-related rating of 30 percent.

retirement annuity for the rest of the service member's life. For service members who are medically retired, the rating can also determine the level of compensation. The disability retirement formula is equal to the retired pay base times a multiplier, which is equal to either the disability rating or the retirement-based formula[7] (whichever is higher). Once the DoD disability retirement benefit is calculated, there may be offsets if the service member receives disability compensation from the VA, though these offsets can also be restored for the small number of service members who are eligible for CRSC or CDRP.

There are several important aspects of the current system to keep in mind when considering alternative methods of compensation consistent with a FES. First, we found that under the current system, most senior personnel tend to have their disability retirement benefit calculated using the YOS multiplier. Since their benefit is not based on ratings, senior personnel are less likely to be affected by a change to the FES than junior personnel. Second, as shown in Table 2.2, nearly 10 percent of the current IDES population are in the grades of E-1 to E-3, and 78.1 percent are in the grades of E-4 to E-6. Because most personnel in IDES are relatively junior (E-4–E-6), their compensation value would be more likely to change if ratings were eliminated.

More broadly, this discussion demonstrates that the current compensation system is complex. On the one hand, this complexity itself provides motivation for a simpler method of compensation that could be supported by a FES. On the other hand, it means that the changes in compensation relative to the status quo are also complicated to assess, particularly in cases where the member may receive VA benefits, or CRSC and CRDP. This complexity implies that it is difficult to develop alternative methods that change compensation uniformly or equally relative to the status quo for all service members in the IDES.

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[7] Under the legacy retirement system, YOS times 2.5 percent, or YOS times 2.0 percent for members under the Blended Retirement System.

CHAPTER THREE

Alternative Department of Defense Disability Compensation Systems

This chapter describes alternatives for redesigning the DoD disability compensation system to support a FES. While each alternative would support FES, they result in different concepts for providing disability compensation. For that reason, we begin this discussion with a review of alternative compensation objectives to provide context for the specific courses of action we evaluated. The alternatives were also informed by past proposals to reform the DoD disability compensation system, the disability compensation system for U.S. civilians, and how selected U.S. allies compensate military personnel for disabling conditions.

We developed the alternative compensation systems in 2019, before the implementation of the parallel ratings process. Thus, our analysis of time savings focuses on comparisons with the duration of the ratings step under the sequential process. While all of the alternatives would offer time savings relative to a sequential process, not all would be compatible with parallel ratings. Furthermore, there may not be significant time savings from the ratings step under these alternatives relative to the time savings achieved with parallel ratings. That said, these alternatives offer different perspectives on ways to reform the disability compensation system, and they have the potential advantage of allowing for a more streamlined process in other stages of the evaluation system.

What Is the Compensation Objective?

A shift to a FES could have implications for the overall objective of DoD disability compensation. In theory, there are several potential objectives for a disability compensation system. First, it may compensate service members for the sacrifice they have incurred by experiencing a disability as a result of their work in the line of duty. This objective could be achieved by compensating for unfitting conditions or for the overall severity of a disability. While compensating on the basis of unfitting conditions would be feasible under a FES without ratings, any compensation that takes severity into account would still require ratings. As a result, in order for compensation on the

basis of severity to be feasible under a FES, these ratings would need to occur after discharge.[1]

Another objective would be to compensate for the value of military service. Such compensation could take a retrospective approach, compensating for past service, or a prospective approach, recognizing that the member would have had the option to continue to serve and possibly qualify for military retirement benefits had his or her career not ended prematurely because of an unexpected injury or illness. Under this objective, the compensation system would structure disability benefits based on career metrics such as grade and YOS, similar to the military retirement formula. This would be feasible under a FES because compensation would no longer depend on the DoD rating or the severity of unfitting conditions.

A third potential objective is to compensate for reduced civilian earnings capacity. A disability incurred or aggravated by military service not only could render someone unable to continue serving but also may impair their ability to fully participate in the civilian labor market. This is the current objective of VA disability compensation. Buddin and Kapur (2005) and Buddin and Han (2012) have shown that disabled veterans have a loss of civilian earnings and that the VA disability compensation system compensates for nearly all of the civilian earnings loss (and overcompensates for the loss for the most severely disabled, with VA ratings of 90 or 100 percent).[2]

Other potential objectives include recognition for valorous service or compensation for diminished quality of life and diminished ability to participate in nonwork activities. Compensation may also be designed in a way that maintains a veteran's incentive to work and conduct a civilian life similar to what he or she may have had in the absence of a disability.

With these potential objectives in mind, we can see that while both DoD and the VA compensate for disability using the same evaluation system, they reflect somewhat different compensation objectives. The current DoD disability compensation system recognizes that the member is unfit for continued service and bases the amount of compensation on the severity of the unfitting conditions and, in some cases, on career metrics. As a result, it reflects a combination of these first two objectives. In contrast, the VA benefit recognizes the reduced civilian earnings capacity of disabled veterans, though the benefit amount is a function of the VA disability rating. The focus of our analysis is the DoD disability compensation system, so the alternatives we consider are to this system, taking as fixed the VA disability compensation system.

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[1] The process of moving the ratings process after discharge would not be compatible with the current parallel ratings process, but it is presented as a distinct option for compensation that could be compatible with a FES design.

[2] This point refers to veterans with a DoD disability severance or disability retirements. Christensen et al. (2007) studied veterans with a VA disability rating—a much larger group of veterans. They found that for those who first apply by age 45, VA disability compensation falls roughly 10 percent short of full replacement of earnings for veterans with a 100 percent disability rating and roughly 25 percent short of full replacement of earnings for veterans determined to be unemployable.

Alternative Department of Defense Disability Compensation Systems

We developed four alternatives for redesigning the DoD disability compensation system under a FES. The potential compensation alternatives we present here were developed in 2019 and informed by past proposals to reform the DoD disability compensation system, disability compensation systems used by the broader U.S. civilian population, and military disability compensation systems in selected U.S. allies. This is discussed in detail in Appendix A. Some past DoD reform proposals have recommended elimination of the rating as a determinant of DoD benefits, while others would retain the rating. In all cases, past proposals sought to simplify the benefit formula, and in some cases they recommended moving to a fitness-for-duty approach. The approach used by U.S. allies similarly offers a blend of compensation based on the severity of disability and on lost career opportunities. After this review, we defined the following four alternative disability compensation systems:

- Alternative 1: Compensate based on current objectives.
- Alternative 2: Compensate for military career.
- Alternative 3: Compensate for unfitting conditions.
- Alternative 4: Compensate like U.S. allies.

Figure 3.1 lists the compensation objective, the compensation formula, and the evaluation process for the current system and each of the four alternatives. In the sections that follow, we provide a high-level overview of how compensation would be

Figure 3.1
Overview of Status Quo and Proposed Alternatives

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

determined under each of these alternatives. Under each alternative, compensation could be paid on a monthly or lump-sum basis. Our discussion focuses on the objectives and evaluation process that would be required, rather than the timing or frequency of payment.

Alternative 1: Compensate Based on Current Objectives

The first alternative would compensate based on the current objectives of the DoD system (e.g., compensation for incurring a disability in the line of duty and for the value of a military career) and maintain the current benefit formulas. This alternative has two variants—one where the benefit for all service members would still rely on a disability rating (Alternative 1a) and a second in which disability compensation for junior and senior personnel would be based on different formulas (Alternative 1b).

Alternative 1a

Alternative 1a would maintain the current DoD benefit objectives and formulas but would determine ratings after discharge instead of during the IDES process. A transition benefit would be provided during the period between discharge when regular military compensation (RMC) would end and when ratings would be established by the VA and disability benefits would begin.[3] This transition benefit, similar to the one proposed by the Dole-Shalala Commission described in Appendix A, could be provided for a predetermined period as an incentive for veterans to seek a disability rating in a timely manner. In our analysis, we assume this period would be three months. An option for renewal would be permitted in cases of unexpected delays in the VA ratings determination process that are outside the veteran's control. The value of the transition benefit could be set as a percentage of basic pay or be set equal to RMC. Because DoD disability benefits would be unchanged, Alternative 1a would hold members harmless to any changes in a shift to a FES and would ensure that veterans be supported during the disability ratings process.

Because ratings would take place after discharge, this alternative would not be directly compatible with the parallel ratings process implemented in February 2020. Instead, Alternative 1a offers an option that could be implemented under a FES design and would reduce IDES processing time relative to the sequential process. While it may not offer as efficient a reduction in ratings process times compared with the parallel ratings process, it could offer other options for flexibility in streamlining earlier stages in the process as well.

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[3] RMC includes three entitlements—namely, basic pay, the basic allowance for housing, and the basic allowance for subsistence. In addition, because the allowances are not subject to taxation, RMC also includes the value of the tax advantage from receiving these allowances tax-free. Since the Gorham Commission in 1962, RMC has been considered the equivalent to a civilian salary and, indeed, a benchmark for comparing military compensation with civilian compensation.

Figure 3.2
Disability Evaluation Steps Under Alternative 1a

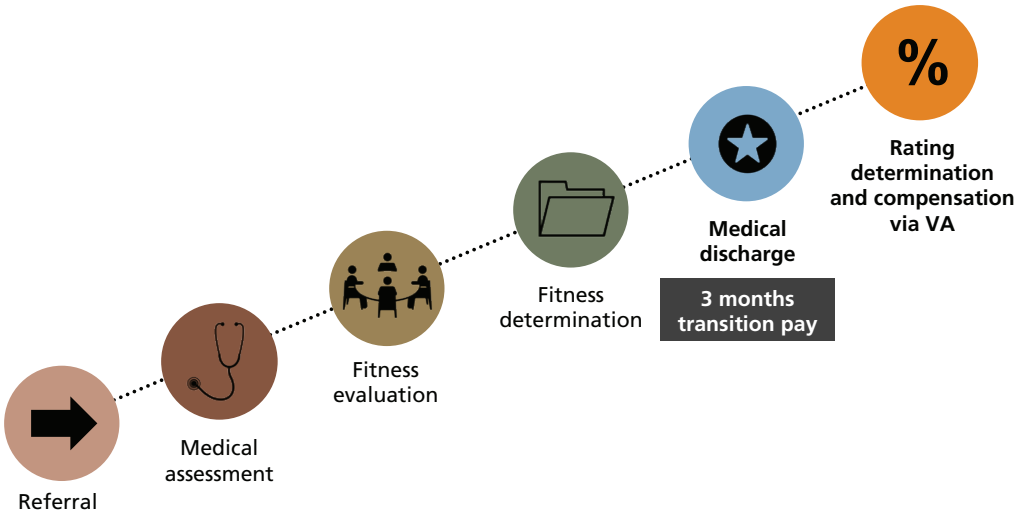


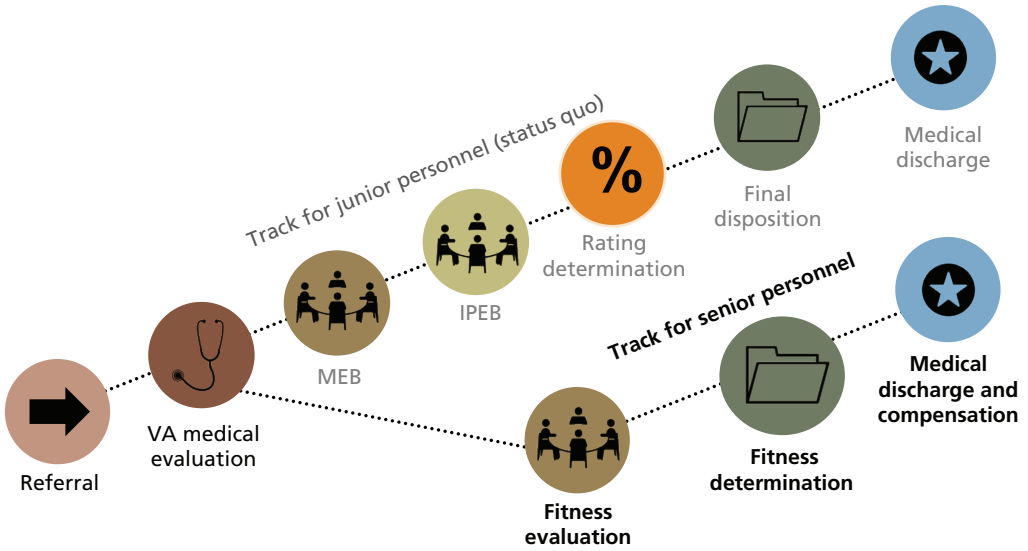
Figure 3.2 shows the main steps in the streamlined evaluation process under Alternative 1a. As described in Chapter One, Figure 3.2 (and subsequent figures in this section) presents hypothetical options for streamlining the MEB/PEB stages and the medical assessment, though a complete consideration of those specific options is outside the scope of analysis for this report.

Alternative 1b

Alternative 1b would establish different benefit formulas for junior and senior personnel. Under this alternative, junior personnel would receive a disability rating and compensation would be determined using the current formulas. By contrast, senior personnel would only receive a determination of fitness for duty, and their compensation would be based on a benefit formula using only career metrics. Figure 3.3 demonstrates the dual tracks for junior and senior personnel under this option.

The dual tracks in Alternative 1b were inspired by our review of the current system, which led to a finding (discussed in Chapter Two) that ratings tend to be more relevant to the computation of DoD disability retirement compensation for more-junior personnel, while the retired pay formula is more relevant to senior personnel. Alternative 1b simply formalizes this pattern. As a result, processing time would be reduced for senior personnel who do not need to receive disability ratings. The overall time savings and efficiency gains of this option relative to a sequential process will depend on the definition of *junior* versus *senior*, which we discuss in detail in Chapter Four. One potential drawback of this alternative is that it could be perceived as treating some service members unequally.

Figure 3.3
Disability Evaluation Steps Under Alternative 1b



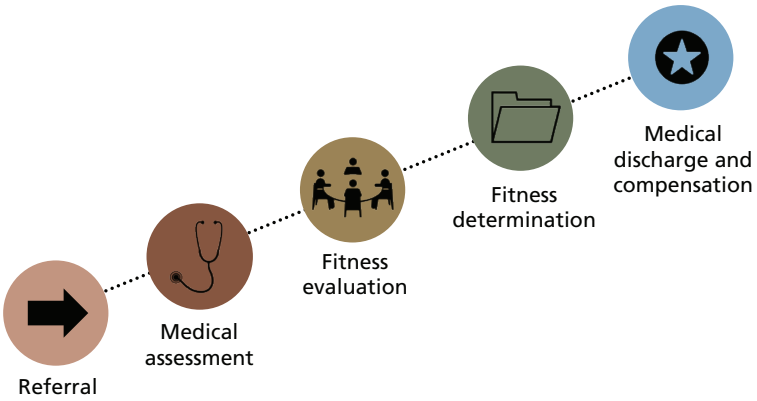
Alternative 2: Compensate for Military Careers

Alternative 2 would compensate all service members on the basis of their military careers, similar in spirit to what was proposed by the Dole-Shalala Commission. All service members would be evaluated for fitness for duty and the benefit would be determined based on career metrics including rank and YOS for those determined to be unfit. Because a simpler fitness evaluation would replace the disability ratings step, IDES processing time would be reduced relative to a sequential process. We analyze three options for a compensation formula based on career metrics:

- Alternative 2a would take a prospective approach and replace the current disability benefit with a benefit based on an estimate of the value of the lost military career.
- Alternative 2b would take a retrospective approach and calculate the disability benefit based on the career already served, using the current retirement pay formula with a floor of 12 YOS. The floor would result in a higher benefit for members with fewer than 12 YOS compared with Alternative 2c but would result in a higher cost.
- Alternative 2c would also take a retrospective approach and calculate the benefit based on the current retirement pay formula, but without any YOS floor.

Figure 3.4 shows the main steps under Alternative 2, which would be the same steps used in Alternative 3.

Figure 3.4
Disability Evaluation Steps Under Alternatives 2 and 3



Alternative 3: Compensate for Unfitting Conditions

Alternative 3 would compensate service members for unfitting conditions. Under this alternative, service members would receive a fitness determination for each medical condition. They would then receive a fixed payment for each condition determined to make the service member unfit for service. While the streamlined fitness determination would still need to identify conditions, there would no longer be a need to assign a rating for the severity of each unfitting condition. As a result, processing time would be reduced relative to a sequential evaluation process. However, if the determination of unfitting conditions takes more time than a streamlined "fit or not fit" determination, this option may not reduce processing times by as much as options where specific conditions are no longer taken into account. However, because the VA still has a need to identify conditions for the VA benefit, it may be relatively straightforward to identify unfitting conditions.

Alternative 4: Compensate Like U.S. Allies

Alternative 4 would use a compensation structure similar to disability compensation provided by several U.S. allies, as described in Appendix A. Compensation would entail two payments: one payment to compensate for the disability itself and a second payment to compensate for the loss of the military career. In practice, this compensation option would resemble a combination of other alternatives. The payment for the disability either could be set as a fixed payment based on disabling conditions as in Alternative 3 or, if it was designed to measure disability severity as in the U.S. allies we reviewed, would likely still require ratings. The payment for the loss of career would resemble a benefit based on career metrics as in Alternative 2. For example, if this payment is intended to compensate for forgone earnings as in U.S. allies with a similar system, it would most closely resemble the benefit based on the value of the lost military career calculated under Alternative 2a.

Summary

To construct alternative DoD disability compensation systems that would be consistent with a FES approach, we reviewed prior proposed reforms to the DoD compensation system, compensation systems used in U.S. civilian settings, and compensation systems used in selected U.S. allies. We developed four alternative compensation systems. Each alternative provides compensation under a different objective, whether to compensate based on current DoD objectives, to compensate for the military career, to compensate on the basis of unfitting conditions, or to compensate based on a blend of these objectives. We present these as hypothetical alternatives for consideration, though none is imminently being pursued by the DoD. We next assess how each alternative would affect service member compensation as well as the timeliness of the IDES, end strength, human capital, and other policy considerations in the chapters that follow.

CHAPTER FOUR

Changes in Department of Defense Disability Compensation Under Alternatives

This chapter summarizes our assessment of the changes in DoD disability compensation benefits for each alternative. We first describe our approach for evaluating each alternative, followed by a description of our results. The chapter concludes with a brief summary.

Our findings show that each compensation alternative considered would be feasible under a FES framework. However, each alternative would change the value of compensation relative to the status quo for at least some service members, or result in an increase in personnel costs to DoD. However, the value of benefits is only one dimension by which a FES should be evaluated: a complete assessment should also include a consideration of whether the intent of compensation is consistent with the broader objective of compensation, as discussed in the previous chapter, and other considerations, such as changes in the timing of the process itself, end strength, and human capital, as discussed in Chapter Five.

Approach for Estimating the Change in the Net Department of Defense Disability Benefit Under Alternatives

Approach Used for Alternative 1 (Compensate Based on Current Objectives) and Alternative 2 (Compensate for Military Careers)

To compare Alternatives 1 and 2 with the status quo, we consider variations in grade, YOS, family composition, DoD rating, VA rating, and VA combat-related disability rating for those eligible for CRSC.[1] In Figure 2.3 we showed computations of the net DoD disability benefit for an E-4 and O-3 under the current compensation system. Here, we make similar computations of the net benefit and compute the change for Alternatives 1 and 2. As under the current system, benefits under Alternatives 1 and 2 vary with grade and YOS. To demonstrate this, we compute and compare benefits

[1] We do not consider CRDP because of the small percentage of individuals receiving CRDP; 4 percent of disability separations or retirements in 2015 received CRDP, while 12 percent received CRSC.

under the status quo and Alternatives 1 and 2 for the following 14 illustrative examples of junior, midcareer, and senior enlisted and officer personnel:

- E-3 with 2 YOS
- E-4 with 4 YOS
- E-5 with 8 YOS
- E-6 with 12 YOS
- E-7 with 19 YOS
- E-8 with 23 YOS
- E-9 with 27 YOS
- O-1 with 2 YOS
- O-2 with 4 YOS
- O-3 with 9 YOS
- O-4 with 17 YOS
- O-5 with 23 YOS
- O-6 with 27 YOS
- O-7 with 30 YOS.

In some of the chapter tables we present a selected subset of these year and grade combinations; the complete set can be found in Appendix F.

In addition to varying grade and YOS, we also vary family composition (necessary for computing VA disability compensation and thus the net DoD benefit). Because 92 percent of members discharged from IDES were unmarried and 99 percent do not have other dependents, we only show results for single veterans. We also vary the DoD disability rating from 30 percent to 70 percent and the VA disability rating from 30 percent to 100 percent in our example cases. When computing CRSC, we assume that the VA combat-related disability was 20 percentage points lower than the overall VA rating; the mean difference between an individual's VA rating and VA combat-related rating was just over 15 percent for disability retirees in 2015, 20 percent when rounded to the nearest 10.

We provide these tabulations for Alternative 1b and Alternatives 2b and 2c. The analyses for Alternative 1a and Alternative 2a each required a slightly different approach, described in the next sections.

Alternative 1a

To assess net compensation received by the service member under Alternative 1a, we compare the size of the transition benefit with the amount of RMC a member would normally receive while in the IDES. We consider three possible transition benefits:

1. a monthly benefit equal to 50 percent of basic pay
2. a monthly benefit equal to 70 percent of basic pay
3. a monthly benefit equal to 100 percent of RMC.

Alternative 2a

Recall that Alternative 2a uses the expected value of a lost military career to determine the DoD disability benefit. This recognizes that individuals likely did not intend to terminate their careers with the YOS and rank they had attained at the time they acquired their disability. Our analysis focuses on active component (AC) service members.

The expected loss from the premature end of an AC military career equals the expected value of staying in the AC net of the expected value of a civilian career. An AC member found unfit and discharged is no longer able to choose whether to serve in the AC or reserve component (RC) in future years, and taking away this choice is a form of loss. Further, the value of staying in the AC depends on both financial and nonfinancial factors; money matters, but so does the intrinsic satisfaction from serving. Also, because disabled retirees would not be able to participate in the RC, the expected value of a civilian career depends solely on expected earnings as a civilian worker.

To compute the expected value of a lost military career, we make use of RAND's dynamic retention model (DRM). The DRM is a life-cycle model of individual service members' decisions to stay or leave the military over a career, where retention decisions are based on forward-looking behavior that depends on current and future military and civilian compensation.[2] The model allows for uncertainty in future periods on both the military side and the civilian side and recognizes that people may change their minds in the future as they get more information about the military and their civilian opportunities. It also recognizes that individuals differ in their preferences for service in the AC or RC and accounts for these differences.

When an AC career is prematurely ended by disability, the member who would have preferred to stay longer forgoes both the financial and nonfinancial returns. The financial returns to an AC career are computed at a specific point in the career, and they include (a) the expected value of AC pay over the remainder of the AC career—that is, for as long as the member chooses to stay in the AC; (b) the expected value of civilian pay if the member chooses to stay now but leave in the future; (c) the expected value of AC retirement benefits if the member qualifies for them and then becomes a civilian; and (d) the expected value of future service in the RC if the member leaves the AC. The nonfinancial returns to an AC career at a specific point in time include (a) the member's taste for military service—that is, the value the member attaches to military service apart from military compensation; and (b) the expected value of being able to make a future choice between staying in the AC or leaving to enter the RC or the civilian labor market without participating in the RC.

We use the DRM to compute the value of an AC career loss at each YOS, taking into account these financial and nonfinancial returns.[3] Given that tastes for the mili-

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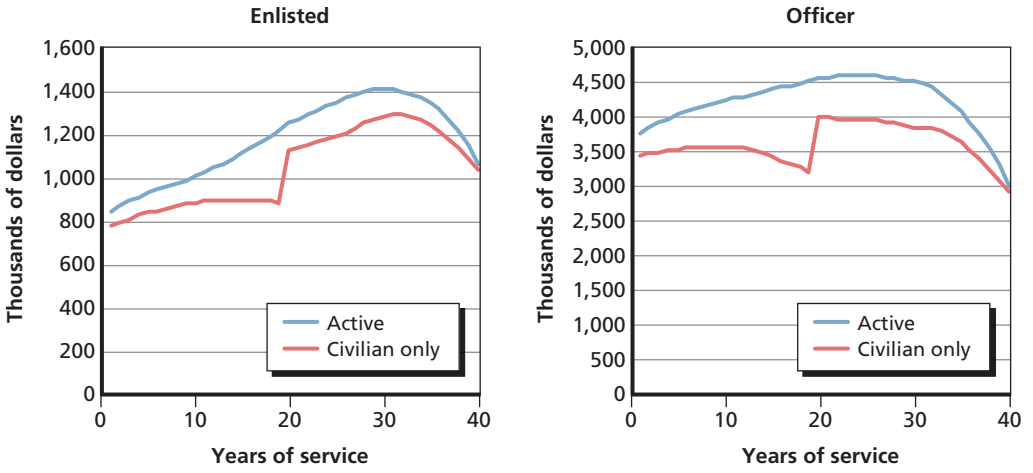
[2] See Asch, Hosek, and Mattock, 2014; and Tong, Mattock, and Asch, 2021, for descriptions of the DRM.

[3] The DRM does not include the possibility of a premature end to a military career resulting from a disability retirement, although one might be concerned that it should. However, we think this omission has little effect

tary differ (as the model allows), the expected value of a lost AC career is averaged across tastes among service members at each YOS. Also, to obtain an overall estimate, the expected value of a lost AC career is averaged across the services; this is done for enlisted personnel and officers separately. We find that the model's fit is extremely good, giving us confidence that the model can be trusted for simulating changes to the compensation system and to compute the expected value of a lost career. The value computed by the model is a stock—a present value, as shown in Figure 4.1—and this is annualized to a monthly basis to permit comparison with net DoD disability benefits, a flow, as shown in Figure 4.2.[4]

Figure 4.1
Value of Active Component and Civilian-Only Careers at Each Year of Service Under the Legacy Retirement System

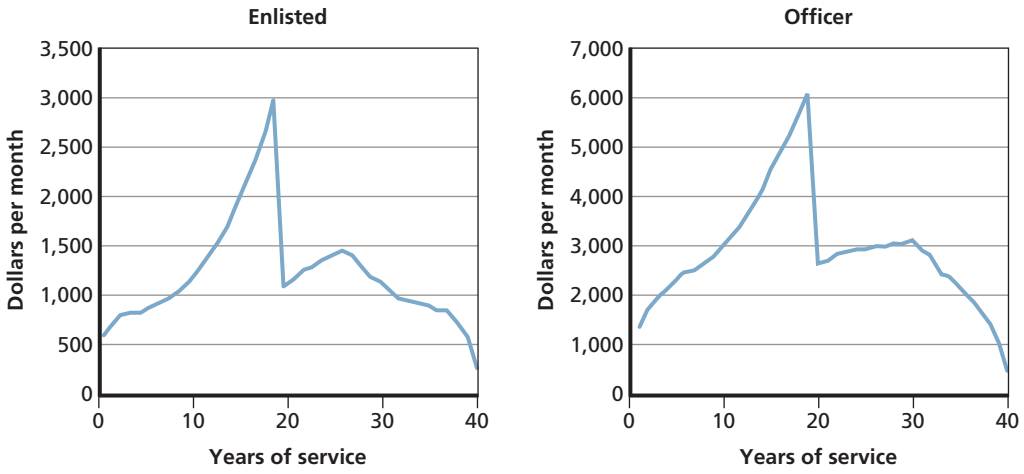


SOURCE: Authors' computations using the DRM.
NOTE: Averages over all four military services and the taste distribution at each YOS. Estimation uses the 2007 pay table, inflated to 2019 dollars. Values in thousands.

on the model's parameter estimates. As discussed in Asch, Hosek, and Mattock, 2014, the DoD Actuary (2012) reports that there were 8,994 disability retirees in 2011. With an AC force size of 1.4 million, the empirical probability of being a disability retiree in 2011 was .006. Further, the DoD Actuary's (2011) disability rate tables indicate that disability rates are lower in the years of service when most members serve; in years 0 to 20 the rates are generally less than 1 in 1,000. The rates are higher after 20 years of service, and these higher rates bring up the overall disability rate to higher values—e.g., .003 in 2006 and .006 in 2011.

[4] To compute the loss of a military career net of the civilian career, we also need an estimate of the disabled retiree's civilian earnings. Buddin and Kapur (2005) and Buddin and Han (2012) have shown that disabled veterans have a loss of civilian earnings, and that the VA disability benefit compensates for nearly all of the civilian earnings loss (and overcompensates for the loss for the most severely disabled, with VA ratings of 90 or 100 percent). While we do not directly include VA benefits in the model, the VA benefit largely compensates disabled retirees for civilian earnings loss, meaning that civilian earnings for nondisabled workers, which we do include in our estimates, are a reasonable initial estimate of a disabled retiree's civilian earnings.

Figure 4.2
Value of Active Career Loss (Dollars per Month) Under the Legacy Retirement System



SOURCE: Authors' computations using the DRM.
NOTES: Averages over all four military services and the taste distribution at each YOS. Estimation uses the 2007 pay table, inflated to 2019 dollars. Values in thousands.

Figure 4.1 depicts the value of continuing in active service at each YOS and the value of a civilian career if leaving active service that YOS. These results assume the service member is under the legacy retirement system.[5] The vertical difference between the curves gives the value of the loss of an AC career at that YOS. For example, the loss of an AC enlisted career at YOS 13 is $170,000. This is the difference between the value of the AC career, about $1,070,000, and the value of a civilian-only career, about $900,000. The civilian career curve shifts up at YOS 20 because from then on the civilian career includes the military retirement benefit. Both curves turn down after YOS 30. The civilian curve turns down because there are fewer remaining years of work life, and the active service curve turns down and approaches the civilian curve because there are fewer possible remaining YOS and fewer remaining years of work life after service.

The story for officers is similar, but the values are larger. The value of an AC career under the legacy retirement system at YOS 13 is about $4.3 million, and the value of a civilian-only career at that point is about $3.5 million, so the value of losing the AC career is about $800,000. As was the case for enlisted members, both the AC and civilian curves turn down after YOS 30 or so, and the AC curve approaches the civilian curve. A difference between the enlisted and officer figures is that the officer's civilian curve turns down between YOS 12 and 20, whereas the enlisted curve is flat;

[5] We also compute the value of a lost AC career for service members under the Blended Retirement System, which works similarly and therefore is not shown.

the officer's civilian curve also shows a slight decrease between YOS 20 and YOS 30, whereas the enlisted curve rises. The officer curve turns down because his or her late-career civilian earnings tend to decrease, whereas the late-career civilian earnings for enlisted members tend to increase.

Figure 4.2 shows the value of the lost AC career under the legacy retirement system expressed in dollars per month for both enlisted and officers. In both panels, the loss increases to YOS 20, steps down because civilian compensation now includes military retirement benefits, increases somewhat to the late 20s, then decreases to YOS 40. We use the values shown in Figure 4.2 (along with the military retirement benefit for those members eligible) to compute the change in net DoD disability benefits relative to the status quo for Alternative 2a.

Approach Used for Alternative 3 (Compensate for Unfitting Conditions)

A system that provides fixed payments for unfitting conditions could be designed in many ways. In any of these systems, there are two key decisions when setting the fixed payments for each potentially unfitting condition: (1) how to define conditions, and (2) what level of compensation to assign to each condition. In our analyses of Alternative 3, we examine one example of such a system where a fixed rating would be assigned to each condition. This rating could then be mapped onto a specific schedule of payments similar to the VA schedule of disability payments or could be multiplied by a predetermined amount to determine the fixed payment for the condition. Because the payment itself could be calculated in many different ways, our approach for Alternative 3 focuses on analyzing the implications of fixing a rating for each condition. However, the broader conclusions of our findings would likely apply to other methods for assigning a fixed payment to each unfitting condition.

Our analysis uses VASRD codes to define conditions, as is done under the status quo. The VASRD includes hundreds of conditions organized by body part or etiology; these broader groupings are in turn organized into body systems. In theory, other systems could classify conditions, such as International Classification of Diseases Tenth Revision diagnosis codes, the American Medical Association's Guides to the Evaluation of Permanent Impairment, or impairments used by the Social Security Administration in evaluating Social Security Disability Insurance (SSDI) applications. We use VASRD codes rather than one of these alternatives to readily draw comparisons in compensation for service members under Alternative 3 relative to the status quo.[6]

We examined the distribution of ratings and payments currently given to service members with a given VASRD code. Although ratings would be eliminated under a FES, ratings currently are one main reason why service members with the same condition receive different payments. Setting a fixed payment for each condition would necessarily reduce this variability. As a result, we explore the variation in ratings assigned

[6] Furthermore, legislative changes would be required if a system other than the VASRD were to be adopted.

to a given condition under the current system to infer how much variation in compensation exists among service members with the same condition and, as a result, the extent to which service members with a given condition could experience a change in compensation relative to the status quo if there was instead one fixed payment provided for each condition. We compared how benefits would change if the fixed payment were set using the mean, median, or eightieth percentile rating under the current distribution of ratings within each condition. For our empirical analysis, we focused on service members with only one unfitting condition.

Approach Used for Alternative 4 (Compensate Like U.S. Allies)

For Alternative 4, we reviewed compensation systems in the United Kingdom, Canada, and Australia. For a detailed discussion, see Appendix A. As described earlier, Alternative 4 would provide a combination of benefits provided under Alternatives 2 and 3. As a result, our assessment of this alternative relies on the analyses conducted under these other alternatives. We provide further discussion of additional considerations when the compensation structures from these two benefits are combined. Also, because this option is motivated by systems used in U.S. allies, our review considers key differences in other aspects of disability and health care systems that may affect how Alternative 4 might be implemented in the United States.

Data Sources

We used a variety of data sources for the analyses under each alternative.

For Alternatives 1 and 2, our analyses were simulations based on the 2019 pay table and disability benefit formulas. The DRM calculations were based on the 2007 pay table, inflated to 2019 dollars.

We supplement these simulations with tabulations from an analytic file integrating components from multiple data sets, including the Retiree Pay file, ADP file, DEERS file, ADM files, and VTA header file and associated condition files. In constructing this file, we focused on the specific cohort of service members who were discharged with a disability in FY 2015, which was the most recent retiree pay data available to us at the time of the analysis. However, more recent analyses show that the characteristics of service members discharged with disability have been relatively stable in the years since (Krull, Farmer, et al., 2021). The Retiree Pay file provides specifics on disability ratings and monthly payment amounts for individuals receiving disability retirement. We appended the ADM files to obtain information on disability separations in 2015. Then we linked on information about VA ratings and dependents from the VTA and DEERS, respectively. More details about the construction of the file are available in Appendix B. We also use this analytic file for the analyses of human capital loss in Chapter Five and the analyses of alternative design considerations in Chapter Seven.

For Alternative 3 and for the analyses of changes in processing time presented in Chapter Five, we examined administrative data on the IDES obtained from the VTA. VTA data capture several key pieces of information used in this analysis:

1. fitness determinations and outcomes of the IDES process
2. start and end dates for stages in the IDES process, as well as other milestones
3. VASRD codes of conditions rated by the VA
4. DoD ratings used to determine benefit amounts.

For our analysis, we used the population of service members referred to the IDES in calendar years 2012 through 2018 who were found to have an unfitting condition and were medically discharged. Service members with multiple unfitting conditions were excluded from our analysis because data on disability ratings at the level of the individual condition were not available for these service members. Additional sample limitations based on service branch and component and completeness of VTA data are described in Appendix C. We used this analytic file to estimate the extent of variation in ratings within a given VASRD condition. We also simulated how many service members might experience a change in their compensation levels if the condition fixed rate were assigned differently.

Results: Estimating the Change in the Net Department of Defense Disability Benefit Under Alternatives

Alternative 1: Compensation Based on Current Objectives

Before providing the details, we summarize the key findings for Alternative 1:

1. Alternative 1a:
   - The net monthly DoD disability benefit (after the transition period) would be unchanged.
   - There are trade-offs in the setting of the level of the transition benefit. If the benefit is too low, members would experience a loss in compensation relative to RMC; if the benefit is too high, it diminishes the incentive for the member to complete the rating process.
2. Alternative 1b:
   - Senior members with lower DoD ratings and higher grades would tend to see no change in net monthly DoD disability benefit; senior members with lower grades would tend to see a decrease in their benefit relative to the status quo.
   - With higher DoD ratings, whether senior members see an increase or decrease in net benefits depends on whether they qualify for CRSC. They would tend to see a decrease in the absence of CRSC. With CRSC, the out-

comes are mixed, with lower grades and lower VA ratings tending to see a decrease, and higher grades or higher VA ratings tending to see an increase.
- Alternative 1b could be perceived as not treating members equally.

Alternative 1a

We considered three monthly transition payments that could be implemented in Alternative 1a: 50 percent of basic pay, 70 percent of basic pay, and 100 percent of RMC. Since there is no change from the status quo DoD disability compensation formula, there would be no change in disability benefits. But the transition payment would create a new benefit. We estimate the transition payment and compare it with what a member would earn while in service—namely, RMC.

Table 4.1 summarizes the results for Alternative 1a. For each of the 14 grade and YOS illustrative examples, the table shows the difference in the monthly transition payment relative to RMC, under three transition payment variants. Of course, for all members, there would be no decrease in net compensation if the transition payment is

Table 4.1
Alternative 1a: Monthly Transition Payment Relative to Regular Military Compensation for Selected Grades and Years of Service in 2019 Dollars

			Transition Payment Relative to RMC		
Enlisted	**YOS**	**Monthly RMC**	**50% of Basic Pay**	**70% of Basic Pay**	**100% of RMC**
E-3	2	4,201	(3,022)	(2,600)	0
E-4	4	4,588	(3,310)	(2,799)	0
E-5	8	5,203	(3,998)	(3,356)	0
E-6	12	6,495	(4,558)	(3,783)	0
E-7	19	7,363	(4,991)	(4,042)	0
E-8	23	8,338	(5,531)	(4,408)	0
E-9	27	10,165	(6,605)	(5,181)	0
Officer					
O-1	2	5,406	(3,746)	(3,082)	0
O-2	4	7,340	(4,850)	(3,854)	0
O-3	9	8,926	(5,805)	(4,557)	0
O-4	17	11,258	(7,263)	(5,665)	0
O-5	23	13,150	(8,389)	(6,485)	0
O-6	27	15,470	(9,636)	(7,302)	0
O-7	30	17,222	(10,599)	(7,950)	0

SOURCE: Authors' computations based on compensation formulas using the 2019 pay table.

100 percent of RMC, as shown in the last column of the table. For either of the other options, transition pay would result in a decline in pay once the service member leaves active duty. This is because RMC also includes the basic allowance for subsistence, the basic allowance for housing, and the tax advantage associated with receiving allowances tax-free. For example, for an E-5 with 8 YOS, if the monthly transition payment were 50 percent of basic pay, the decrease in compensation would be $3,998.

The lack of full restoration of RMC has the advantage that it gives service members an incentive to complete the ratings process as soon as possible. That is, it addresses the potential moral hazard problem of service members attempting to extend the period over which they receive RMC. Shortening the transition period would also reduce the cost of transition payments to DoD. Furthermore, even if service members receive monthly transition payments that fall short of RMC, it is possible that the transition payment could exceed their eventual monthly net DoD disability compensation benefit, thereby making these members better off than they would be had they received their disability compensation instead during these months.

Moreover, as we will discuss in more detail in Chapter Five, the ratings determination step averaged about one month for members who entered the IDES in 2018 and completed the process. By delaying rating determination until after service, DoD would save roughly one month of RMC relative to a sequential process, as well as retirement accrual and other costs, for each member. This could potentially more than offset the cost of the new transition payment. That said, delaying rating determination until after service translates into a reduction in end strength, and if DoD were to restore end strength by raising pay or increasing bonuses, any savings could be offset by the cost of those policies.

Alternative 1b

Tables 4.2 and 4.3 show the change in the monthly net DoD disability retirement benefit under Alternative 1b relative to the status quo system for more-senior personnel. The tables in this section show results for selected VA disability ratings (30 percent, 70 percent, and 100 percent); tables showing results for all possible VA disability ratings are provided in Appendix F. Our findings show that eliminating the rating would result in no change in the net DoD benefit for an assumed 30 percent DoD rating for grades E-7 and above and O-4 and above (Table 4.2), but it would result in a drop in the net benefit for an assumed 70 percent DoD rating for all except O-7s (Table 4.3). The extent to which service members would be affected by the change depends on just how senior they are and on whether they are eligible for CRSC or CRDP. For our calculations, we make the following assumptions:

- *Senior* is defined as a service member with more than five YOS (the implications of using other definitions are discussed later in this section).
- Service members in grades E-3, E-4, O-1, and O-2 have fewer than five YOS and therefore are considered junior personnel.

- Retirement is calculated using the legacy regular retirement formula of 2.5 percent × YOS × high-3 basic pay.[7]
- The service member has no dependents.[8]
- The VA disability rating, which reflects all service-connected disabilities, not just unfitting conditions, is at least as great as the DoD disability rating.
- The difference between the VA disability rating and the VA combat-related rating on which CRSC is based is 20 points.

Tables 4.2 and 4.3 show results under two alternative assumptions: (1) the members would not receive CRSC and (2) they would receive CRSC. In Chapter Three, we showed that relatively few disability-related discharges received CRSC, implying that the results assuming no CRSC would be the most applicable to service members in the IDES. Nonetheless, we show results for both cases because the results differ for those who do and do not receive CRSC.[9]

To understand the results in Tables 4.2 and 4.3 for those who do not receive CRSC at separation, it is useful to refer to Table 2.1, where we show the gross DoD disability benefit computed based on the retirement formula versus the DoD rating. Assuming a DoD rating of 30 percent under the status quo, Table 2.1 shows that the status quo DoD disability benefit would be based on rating for the E-5, E-6, and O-3 cases, meaning that for these cases, the value of disability benefits computed with the disability formula exceeded the benefit computed with the retirement formula. As a result, if ratings were eliminated and the DoD benefit were based on the legacy retirement system, as is the case under Alternative 1b, we would expect that the benefit would decrease for the E-5 and E-6 cases as well as the O-3 case. Consequently, it is unsurprising that in Table 4.2, where we assume a 30 percent DoD rating, the difference in the net DoD disability benefit (assuming no CRSC) relative to the status quo is negative for these grade-YOS combinations, at least for lower assumed VA ratings.

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[7] We also calculated benefits for Alternatives 1b, 2b, and 2c assuming the Blended Retirement System formula of 2 percent × YOS × high-3 basic pay and found no qualitative difference in the results. High-3 refers to the highest average basic pay earned during any three consecutive years of service.

[8] Using the Retiree Pay File that we developed and describe in Appendix B, we find that among disability discharges in 2015, 92 percent were unmarried, and 98 percent had no other dependents.

[9] We focus on CRSC rather than CRDP because members who separate are more likely to receive CRSC, and members with fewer than 20 YOS may qualify for CRSC at separation, whereas members must have at least 20 YOS to qualify for CRDP at separation. For the purposes of our tabulations in Table 4.2, we assume that the combat portion of the VA rating on which CRSC is based is 20 points lower than the VA rating. While it need not be the case that the combat-related portion of the disability rating is 20 percentage points below the overall VA disability rating, this is sufficient to demonstrate how the net DoD disability benefit changes under the disability proposal; as previously noted, the mean difference between an individual's VA rating and VA combat-related rating was just over 15 percent in 2015, 20 percent when rounded to the nearest 10. As noted in Chapter Two, individuals who separate from service may later be reevaluated by the VA and qualify for CRSC or CRDP even if they did not qualify for these benefits at separation.

Table 4.2
Alternative 1b: Difference in Net Monthly Department of Defense Disability Benefit Between Alternative 1b and the Status Quo for More-Senior Personnel for Selected Department of Veterans Affairs Ratings, Grades, and Years of Service in 2019 Dollars, Assuming 30 Percent Department of Defense Rating Under Status Quo

		No CRSC			With CRSC		
Enlisted	**YOS**	**30%**	**70%**	**100%**	**30%**	**70%**	**100%**
E-5	8	(278)	0	0	(138)	83	0
E-6	12	(35)	0	0	9	44	0
E-7	19	0	0	0	0	0	0
E-8	23	0	0	0	0	0	0
E-9	27	0	0	0	0	0	0
Officer							
O-3	9	(392)	(375)	0	(252)	115	241
O-4	17	0	0	0	0	0	0
O-5	23	0	0	0	0	0	0
O-6	27	0	0	0	0	0	0
O-7	30	0	0	0	0	0	0

SOURCE: Authors' computations based on DoD compensation formulas using the 2019 pay table.

NOTES: The net DoD disability benefit is the gross monthly DoD benefit minus the VA benefit, after taxes. Tabulations assume member would receive a 30 percent DoD disability rating under the status quo and has no dependents, and that the combat portion on which CRSC is based is 20 points below the VA rating.

For example, for an E-5 with 8 YOS, a VA rating of 30 percent, and no CRSC, the monthly difference in the net DoD benefit relative to the status quo is –$278.

At higher assumed VA ratings, the change in the net DoD benefit is zero. This occurs because at higher VA ratings, the VA disability benefit is larger and can exceed the DoD benefit. Because there is a floor of $0, meaning that net DoD benefits (taking into account the offset for the VA benefit) cannot be negative, the net benefit is set to $0. When this occurs under both the status quo and Alternative 1b, the difference is zero. For example, at a 70 percent VA rating, the E-5 with 8 YOS would receive zero net benefit under the status quo and Alternative 1b, so the difference is zero.[10] For those higher grade-YOS combinations where the status quo DoD disability benefit is based on the legacy retirement formula in Table 2.1, the change in benefits under

[10] Computation of the net benefit under CRSC can be complex. See Appendix E for examples of the computation of the net DoD disability benefit for Alternative 1b.

Table 4.3
Alternative 1b: Difference in Net Monthly Department of Defense Disability Benefit Between Alternative 1b and the Status Quo for More-Senior Personnel for Selected Department of Veterans Affairs Ratings, Grades, and Years of Service in 2019 Dollars, Assuming 70 Percent Department of Defense Rating Under Status Quo

		No CRSC		With CRSC	
Enlisted	**YOS**	**70%**	**100%**	**70%**	**100%**
E-5	8	(673)	0	(59)	613
E-6	12	(1,047)	0	(168)	1,081
E-7	19	(871)	(212)	8	877
E-8	23	(598)	(598)	150	150
E-9	27	(213)	(213)	53	53
Officer					
O-3	9	(2,372)	(1,050)	(1,493)	332
O-4	17	(1,774)	(1,774)	(895)	(143)
O-5	23	(995)	(995)	(115)	249
O-6	27	(331)	(331)	83	83
O-7	30	0	0	0	0

SOURCE: Authors' computations based on compensation formulas using the 2019 pay table.

NOTES: The net DoD disability benefit is the gross monthly DoD benefit minus the VA benefit, after taxes. Tabulations assume member would receive a 70 percent DoD disability rating under the status quo and has no dependents, and that the combat portion on which CRSC is based is 20 points below the VA rating.

Alternative 1b is zero, since the DoD benefit under Alternative 1b is also based on the legacy retirement benefit.

In many cases, the difference in the net DoD benefit relative to the status quo is zero under CRSC as well, as shown in Table 4.2, though the difference is positive in some cases and negative in others. Recall that CRSC restores the portion of the VA offset to the DoD disability benefit that is combat related. Members must have at least a 10 percent VA rating, and CRSC is available to those with fewer than 20 YOS as well as those with more than 20 YOS. It is also nontaxable.[11] The CRSC amount could be zero if the deduction exceeds the offset amount that is combat related. For the purpose

[11] An important feature of CRSC is that the amount is capped, meaning that CRSC may not exceed the total amount that is offset from military retired pay, even if the DoD benefit is based on the rating formula under the status quo. As explained in Chapter Two, the cap means that CRSC is deducted by an amount equal to the difference in the rating formula and the retirement formula for computing the DoD disability benefit.

of the computations shown in this chapter, we assume that the combat-related portion of the VA rating is 20 percentage points below the full VA rating.

In Table 4.2, the difference in the net DoD monthly benefit including CRSC under the status quo relative to Alternative 1b is zero for grade-YOS combinations for which the status quo benefit is based on the retirement formula, such as the E-7s with 19 YOS or the O-4s with 17 YOS. This is because Alternative 1b is also based on the retirement formula, even including CRSC. The cases in which the change in the net benefit including CRSC is positive or negative in Table 4.2 are for the grade-YOS combinations for which the status quo DoD benefit is based on the rating formula, such as the E-5s with 8 YOS. For example, when the VA rating is 30 percent, the change in the net benefit including CRSC is negative for E-5s with 8 YOS, equal to –$138. When the VA rating is 70 percent, the change in the net benefit including CRSC is positive for the E-5 case in Table 4.2, equal to $83. Whether the change is positive or negative depends on the specifics of the CRSC and the net DoD benefit formula in the absence of CRSC under the status quo versus Alternative 1b and, importantly, how the cap on CRSC and the floor of $0 benefits affects the CRSC amount under the status quo versus the alternative.

Table 4.3 shows the net difference when we assume the DoD rating is 70 percent rather than 30 percent as in Table 4.2. The net DoD disability benefit when the member is not eligible for CRSC is generally negative, with the exception of O-7s with 30 YOS regardless of VA rating, and E-5s with 8 YOS and E-6s with 12 YOS with a VA rating of 100 percent. The final column of Table 2.1 provides insight into why this is the case—under the status quo, the DoD benefit is based on the rating formula rather than the retirement formula, with the exception of the O-7 case. Since the net benefit is based on the retirement formula under Alternative 1b, the difference in the net benefit is generally negative. In the case of E-5s and E-6s when the VA rating is 100 percent, the difference in the net benefit under Alternative 1b and the status quo system is zero because the net benefit is zero under both alternatives. When the VA rating is high relative to the DoD rating, as in these cases, the VA benefit exceeds the DoD benefit, so the net DoD benefit formula yields a negative amount. Because the $0 floor prevents negative benefit levels, the net benefit is zero under both alternatives.

For those eligible for CRSC in Table 4.3, adding CRSC increases the difference in the net DoD benefit under Alternative 1b relative to the difference without CRSC. In many cases, rather than a negative difference in the net benefit, as is the general case in the absence of CRSC, the difference becomes less negative or positive. As with the examples shown in Appendix E, the positive and negative differences in the "with CRSC" cases reflect the complexity of the formula, especially the role of the $0 floor and the retirement benefit cap for CRSC.

Discussion

The motivation for Alternative 1b is to allow junior members who would typically receive DoD disability compensation based on the rating formula under the status quo system to continue to do so, while setting DoD disability compensation for senior members based on the retirement formula, since these personnel would typically receive their benefit based on the retirement formula in any case under the status quo. This streamlines the IDES process for these members, whose benefits do not typically rely on ratings. However, using a different disability determination for junior and senior members could raise concerns that the IDES would no longer be perceived as treating all service members equally, something that DoD has prioritized in the design of the current system.[12]

Consistent with this logic, we generally find no change in the net DoD monthly disability benefit relative to the status quo under Alternative 1b when the DoD rating under the status quo is relatively low—for example, 30 percent—and assuming *junior* is defined as members up to five YOS. Alternative 1b would change compensation in those cases in which members were defined as senior, given our definition, but their DoD net benefit will still be based on rating under the status quo, as in the case of an E-5 with eight YOS and a 30 percent rating. On the other hand, when the DoD rating under the status quo is high—for example, 70 percent or higher—we generally find that net DoD benefits decline under Alternative 1b relative to the status quo. While CRSC benefits would offset this decline to some extent for those eligible for CRSC, we found that the net DoD benefit still declined in many cases. The reason for the decline is that when the DoD rating is high under the status quo, eliminating the rating and basing the DoD benefit on the retirement formula typically reduces the net benefit, except for the most-senior personnel, who would receive a higher benefit under the retirement formula than under the rating formula.

In short, eliminating the DoD rating for senior personnel under Alternative 1b will result in no change in the net DoD benefit (without CRSC) when the DoD rating is lower but will typically result in a drop in the net benefit when the DoD rating is higher. Importantly, as shown in Table 2.4, the most common DoD rating received by disability discharge is 70 percent. The table shows that about 40 percent of discharges received a 70 percent DoD rating, while only about 15 percent received a 30 percent rating. Consequently, a reduction in net DoD disability compensation under Alternative 1b relative to the status quo would be the more common case.

One way to mitigate the reductions in net DoD disability compensation under Alternative 1b is to expand the definition of *junior* so that fewer personnel would be considered senior and thus subject to a potential decline in net benefits. For example,

[12] For example, see DoDI 1332.18, 2014, front matter, paragraph 3.c: "The standards for all determinations related to disability evaluation will be consistently and equitably applied, in accordance with Reference (c), to all Service members, and be uniform within the components of the Military Departments."

under the assumption that those with five or fewer YOS are junior, the tabulations in Table 2.2 indicate that 38 percent would be considered junior while 62 percent would be considered senior. Alternatively, if the definition of *junior* were expanded, say to those with eight or fewer YOS, then 42 percent of disability discharges would be considered senior and fewer personnel would potentially experience a reduction in net benefits. The disadvantage of such an expansion is that it would reduce the opportunity for time savings associated with eliminating the rating relative to a sequential process, because fewer personnel would experience elimination of rating.

Alternative 2: Compensate for Military Career

Here, we summarize key findings for Alternatives 2a, 2b, and 2c:

1. Net monthly disability benefits are not uniformly higher or lower under this alternative than benefits under the status quo. Instead, whether net benefits improve depends in a complicated fashion on whether members would receive CRSC, their DoD rating, and their YOS. If they receive CRSC, the change in net benefits would also depend on VA rating.
2. Without CRSC:
    - Relative to the status quo, Alternative 2a is more generous than either Alternative 2b or Alternative 2c.
        - The net monthly DoD disability benefit tends to be higher than the status quo when DoD ratings are lower.
        - The net monthly DoD disability benefit tends to be lower than the status quo when DoD ratings are higher, except for members with 20 or more YOS.
    - Alternatives 2b and 2c (retirement formula based) are similar to each other and are less generous relative to the status quo than Alternative 2a.
        - The net monthly DoD disability benefit tends to be unchanged or lower under Alternatives 2b and 2c, regardless of DoD ratings.
3. With CRSC:
    - Under Alternative 2a:
        - When the DoD rating is lower, the net monthly DoD disability benefit tends to be higher than the status quo when the VA rating is lower; the net benefit tends to be lower when the VA rating is higher.
        - Higher DoD ratings tend to show increases in the net monthly DoD disability benefits compared with the status quo for members with more than 20 YOS. Otherwise the DoD disability benefit tends to show decreases.
    - Under both Alternatives 2b and 2c, lower VA ratings tend to show no change or decreases in net monthly DoD disability benefit relative to the status quo; higher VA ratings tend to show no change or increases.

4. In general, Alternative 2a increases compensation relative to the current disability system for members with lower DoD disability ratings and for members with 20 or more YOS who have higher DoD disability ratings and less than 100 percent VA disability ratings.

We consider three options for compensating for a military career in Alternative 2. Alternative 2a would compensate for the value of the lost military career as a result of the career being cut short because of an unfitting disability. Alternatives 2b and 2c would compensate discharged members based on the retirement formula, where 2b, unlike 2c, would set a floor of 12 YOS, thereby ensuring that members received a multiple of one year of basic pay (12 × monthly basic pay × YOS × retirement formula multiplier). The results presented here assume the legacy retirement formula, based on a multiplier of 2.5 percent.

For each option, the effects on compensation relative to the status quo would be mixed; some service members would see an increase in compensation, others would see a decrease, and others would see no change. In general, service members with higher ratings under the status quo—and thus more likely to use the ratings multiplier under the current system—would experience larger decreases in compensation under Alternative 2, particularly for Alternatives 2b and 2c. While Alternatives 2b and 2c use variations on the retirement formula, Alternative 2a bases compensation on a different concept—the value of a lost military career—and compensation tends to be the most generous under this option. In the absence of CRSC, the net DoD benefit relative to the status quo is at least as large under Alternative 2a as under 2b and 2c and uniformly positive for those with more than 20 YOS.

Tables 4.4 and 4.5 show the change in the net monthly DoD disability benefit assuming the DoD rating is 30 and 70 percent, respectively, for selected grade-YOS combinations and selected VA disability ratings.[13] For each grade-YOS combination, the tables show the change relative to the status quo for Alternatives 2a, 2b, and 2c. Alternative 2b in Tables 4.4 and 4.5 is identical to those in Tables 4.2 and 4.3 for Alternative 1b for the selected ratings and grades shown in those tables, given that Alternative 1b would base the DoD benefit on the retirement formula for more-senior personnel.

Discussion

Consider first the results for Alternative 2c in Tables 4.4 and 4.5. As noted in the preceding paragraph, the results for more-senior personnel (more than five YOS) are the same under Alternative 2c as under 1b. For more-junior personnel with five or fewer YOS and in the absence of CRSC, our results are similar to those cases under Alternative 1b in which the difference in the net DoD disability benefit relative to the status

[13] Tables showing the change in net DoD disability benefit for all VA disability ratings and all grade-YOS combinations are provided in Appendix F.

Table 4.4
Alternatives 2a, 2b, and 2c: Difference in Net Monthly Department of Defense Disability Benefit Between Each Alternative and the Status Quo for Selected Grade—Years of Service Combinations and Department of Veterans Affairs Ratings, Grades, and Years of Service in 2019 Dollars, Assuming 30 Percent Department of Defense Rating Under Status Quo

		No CRSC									With CRSC								
		2a			2b			2c			2a			2b			2c		
Enlisted	YOS	30%	70%	100%	30%	70%	100%	30%	70%	100%	30%	70%	100%	30%	70%	100%	30%	70%	100%
E-4	4	49	0	0	(30)	0	0	(270)	0	0	49	0	0	(30)	0	0	(130)	0	0
E-6	12	175	0	0	(35)	0	0	(35)	0	0	78	(218)	0	9	44	0	9	44	0
E-8	23	1,042	1,042	1,042	0	0	0	0	0	0	902	163	(261)	0	0	0	0	0	0
Officer																			
O-2	4	572	572	0	(77)	(73)	0	(823)	(73)	0	572	572	(466)	(77)	(73)	0	(683)	394	0
O-4	17	1,579	1,579	1,579	0	0	0	0	0	0	1,439	699	(53)	0	0	0	0	0	0
O-6	27	2,402	2,402	2,402	0	0	0	0	0	0	2,262	1,522	770	0	0	0	0	0	0

SOURCE: Authors' computations using data from DMDC: Retiree Pay file, ADM file, ADP file, DEERS; and VA: VTA data. Alternative 2a was estimated using the DRM.

NOTES: The net DoD disability benefit is the gross monthly DoD benefit minus the VA benefit, after taxes. Tabulations assume member would receive a 30 percent DoD disability rating under the status quo and has no dependents from the standpoint of computing VA disability benefits. They also assume the combat portion on which CRSC is based is 20 points below the VA rating. The table shows the total VA rating, so the combat portion would be 20 points less. Thus, if the VA rating is 30 percent, the combat portion is assumed to be 10 percent. DRM estimation for Alternative 2a uses the 2007 pay table, inflated to 2019 dollars. Analyses for Alternatives 2b and 2c use the 2019 pay table.

Table 4.5
Alternatives 2a, 2b, and 2c: Difference in Net Monthly Department of Defense Disability Benefit Between Each Alternative and the Status Quo for Selected Grade—Years of Service Combinations and Selected Department of Veterans Affairs Ratings, Grades, and Years of Service in 2019 Dollars, Assuming 70 Percent Department of Defense Rating Under Status Quo

		No CRSC						With CRSC					
		2a		2b		2c		2a		2b		2c	
Enlisted	YOS	70%	100%	70%	100%	70%	100%	70%	100%	70%	100%	70%	100%
E-4	4	(308)	0	(308)	0	(308)	0	(65)	157	(65)	157	(65)	157
E-6	12	(1,047)	0	(1,047)	0	(1,047)	0	(430)	1,081	(168)	1,081	(168)	1,081
E-8	23	444	444	(598)	(598)	(598)	(598)	313	(111)	150	150	150	150
Officer													
O-2	4	(1,022)	(344)	(1,667)	(344)	(1,667)	(344)	(1,022)	(344)	(1,667)	122	(1,200)	122
O-4	17	(195)	(195)	(1,774)	(1,774)	(1,774)	(1,774)	(195)	(195)	(895)	(143)	(895)	(143)
O-6	27	2070	2070	(331)	(331)	(331)	(331)	1605	853	83	83	83	83

SOURCE: Authors' computations using data from DMDC: Retiree Pay file, ADM file, ADP file, DEERS; and VA: VTA data. Alternative 2a was estimated using the DRM.

NOTES: The net DoD disability benefit is the gross monthly DoD benefit minus the VA benefit, after taxes. Tabulations assume member would receive a 70 percent DoD disability rating under the status quo and has no dependents from the standpoint of computing VA disability benefits. They also assume the combat portion on which CRSC is based is 20 points below the VA rating. The table shows the total VA rating, so the combat portion would be 20 points less. Thus, if the VA rating is 30 percent, the combat portion is assumed to be 10 percent. DRM estimation for Alternative 2a uses the 2007 pay table, inflated to 2019 dollars. Analyses for Alternatives 2b and 2c use the 2019 pay table.

quo is negative for lower VA ratings. This is because the Alternative 2c benefit is based on the retirement formula, rather than the DoD rating as under the status quo. For example, for an E-4 with four YOS and a VA rating of 30 percent in Table 4.4, the difference in the net monthly DoD benefit relative to the status quo is negative, –$270. At higher assumed VA ratings in both Tables 4.4 and 4.5, the change in the net benefit is zero for these more-junior personnel. Again, as with Alternative 1b, the VA disability benefit is larger, so the offset is larger, and it can exceed the DoD benefit, implying a zero net benefit for these junior personnel. In short, as in the results for Alternative 1b, in the absence of CRSC, members with a relatively low DoD rating would experience no change in net DoD benefits under Alternative 2c (except at lower VA ratings) but would typically experience a negative change in net monthly DoD benefits relative to the status quo at higher DoD ratings.

In the absence of CRSC, the results of Alternatives 2b and 2c are qualitatively similar when the DoD rating is relatively low and are identical when the DoD rating is high. This is unsurprising since the DoD disability benefit is based on the retirement formula for both Alternatives 2b and 2c, with the difference being that Alternative 2b sets a floor of 12 YOS in the formula. In cases in which the change in net benefits relative to the status quo is negative and the VA rating is low, the change in net benefits for Alternative 2b is typically less negative than the changes are for Alternative 2c because of the YOS floor under Alternative 2b. For example, when both the DoD and VA ratings are 30 percent for an O-2 with 4 YOS (see Table 4.4), the change in the monthly net DoD benefit relative to the status quo is –$823 for Alternative 2c but –$77 for Alternative 2b.

Table 4.5 shows results where we assume a DoD rating of 70 percent. In this case, the results for Alternatives 2b and 2c are always quantitatively identical for cases without CRSC. For example, the change in the net monthly DoD benefit relative to the status quo under both Alternatives 2b and 2c is –$308 for an E-4 with 4 YOS (without CRSC). The results are identical because the net DoD benefit is zero under a higher VA rating. Assuming the VA rating must be at least as large as the DoD rating, the $0 floor on the gross DoD benefit is binding regardless of whether the retirement formula has a floor of 12 YOS or not. Consequently, the change in net benefit is zero minus the net DoD benefit under the status quo. In the case of the E-4 with 4 YOS, the net benefit under the status quo is $308.

As in Alternative 1b, including CRSC benefits mitigates the combat-related portion of the VA offset. Consequently, when CRSC is included, the net DoD disability benefit for Alternatives 2b and 2c increases in general. Thus, the net benefit with CRSC usually exceeds the net benefit in the absence of CRSC. That said, for some cases in Tables 4.4 and 4.5, this is not true for reasons related to the cap and floor on CRSC benefits.

Alternatives 2b and 2c, as well as Alternative 1b, discussed earlier, base the DoD disability benefit on grade and YOS through the retirement formula and, consequently,

on career metrics that retrospectively reflect service to date provided by the member. In contrast, Alternative 2a bases the benefit on the prospective value of the loss faced by disabled members due to the premature end of their military career. As discussed earlier, this loss equals the expected value of staying in the AC net of the expected value of a civilian career, including both financial and nonfinancial factors. Furthermore, for those who are retirement eligible, the value of the lost career also includes the retirement benefit the individual would receive if he or she leaves service prematurely.

Because of the different emphasis on prospective loss versus retrospective service, the results for the net monthly DoD benefit under Alternative 2a and the change in net benefits relative to the status quo often differ markedly from the results for Alternatives 2b and 2c. Further, the differences in the results for Alternative 2b and 2c depend on whether the member is retirement eligible—that is, has at least 20 YOS. For Alternatives 2b and 2c, the DoD disability benefit is computed using the retired pay formula and retired pay increases with YOS at the time of discharge. In contrast, the value of a lost career under Alternative 2a drops after 20 YOS, as shown in Figure 4.2. After 20 YOS, the member qualifies for retirement benefits regardless of whether he or she remains in the military, meaning the difference between the prospective military career after 20 YOS and the civilian-only career is lower. Before 20 YOS, members whose careers are cut short forgo the opportunity to qualify for regular or reserve retirement benefits.

In general, relative to the status quo, the change in the net DoD disability benefit (without CRSC) under Alternative 2a is at least as large as the change in the net benefit under Alternatives 2b and 2c. Furthermore, relative to the status quo, the net DoD benefit is positive for members with 20 or more YOS under Alternative 2a versus Alternatives 2b and 2c when it is typically zero or negative.

In particular, consider those with fewer than 20 YOS. When the DoD rating is 30 percent, the change in the net DoD disability benefit is often positive under Alternative 2a but zero or negative under Alternatives 2b and 2c. (The exception is for junior enlisted members; the net benefit for them is zero under all three alternatives, so the change in the net benefit is the same as and equal to the net benefit under the status quo.) For example, an E-6 with 12 YOS and a VA rating of 30 percent would receive a change in monthly net DoD benefit of $175 under Alternative 2a versus –$35 under Alternatives 2b and 2c.

When the DoD disability rating is equal to 70 percent and YOS are fewer than 20, however, the change in the monthly net DoD disability benefit relative to the status quo is generally negative and equal under all three alternatives for enlisted personnel (except E-7s with 19 YOS, shown in Appendix F). For example, for an E-6 with 12 YOS and a VA rating of 70 percent, the difference in the monthly net DoD benefit relative to the status quo would be –$1,047 under all three alternatives. For officers with fewer than 20 YOS, the change in the monthly net DoD disability is also generally negative under all three alternatives, but less negative under Alternative 2a.

For example, for an O-2 with 4 YOS and a VA rating of 70 percent, the change in the monthly net benefit is –$1,022 under Alternative 2a but –$1,667 under Alternatives 2b and 2c. In short, the difference in net benefit is equal or greater (that is, closer to zero) under Alternative 2a versus the other two alternatives for those who are not retirement eligible.

Now consider those with at least 20 YOS. When the DoD rating is 30 percent, the change in the net DoD benefit relative to the status quo is zero (without CRSC) under Alternatives 2b and 2c but positive under Alternative 2a. For example, for an E-8 with 23 YOS and a 30 percent VA rating, the change in monthly net DoD benefit under Alternative 2a is $1,042 but zero for the other two alternatives. When the DoD rating is 70 percent (Table 4.5), the change in net benefit is negative for Alternatives 2b and 2c but positive under Alternative 2a. For example, for an E-8 with 23 YOS and a 70 percent VA rating, the change in the monthly net benefit is –$598 under Alternatives 2b and 2c but $444 under Alternative 2a.

To sum up, of the three alternatives based on career measures, Alternative 2a, based on the value of a lost military career, is the most generous. This makes sense, as the calculation of the value of a lost career is forward looking and takes into account that the individual would have been likely to advance in grade and accumulate more YOS had the disability not been incurred and perhaps might have become vested in the military retirement system if the individual were not vested already. Alternatives 2b and 2c, in contrast, are backward looking, applying the military retirement system formula to the highest three years of basic pay and the YOS of the member at the time the member leaves service. As a result, the change in the net benefit under Alternative 2a in the absence of CRSC is at least as generous as under Alternatives 2b and 2c and compares favorably to the status quo for members with 20 or more YOS.

Alternative 3: Compensate for Unfitting Conditions

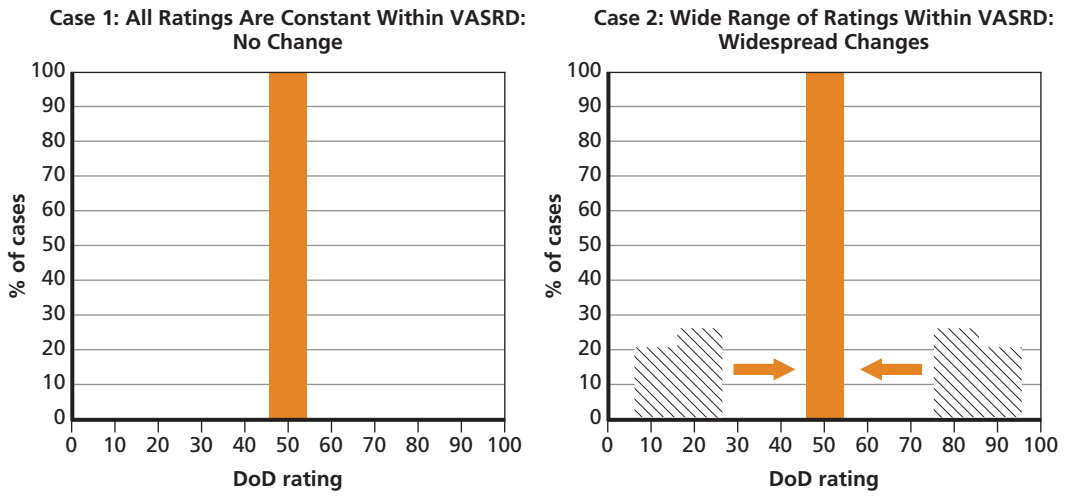
We summarize key findings for Alternative 3:

1. Compensating on the basis of unfitting conditions, where a fixed payment is associated with each condition (VASRD code), is feasible but not necessarily desirable because it does not account for the severity of the unfitting condition.
   - U.S. allies who compensate for specific conditions rely on fixed payment schedules that do include measures of severity associated within each condition.
2. While most of the variation in DoD ratings (62 percent) is explained by differences between different VASRD codes and not by differences in severity within a given condition, a significant percentage (38 percent) of the variation is explained by differences in ratings within VASRD codes. As a result, setting one payment level for each condition would result in some members experiencing larger or smaller benefits compared with what they receive under the status quo.

3. Under the example approach we examine, those with the highest ratings would see the greatest decline—most cases with a 100 percent DoD rating would receive payments consistent with the level of payment currently given to service members with a rating of 60 percent or lower under Alternative 3. Put differently, those who have the most severe disabilities would experience the largest drop in compensation relative to the status quo.

In implementing a fixed payment approach, the number of service members who would experience changes in benefits depends on the extent of variation in payments within a given condition under the status quo. Our example approach supposes that a fixed rating was assigned to each condition, and the rating could then be mapped onto any number of possible payment schedules. Because current disability benefits vary with ratings, we examine the extent of variation in ratings within a given condition to understand how compensation could change under a fixed payment method. Figure 4.3 illustrates two examples. Suppose that the decision was made to fix the rating (and thus the payment) for a given condition at 50 percent. If every case for a condition had severity that would be consistent with a rating of 50 percent, then there would be a way to assign one rating to the condition without changes relative to the rating that would have been received under the status quo system. This is shown in Case 1. On the other end of the spectrum, Case 2 in Figure 4.3 shows an example in which there is a large spread of severity within a condition, represented by a large range in ratings. In this case, service members could see increases or decreases in benefits relative to the status quo depending on whether the severity of their condition—and thus, the hypothetical

Figure 4.3
Two Hypothetical Cases of How Ratings Might Vary for a Given Condition



NOTE: These are hypothetical examples.

rating under the status quo (e.g., 20 or 70 percent)—would result in a benefit higher or lower than the fixed payment for that condition.

For this analysis, we define conditions based on VASRD codes, as used under the status quo, although the number of conditions in the payment schedule will determine the complexity of the system. For example, in the VTA data used for this analysis, we identified 716 different VASRD codes; the VASRD codebook contains thousands of codes. Thus, if VASRD codes were to be used to define conditions, a fixed payment would need to be set for each of these conditions, and the medical evaluation would have to carefully match each unfitting condition to one of these many options, each of which could be associated with a different payment for the service member.

If a different system with fewer conditions were used instead, there would be fewer fixed payments to assign (and possibly update over time). However, the cost of a payment schedule with fewer conditions is that a wider range of severity—and thus more variation in ratings—would be covered by each condition in the system. In other words, a payment schedule with fewer conditions would likely include more variation within each condition that would be removed in a fixed payment approach, as shown in the right panel of Figure 4.3. This could create challenges in deciding what fixed payment would be adequate or most fair to compensate the majority of service members with the condition. However, if, in practice, ratings do not vary significantly within a given condition, then it could be more feasible to establish a fixed payment system with fewer conditions. However, any shift from using the VASRD to assign conditions would also require legislative changes.

We use an analysis-of-variance technique to summarize the extent to which ratings vary within conditions rather than between conditions. We defined conditions based on all 716 VASRD codes that appeared in our sample. We ran similar models for coarser groupings of VASRD codes, including 52 body part/type of condition categories and 16 body systems. Our results, shown in Table 4.6, indicate that 62 percent of the variation in DoD ratings is explained by differences between different VASRD codes; 38 percent of the variation is explained by differences in ratings within VASRD codes. The coarser groupings of ratings each explain about 10 percentage points less of the variation in DoD ratings. These estimates suggest that there is a meaningful amount of variation in ratings within a given VASRD. While it may be more feasible to define conditions using a smaller set of conditions (e.g., system or body part), this would lead to more variation in ratings within a defined condition.

Next, we explore how to set the fixed rate for each condition in our example approach. We explore three different levels of rating that could be used to set the payment level. The rating could be set based on mean rating observed within a given condition, the median rating within a given condition, or the eightieth percentile rating within a given condition. Figure 4.4 shows a comparison of the current distribution of ratings with the distribution of ratings that would be used to determine the payment amount for these three options.

Table 4.6
Variation in Ratings Between and Within Conditions

Level of Detail for Conditions	Number of Categories Included	Variation Between Conditions (%)	Variation Within Conditions (%)
Body system	16	42%	58%
Body parts or types of conditions	52	52%	48%
Conditions (full VASRD codes)	716	62%	38%

SOURCE: Authors' computations based on data from the VTA, 2012–2018.

NOTES: "Variation Between Conditions" is the proportion of the variation in ratings, estimated as the *R*-squared of a linear regression of DoD ratings on a set of indicator variables for the categories of conditions listed in the first column ("Level of Detail for Conditions"). Variation within conditions is estimated as 1 minus *R*-squared.

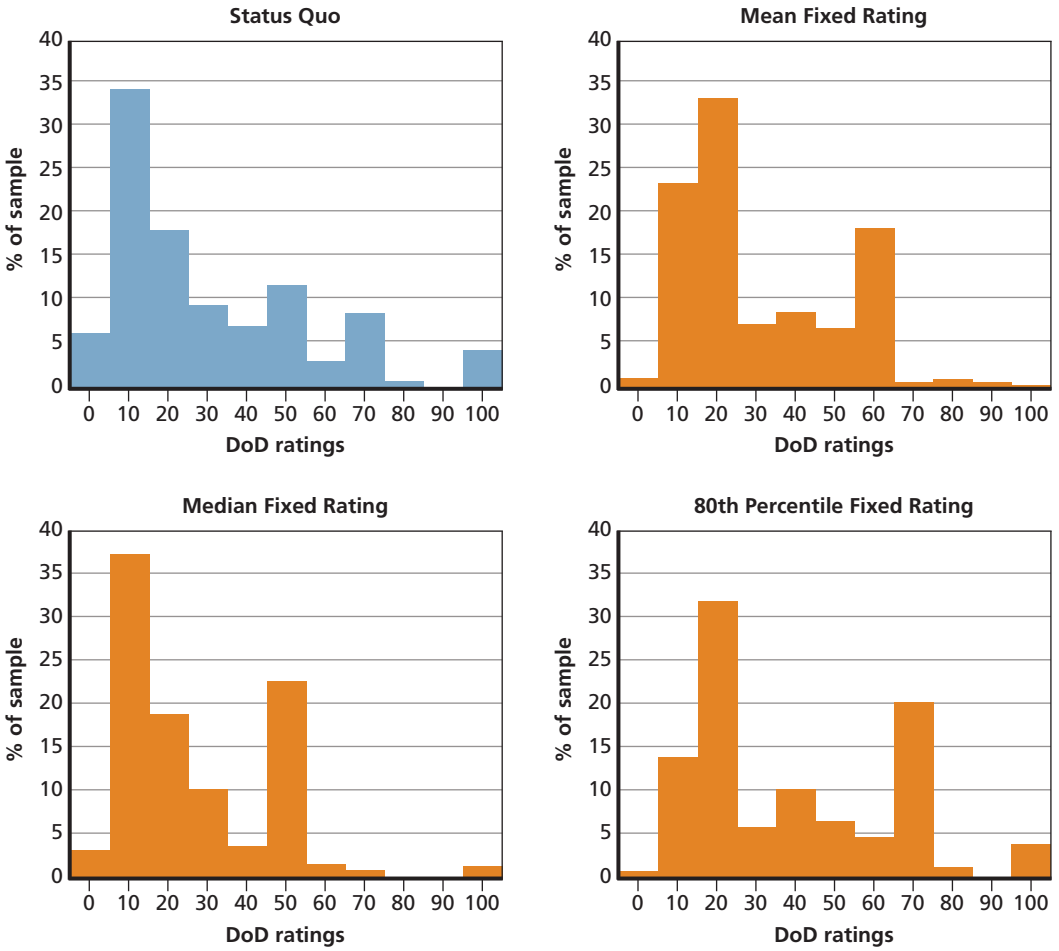
Under the status quo, depicted in the top left panel, the average rating for service members in our single-condition sample is about 30. However, the distribution of ratings is quite skewed. Over half the ratings are between 0 and 20; a smaller number of more severe, higher-rated cases are spread across the range of possible ratings; and around 3 percent of single-impairment cases receive a rating of 100.

A fixed payment schedule that determines the payment based on the average rating within a given condition will necessarily pull the distribution of ratings toward the center. Compared with the status quo, the mean fixed-rate policy (upper right panel) would make multipliers of 70 or above very rare while also increasing ratings for cases that are currently rated zero. Whereas the most common rating under the status quo is 10 percent, 20 percent would become the most common rating under mean fixed rate. Effects of the median fixed-rate policy (lower left panel) would be broadly similar, but lower ratings would be more common. While approximately 17 percent of members would receive a 60 percent multiplier based on a fixed multiplier set at the mean rating within a condition, 23 percent would instead receive a 50 percent rating under an approach setting the multiplier at the median rating within a given condition.

The lower right panel shows the impact of setting the multiplier at the eightieth percentile of the rating distribution within a condition. While many ratings below 20 percent remain, nearly 20 percent of service members would receive a 70 percent multiplier under this option.

Figure 4.5 summarizes the implications of this change in terms of the number of service members who would experience higher or lower ratings under this fixed-rate approach relative to the status quo. The figure presents a weighted scatter plot comparing ratings under a mean fixed-rate policy (the *y* axis) with ratings under the status quo (the *x* axis). The circles are proportional to the number of service members in our single-condition sample who are located at each point. Dots that fall on the 45-degree line, which is indicated by the dashed line, represent service members whose rating

Figure 4.4
Distribution of Department of Defense Ratings Under Status Quo and Various Fixed Payment Schedules

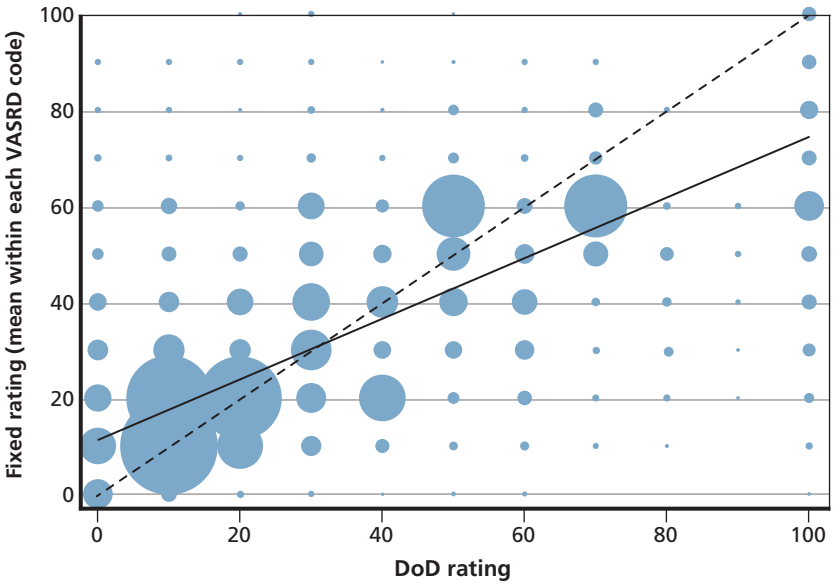


SOURCE: Authors' computations based on data from the VTA, 2012–2018.

NOTES: Each panel shows the distribution of DoD ratings of service members in the IDES. The upper left corner shows the distribution under the status quo, and the other panels show the distribution under scenarios where all service members receive the mean, median or 80th percentile rating in the current distribution of ratings for their rated condition.

would be identical to their rating under the status quo. Dots above the 45-degree line represent service members who would experience increases in benefits under mean fixed rate, while dots below the 45-degree line represent service members who would have lower benefits under mean fixed rate than under the status quo. The solid line represents a (least-squares regression) line of best fit illustrating the overall relationship between status quo ratings and mean fixed-rate multipliers.

Figure 4.5
A Comparison of Department of Defense Rating and Fixed Rating



SOURCE: Authors' computations based on data from the VTA, 2012–2018.

NOTES: This figure compares service members' DoD rating assigned under the status quo with the fixed rating that a member would receive if each member instead received the mean rating in the current distribution of ratings for their condition. Dots above the 45-degree line shown in gray dashes indicate that the fixed rating would yield a higher rating than the status quo; dots below the 45-degree line indicate that the fixed rating would yield a lower rating than the status quo.

In general, the scatter plot and the line of best fit confirm what Figure 4.4 suggested—namely, that service members with low ratings will see higher benefits under a mean fixed-rate approach, while service members with high ratings will see lower benefits under fixed rate, on average. Many service members with lower ratings in the 10 percent to 20 percent range will not experience a change, as indicated by the two large dots on the 45-degree line. Among service members who currently receive ratings of 50 percent or 70 percent, the most common rating used to determine the payment under mean fixed rate will be 60 percent, representing increases in ratings for the former and decreases for the latter. Notably, the most common mean fixed-rate rating among service members who currently receive a rating of 100 percent will also be 60 percent. At most levels of ratings, at least some service members will receive much higher or much lower benefits relative to their ratings under the status quo, though relatively few service members with status quo ratings below 100 percent will receive ratings above 60.

Table 4.7 summarizes the information contained in Figure 4.5 for mean fixed rate and reports comparable statistics for the median and eightieth percentile fixed-rate

Table 4.7
Increases and Decreases in Ratings Under Various Fixed Rating Options

	Mean Rating	Median Rating	80th Percentile Rating
% with an increase in rating	35.6	19.0	49.5
% with increase in rating (strictly > 10%)	9.5	7.8	31.3
Average change in rating for those with any increase	15.0	17.0	22.0
% with decrease in rating	26.3	27.9	8.1
% with decrease in rating (strictly > 10%)	12.0	19.7	5.5
Average change in rating for those with any decrease	–18.0	–22.0	–22.0
N	59,170	59,170	59,170

SOURCE: Authors' computations based on data from the VTA, 2012–2018.

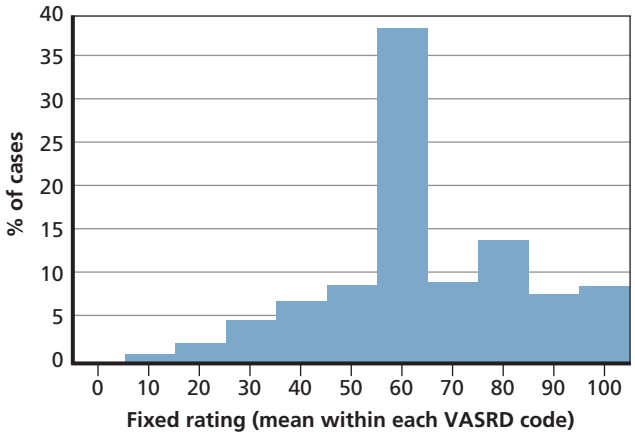
options. A mean fixed-rate system would result in higher benefits for 35.6 percent of service members with a single rated condition and lower benefits for 26.3 percent of service members with a single rated condition. As suggested by Figure 4.5, the reductions in multipliers for those experiencing reductions would be somewhat larger on average (an 18-percentage-point reduction) than the increases for those experiencing increases (a 15-percentage-point increase).[14]

Policymakers may be particularly concerned about the impact of changes in benefits for the most severely disabled service members. To examine these impacts more directly, Figure 4.6 shows the distribution of multipliers that would be assigned to service members with a 100 percent DoD rating under the status quo. As discussed earlier, these service members would see substantial reductions under a mean fixed-rate option, with over one-third of these service members seeing their multiplier reduced from 100 to 60. Figure 4.6 illustrates one of the major trade-offs that would be involved in a fixed-rate system: The major pitfall of the mean fixed-rate option is that it effectively discards information about severity that is generated under the status quo.

These analyses present one example of an approach that assigns one payment to each condition. Unfitting conditions could be defined using the VASRD, as other methods for determining unfitting conditions would require significant changes to legislation. The fixed-rate approach will increase or decrease compensation depending

[14] We also analyzed three specific conditions that appeared among the top ten most common unfitting conditions for service members with a single condition. These three conditions are posttraumatic stress disorder (PTSD), back pain, and asthma. Tables with detailed results for each of these conditions are presented in Appendix C.

Figure 4.6
Distribution of Ratings Under Fixed Rating Approach for Members Who Have a 100 Percent Department of Defense Rating Under the Status Quo



SOURCE: Authors' computations based on data from the VTA, 2012–2018.

NOTES: This figure shows the distribution of hypothetical ratings that members would receive if they were assigned the mean ratings for their condition. Sample restricted to members who have current ratings of 100 percent—meaning that many cases would see decreases in their rating in this hypothetical scenario.

on whether the fixed rating for a service member's condition is higher or lower than the rating the member would receive under the status quo. Many other methods could be used to assign a fixed payment to each condition. However, all methods face similar trade-offs, as highlighted in this example. First, if the full schedule contains fewer conditions, there will be more variability in severity within each condition that could be overlooked. While differences in VASRD codes account for the majority of variation in DoD ratings, a substantial percentage (38 percent) is explained by differences in severity within VASRD codes. Second, because of the underlying variation in severity, any level of fixed payment could result in higher or lower benefits for some members relative to the status quo. The alternative we construct shows regression to the mean, with those with the lowest ratings under the current system getting higher ratings under this alternative, and those with the highest ratings under the current system receiving lower ratings. Those affected most severely by disability would see the greatest decline in disability rating.

To sum up, Alternative 3 demonstrates that a fixed-rate approach to compensation, where a single payment is associated with each condition, is feasible. But such an approach is not necessarily desirable because it ignores severity. Although several U.S. allies have systems that compensate based on condition that bear a prima facie resemblance to Alternative 3, under closer examination one finds that these U.S. allies segment conditions based on severity.

Alternative 4: Compensate Like U.S. Allies

We summarize key findings for Alternative 4:

1. As a hybrid of Alternatives 2 and 3, with one payment to compensate for the loss of a military career (Alternative 2a) and a payment based on unfitting condition (Alternative 3), benefits could increase or decrease relative to the status quo, depending on whether benefits increase or decrease (and by how much) under Alternatives 2a and 3.
2. Alternative 4 and the systems used by U.S. allies differ in important ways:
   - U.S. allies compensate disability based on both condition and severity, as opposed to condition alone, as under Alternative 3.
3. It is unlikely that Alternative 4 would be an improvement over the current system and may add cost because of its potential complexity.

The results for Alternative 4 vary depending on whether benefits would increase or decrease under both Alternatives 2a and 3. If service members would receive higher benefits under both Alternatives 2a and 3 compared with the status quo, then it is safe to say that benefits would also increase under Alternative 4. If benefits increase under Alternative 2a or 3 and decrease under the other alternative, then benefits may increase or decrease depending on the relative change under each system. And finally, even if benefits decrease relative to the status quo under both Alternative 2a and Alternative 3, it is possible that the combination of the two benefits would still exceed benefits under the status quo. On the other hand, if benefits decrease substantially under both alternatives, then the combination could still fall under Alternative 4.

Discussion

There are important differences between the U.S. system and the systems in the U.S. allies we examined and the broader context in which this compensation is offered. First, the schedules of impairments used to determine the payment for disability in the disability systems of U.S. allies typically consider severity of disability, unlike Alternative 3.[15] If, instead, the payment for disability were based on the approach described under Alternative 3, members could receive increases or decreases in benefits that may compound—or offset—any potential change in benefit associated with the portion of the benefit based on the lost career.

Second, the U.S. allies we considered have national health care systems, which could streamline the amount of documentation required for medical evaluations if medical records are already centralized. As a result, disability evaluation processing times in these U.S. allies may be shorter than in the United States, even when consid-

[15] See, for example, the Armed Forces Compensation Scheme (AFCS) in the United Kingdom, Pain and Suffering Compensation in Canada, and Permanent Impairment Compensation in Australia. All of these compensation schemes are discussed in Appendix A.

ering severity of the disability. In short, with this dual system of both career metrics and condition fixed rates that also consider severity, it seems unlikely that Alternative 4 would be an improvement over the current system and may add cost due to potential complexity.

Summary

This chapter provides an assessment of four alternatives to the current DoD disability compensation system, all four of which would eliminate rating during the IDES process, thereby reducing IDES processing times and increasing the share of end strength that is deployable. Figure 4.7 summarizes the effects on compensation under each alternative.

Alternative 1a would result in no change in net DoD disability compensation for service members, unlike the other alternatives we considered. Furthermore, Alternative 1a would address concerns about the period between separation from service and receipt of disability benefits by offering a limited-duration monthly transition benefit to separating service members during this period. That said, the transition payment could increase DoD costs if the services restore end strength with deployable service members. Alternative 1b would only reduce processing times relative to a sequential process for the portion of the force that is considered "senior" and would receive DoD

Figure 4.7
Summary of Changes to Department of Defense Disability Compensation Under Alternatives

Compensation objective	Change in disability benefits relative to status quo	Notes
Alternative 1a Compensate based on current objectives	↔	No change in disability benefits but total cost increases due to transition benefit if end strength is maintained
Alternative 1b Compensate based on current objectives	↔↓	• No change for junior or for senior members whose current benefit is based on retirement • Decline for senior members whose current benefit is based on ratings
Alternative 2 (a–c) Compensate for military career	↓↑	Benefits increase for some, decrease for others, depending on rating under current system, grade, and years of service
Alternative 3 Compensate for unfitting conditions	↓↑	Benefits depend on fixed payment amount: could increase for those with lower payments and fall for those with higher payments under status quo
Alternative 4 Compensate like U.S. allies	↓↑	Hybrid of Alternatives 2 and 3: results vary depending on size of fixed payment

disability compensation based on career metrics rather than rating. Senior service members with high disability ratings could experience a decrease in benefits under the status quo under Alternative 1b, while others would not see a change in their benefits.

Under all three variants of Alternative 2, we found that some members would experience a gain in net DoD disability benefits compared with the status quo, some would experience lower net benefits, and for some, net DoD disability benefits would remain unchanged. Benefits tend to be highest under Alternative 2a, particularly for more-junior service members.

A key finding regarding Alternatives 2 and 3 is that those members who would experience lower net DoD disability benefits relative to the status quo would typically be members with more severe disabilities, as measured by their DoD rating under the current system. In the case of Alternative 3, different designs that assign higher ratings to each condition (such as the eightieth percentile option analyzed in Table 4.7) would lead to smaller reductions in ratings but would also be more expensive since all service members with a given condition would receive higher ratings and thus higher amounts of disability retirement pay. Furthermore, Alternative 3 would require legislative and policy changes and an entirely new schedule for compensation, which would present significant challenges if DoD were to move in the direction of a fixed-rate system. The results for Alternative 4 depend on the combination of results from Alternatives 2 and 3, and thus would likely involve challenges of decreases in benefits for some members and would require legislative changes.

CHAPTER FIVE

Implications of a Fitness-for-Duty Evaluation System on Processing Time, End Strength, and Human Capital Loss

As mentioned in the introduction, service members in the IDES represent about 1 percent of overall end strength. If the length of the evaluation process were reduced, fewer members would be in the IDES, and these nondeployable members could be replaced with members who are deployable, thereby increasing overall deployable end strength. At the same time, it is important to consider what types of human capital would be lost, and whether there would be higher costs to replace the lost skill set from service members exiting via IDES at an accelerated pace.[1]

In this chapter, we present an estimate of the change in end strength. We then consider alternative compensation policies that might be used to restore end strength by replacing the nondeployable members with deployable ones. The policies include an across-the-board pay raise, reenlistment bonuses, and increased recruiting and training resources. In addition, we provide cost estimates of these alternative policies.

We find that removing ratings would reduce the length of the IDES process relative to a sequential process by approximately 29 days on average, a reduction of approximately 13 percent. However, there is also substantial variation in how long the ratings step in the IDES takes, and 10 percent of cases had the ratings step lasting more than 61 days. So eliminating ratings from the process would also reduce some variability in the duration of the IDES and could reduce some of the cases with substantially longer durations. The reduction in the variability of the process could improve processing times in both a parallel and sequential process.

To examine the loss of human capital and the cost of restoring end strength, we first document that most members in the IDES are junior Army enlisted personnel, consistent with the discussion in prior chapters. The most common occupation among these personnel is 11B infantry soldiers, and so we focus our analysis on this Army enlisted occupation. We consider the relative cost effectiveness of replacing end strength by increasing retention (via bonuses or a pay raise) or increasing accessions

[1] The process, regardless of which one, should have little to no impact on the types of human capital lost. External factors occurring prior to referral into the process are the primary contributors to the type of human capital lost. The process only evaluates, it doesn't discriminate against one MOS versus another.

(and increasing recruiting and training costs). We find that increasing accessions is more cost effective than either policy to increase retention for 11B soldiers in the Army, and that bonuses are generally more cost effective than an across-the-board pay raise. Because average YOS and duration of initial training are relatively low for 11B soldiers in the Army, the cost of replacing lost human capital by training new recruits would be relatively low.

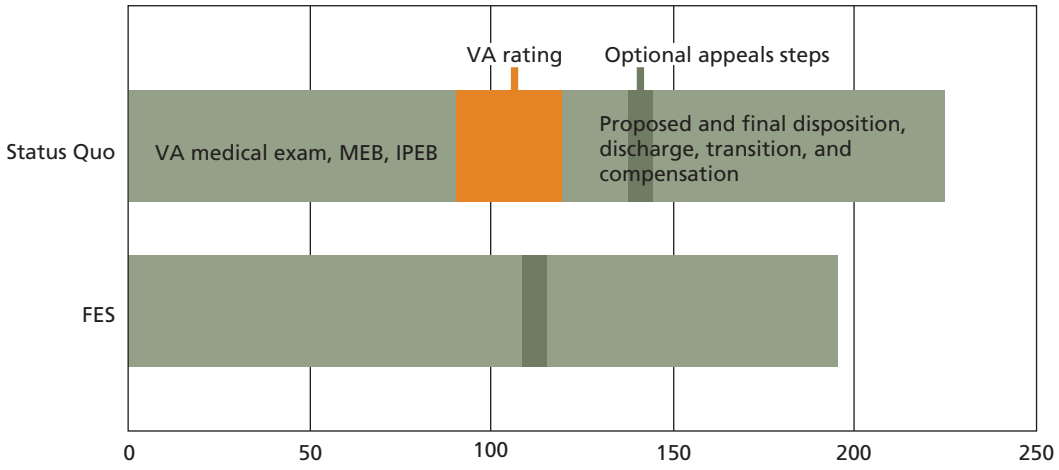
Processing Times and End Strength

To estimate the reduction in IDES processing time under a FES, we used VTA data to compute the mean number of days in the IDES for those referred to the IDES in 2018 and who completed the process. The upper bar in Figure 5.1, labeled "status quo," shows the mean number of days in the IDES, with the rating step highlighted in orange and the appeals steps highlighted in darker green. We find that the IDES required 224 days on average to complete for those entering it in 2018, including appeals. Without appeals, the process averaged 214 days. The rating step required about 29 days on average, or about 13.5 percent of the total (without appeals).

We rely on data from 2018 to observe a full cohort of referrals who enter and complete the process. However, not all of the 2019 referral cohort had completed the process by the time the data were pulled and analyses conducted, meaning there is a risk of excluding some claims that take a long time to resolve from the analysis, which could understate the estimated time savings. Furthermore, IDES durations in the 2020 referral cohort (and, to some extent, referrals in late 2019 as well) have increased significantly because of delays in obtaining medical exams during the coronavirus pandemic. As a result, data from 2018 present the most recent year where we can observe a complete cohort of referrals from the time they enter the process until discharge. With the exception of the ratings step (which changes under the parallel ratings process), the durations of other stages in 2018 are broadly consistent with the durations we observe for the cases that were completed in 2019.

The introduction of parallel ratings in 2020 changed the extent to which ratings increase the length of the IDES process, since ratings occur simultaneously with the PEB stage. Because the parallel ratings process is so new, a thorough analysis of the effects of parallel ratings has yet to be completed. The introduction of parallel ratings also coincided with the onset of the coronavirus pandemic, which complicates any assessment of their effects on the process separately from the effects of the pandemic. Still, some preliminary tabulations from the last quarter of 2020, after the initial closures of the pandemic, suggest that parallel ratings have decreased the length of the process, as noted in Chapter One. Reassuringly, this decline in the duration process is similar to our estimates of what the decline in the process would be if the ratings step were removed, as discussed next. As more data become available, a complete analysis of the effect of parallel ratings needs to be done.

Figure 5.1
Mean Duration of the Disability Evaluation Process in Days



SOURCE: Authors' computations using VTA data for personnel referred to IDES in 2018 and who completed the IDES process.

Under a fitness-for-duty approach, the ratings step in the process would be eliminated or it would occur after separation. The lower bar in Figure 5.1, labeled "FES," shows the mean duration of the IDES if the ratings step were eliminated. We estimate that the duration would fall from 224 to 194 days on average with appeals, and from 214 to 185 days on average without appeals, or about 13.5 percent. Note that we assume the medical exam, MEB, and PEB stages would remain unchanged for the purposes of these computations. If these steps were instead shortened or consolidated under a fitness-for-duty approach, there may be additional savings beyond what we estimate here.

Eliminating the ratings step would shorten the process so that at any point in time fewer service members would be in the IDES. Two key questions are: How many fewer service members are in the IDES under a FES approach? and What would the cost be to replace these members if the IDES were shortened? We use service-specific models[2] of the number of members in the IDES separately by service and separately for enlisted personnel and officers, focusing on active-duty personnel.

To estimate the reduction in active-duty members in the IDES, we first counted the number of cases in the IDES on September 30, 2018, for enlisted and for officers in each service.[3] We then computed the percentage change in mean days in the IDES if the rating step were removed and multiplied that percentage with the counts of mem-

[2] The models and costing are described later in the chapter.

[3] Note that we use the number of members in the IDES at a given point in time in 2018 (a stock) instead of the number of cases referred to the IDES in 2018 (a flow), as the stock in the IDES is the germane statistic for computing the change in end strength.

bers in the IDES. Table 5.1 shows that the percentage reduction in force size under a FES varies across service and for active-duty enlisted and officers.

For example, for Army enlisted personnel, we estimate that the reduction would be 0.2 percent of Army enlisted strength (last row on Table 5.1). Recall that across the force, people in the IDES were about 1 percent of the force, and the Army comprises the majority of people in the IDES, so this 0.2 percent is a meaningful change relative to the share of the force in the IDES. We estimate that the reduction in personnel would be 0.1 percent of enlisted strength in the other services and between 0.02 and 0.1 percent of officers in each of the services.

Importantly, this drop is among people who are deemed nondeployable. Assuming the Army or any of the other services would want to maintain end strength, these nondeployable service members could be replaced with deployable members, either by enlisting more individuals or by retaining service members who are deployable. However, increasing accessions or retention comes at a cost. We consider alternative policies and their cost later in this chapter.

Our preferred statistics consider the average duration of the ratings step as the primary measure of how the length of the process would change. However, for a more complete consideration of how the process would change, we also consider the full distribution of the duration of the ratings step. Based on the VTA data for 2018, we estimate that the standard deviation of the duration of the ratings step is approximately 25 days, meaning there is significant variability in how long the ratings step takes for different service members.

For 25 percent of service members referred to the IDES in 2018, the ratings step took 40 days or longer, and for 10 percent of service members, it took 61 days or longer to receive a rating. Overall, the standard deviation of individual service members' dura-

Table 5.1
Estimated Reduction in 2018 Active-Duty Strength Under a Fitness-for-Duty Evaluation System Approach, by Service

	Enlisted				Officer			
	Army	Navy	Marine Corps	Air Force	Army	Navy	Marine Corps	Air Force
Status quo count of personnel in the IDES	6,443	2,032	1,738	1,429	613	160	61	188
Percentage reduction under a FES	12.2	8.2	11.4	13.0	13.1	8.2	14.6	15.9
Estimated reduction in count in the IDES under a FES	784	166	198	185	80	13	9	30
Percentage change in 2018 end strength	0.2	0.1	0.1	0.1	0.1	0.02	0.05	0.05

SOURCE: Author's computations using VTA data, 2018.

tion in the IDES is 78 days. If ratings were removed, the standard deviation falls to 72 days. Thus, removing ratings from the process could reduce approximately 8 percent of the variability in the IDES process. Even in a system with parallel ratings, this variability in the ratings process will remain. Ratings could still contribute to the duration of the process in cases in which the ratings process takes an unexpectedly long time and may exceed the duration of the PEB stage. As a result, eliminating ratings altogether could reduce the variability of the IDES process in both sequential and parallel processes.

Human Capital Loss

The reduction in end strength that would occur if IDES processing time were reduced under a FES could represent a loss of human capital to the military if the accelerated exit from service (via either disability retirement or separation) resulted in a loss of training and experience.[4] The human capital lost can be thought of as having two components. The first component is general human capital pertaining to characteristics that are transferable outside the military, such as knowing how to take orders, give orders, collaborate, and act alone. We approximate general human capital by considering the rank and experience level (i.e., YOS) of those who are discharged because of unfitting conditions, though arguably these characteristics reflect both military-specific knowledge and general human capital accumulation.

The second component is military-specific human capital that pertains to an (sometimes highly specialized) area of endeavor, or occupation, such as flying high-performance aircraft, performing the duties of an infantryman, or being a quartermaster. Our analysis approximates specific human capital by considering the military occupation of those discharged from the IDES, though we recognize that some or all of the training in military occupations is general training in the sense that it is transferable to other occupations, including those in the civilian labor market.

We note that this analysis assumes that human capital loss occurs when a member with one or more unfitting conditions exits the IDES and the military permanently, and the acceleration of the process under a FES would result in an increase in the rate of human capital loss. That said, such an acceleration could also speed up the rate at which fit members are returned to service, representing a gain in human capital compared with the current system. Given the small percentage of members who enter the IDES and are later found fit (U.S. Army, 2019), we do not examine this small countervailing effect.[5] In addition, there is an avenue for reclaiming some of this otherwise lost

[4] Service members who have been found unfit can be retained at a service secretary's discretion. If unfit members fill a role or have special knowledge that cannot be replaced, military departments can retain them. Thus, a change in processing time would not result in an accelerated loss of human capital in these cases.

[5] Our assessment of the human capital loss rests on the assumption that the loss of human capital under the current IDES process provides information on the likely loss of human capital under an alternative evaluation

human capital. Some service members with service-qualifying disabilities may later join the DoD civilian workforce, presenting an opportunity for DoD to reclaim some of the lost human capital, especially if DoD leans forward in terms of adaptive technology to enable people with disabilities to fully perform their jobs.

Table 2.2 showed the grade and YOS mix of active-duty members who are discharged from the IDES. We found that enlisted personnel represent the majority of disability discharges and among enlisted, disability discharges are typically in their early career. In particular, nearly 80 percent of discharges are in the grades of E-4 to E-6, and more than half (52 percent) have 7 or fewer YOS. Across all services, the mean enlisted YOS at the time of discharge is 8.5. Thus, most personnel who are discharged have already completed their initial training, and many have successfully completed their initial active-duty service obligation.

Table 5.2 shows the ten most common occupations of active-duty enlisted personnel who were discharged for a disability in 2015 across all services, and Table 5.3 shows the top ten enlisted occupations by service. Tables 5.4 and 5.5 show the same for officers. We find that general infantry occupies the top slot, representing 15.9 percent

Table 5.2
Distribution of Top Ten Occupations, Enlisted

DoD	Percentage
Infantry, general	15.9
Medical care and treatment, general	5.4
Supply administration	5.0
Law enforcement, general	4.9
Motor vehicle operators	4.6
Automotive, general	4.4
Combat operations control, general	4.1
Aircraft, general	3.0
Combat engineering, general	2.6
Artillery and gunnery	2.4
Total % covered by top ten	52.3

SOURCE: Authors' computations using data from DMDC: Retiree Pay file, ADM file, ADP file, DEERS; and VA: VTA data. Tabulations based on the cohort of service members medically discharged in FY 2015.

system. The validity of this assumption depends on whether the characteristics of those referred to the IDES under a FES would change relative to the characteristics of those referred under the current system. Since referral to the IDES is not entirely voluntary, it seems reasonable that this assumption is valid.

Table 5.3
Distribution of Top Ten Occupations by Service, Enlisted

Army	%	Air Force	%	Marine	%	Navy	%
Infantryman	16.4	Security forces journeyman	10.1	Rifleman	12.9	Hospital corpsman	10.9
Health care specialist	6.0	Security forces craftsman	6.0	Motor vehicle operator	5.7	Machinist's mate	5.8
Motor transport operator	5.3	Personnel craftsman	2.0	Field radio operator	3.7	Electronics technician	4.5
Wheeled vehicle repairer	4.8	Aerospace medical service craftsman	2.0	Administrative specialist	2.9	Master-at-arms	4.1
Military police	4.2	Aerospace maintenance craftsman	1.8	Machine gunner	2.9	Aviation ordinanceman	3.7
Cavalry scout	3.2	Aircraft armament systems craftsman	1.8	Automotive maintenance technician	2.5	Culinary specialist	3.4
Unit supply specialist	2.9	Tactical aircraft maintenance craftsman	1.8	Infantry unit leader	2.4	Electrician's mate	3.3
Combat engineer	2.9	Munitions systems craftsman	1.5	Combat engineer	2.1	Seaman	3.3
Petroleum supply specialist	2.9	Materiel management craftsman	1.3	Mortarman	1.9	Fire controlman	3.2
Automated logistical specialist	2.7	Aerospace maintenance journeyman	1.2	Military police	1.9	Information systems technician	3.1
Total % covered by top ten	51.3	Total % covered by top ten	29.5	Total % covered by top ten	38.9	Total % covered by top ten	45.3

SOURCE: Authors' computations using data from DMDC: Retiree Pay file, ADM file, ADP file, DEERS; and VA: VTA data. Tabulations based on the cohort of service members medically discharged in FY 2015.

of all enlisted discharges, nearly three times the percentage of the next-highest occupation, general medical care and treatment. The remaining occupations each account for 5 percent or less of the overall population of enlisted discharges for disability. These top ten occupations account for over half (52.3 percent) of enlisted disability discharges.

The overall distribution shown in Table 5.2 is dominated by the Army since the Army accounts for 70.7 percent of all disability separations or retirements in 2015.[6] The top occupations differ by service branch, as shown in Table 5.3. As with the overall statistics, infantry accounts for the most Army soldiers, at 16.4 percent, followed by health care specialists with 6.0 percent; the remaining occupations for the Army each account for 5.3 percent or less of the population. On the other hand, airmen who are

[6] The Air Force accounts for 9.6 percent, the Marine Corps accounts for 11.4 percent, and the Navy accounts for 8.4 percent.

security force personnel, either journeymen or craftsmen, take the top spots for the Air Force (10.1 and 6.0 percent, respectively). In the Marine Corps, riflemen and motor vehicle operators take the two top spots at 12.9 and 5.7 percent, respectively, while in the Navy hospital corpsmen and machinist's mates lead at 10.9 and 5.8 percent.

One measure of human capital loss is the length of initial training. This can serve as a measure of specific human capital by summarizing the skill development required for a new recruit to perform his or her occupation. It can also be thought of as a crude measure of the replacement cost for a member whose human capital is lost. While this measure does not include the specific human capital gained via experience or on-the-job training, it does provide some sense of the depth of specific human capital lost, particularly when placed in the context of the training lengths for all occupations in a service. Focusing on the Army, Advanced Individual Training (AIT) for infantry is three weeks and three days, while AIT for a health care specialist is 16 weeks. Training lengths for the remainder of the occupations in the top ten for the Army range from a high of 20 weeks for military police to a low of four weeks for combat engineers. The median training length over all occupations in the top ten is nine weeks, and the weighted average of occupation lengths is also nine weeks. By way of comparison, the (unweighted) median AIT length across all military occupational specialties is 12 weeks. By this measure, most of the top ten occupations require only a low to moderate level of training, with only training for military police and wheeled vehicle repairers requiring more than 12 weeks.

If human capital loss is accelerated when the IDES process is shortened under a FES and the average reduction in processing time is 13.5 percent, as we show in Figure 5.1, the implied loss of human capital for Army enlisted personnel, as measured by initial training length, would be approximately one week per Army enlisted member processed through the IDES (or 13.5 percent of nine weeks). Alternatively, if we use the average of 8.5 YOS at discharge as the metric of human capital loss, reducing the mean time in the IDES by 13.5 percent under a FES would result, on average, in a loss of general human capital of approximately one person-year per enlisted member (13 percent of 8.5 years). Thus, we have two measures of the increase in human capital loss, one giving a measure of military-specific human capital in training weeks, showing a loss of one week on average, and one giving a composite measure of military-specific knowledge and general human capital in YOS, showing a loss of one year.

Turning now to officers, Table 5.4 shows the distribution of the top ten occupations for officers who are processed through the IDES and eventually separated. The top occupation is ground and naval arms at 22.7 percent, followed by general logistics at 12.7 percent and general intelligence at 6.1 percent. The remaining occupations all represent 5 percent or less of officers processed in the IDES. Table 5.5 shows that within each service, several occupations among the top ten in each service require lengthy and costly training, such as fixed-wing pilots, helicopter pilots, nurses, and physicians. Officer accessions via the Reserve Officers' Training Corps scholarship program or the

Table 5.4
Distribution of Top Ten Occupations, Officer

DoD	Percentage
Ground and naval arms	22.7
Logistics, general	12.7
Intelligence, general	6.1
Communications and radar	5.0
Construction and utilities	4.9
Health services administration	4.7
Manpower and personnel	4.5
Medical/surgical nurse	4.3
Police	3.5
Helicopter pilot	3.0
Total % covered by top ten	71.4

SOURCE: Authors' computations using data from DMDC: Retiree Pay file, ADM file, ADP file, DEERS; and VA: VTA data. Tabulations based on the cohort of service members medically discharged in FY 2015.

Table 5.5
Distribution of Top Ten Occupations by Service, Officer

Army	%	Air Force	%	Marine	%	Navy	%
Ground and naval arms	22.7	Intelligence, general	8.1	Ground and naval arms	29.9	Ground and naval arms	30.9
Logistics, general	12.7	Other fixed-wing pilot	7.7	Helicopter pilot	12.6	Student	19.1
Intelligence, general	6.1	Operations staff	7.2	Intelligence, general	9.2	Nurse	11.7
Communications and radar	5.0	Medical/surgical nurse	6.3	Logistics, general	5.8	Intelligence, general	4.3
Construction and utilities	4.9	Procurement and production	5.4	Supply	5.8	Supply	4.3
Health services administration	4.7	Aircraft crew	4.1	Nonoccupational, other	4.6	Physician	3.1
Manpower and personnel	4.5	Manpower and personnel	3.2	Other fixed-wing pilot	4.6	Aviation maintenance and allied	2.5
Medical/surgical nurse	4.3	Nonoccupational, other	3.2	Comptroller and fiscal	3.5	Communications intelligence	2.5
Police	3.5	Construction and utilities	2.7	Legal	3.5	Construction and utilities	2.5
Helicopter pilot	3.0	Fixed-wing fighter or bomber pilots	2.7	Police	3.5	Health services administration	2.5
Total % covered by top ten	71.5	Total % covered by top ten	50.6	Total % covered by top ten	83.0	Total % covered by top ten	83.4

SOURCE: Authors' computations using data from DMDC: Retiree Pay file, ADM file, ADP file, DEERS; and VA: VTA data. Tabulations based on the cohort of service members medically discharged in FY 2015.

service academies add to these costs. The implication is that the human capital loss associated with medically discharged officers can be substantial. While we do not have a readily available measure of training cost for officer occupations to estimate the loss of human capital in terms of training length, we can estimate the person-year loss, as we did for enlisted personnel. Given that officers processed through the IDES have, on average, 13.5 YOS, we estimate an average loss of approximately two person-years of experience per officer processed through the IDES (13.5 percent of 13.5 years).

Alternative Policies to Restore End Strength and Their Cost

While the absolute numbers of service members affected by this change in processing time are small relative to the size of the overall force, the reduction in processing time under a FES and the resulting reduction in the number of members counted toward end strength mean that there would be more vacant positions to be filled to restore end strength and to be filled with medically ready and deployable service members. Here, we consider the additional cost of restoring end strength. The reduction in strength shown in Table 5.1 will result in a cost savings for each service since fewer people will receive pay and benefits, but replacing these individuals would eliminate those savings. However, there are additional costs required to induce more people to stay in the service or to join the service, beyond the cost of replacing pay and benefits. We consider two alternative retention policies: an across-the-board pay raise and reenlistment bonuses.

We use RAND's DRM for enlisted personnel and for officers in each service to estimate the cost of raising pay to restore the strength figures shown in the third row of Table 5.1. In addition to computing the value of a military career and the value of leaving the military, the DRM is formulated on the parameters that underlie the retention and reserve participation decision processes rather than on the average response to members to a particular compensation policy. Consequently, we can use it to assess alternative compensation systems that have yet to be tried.

The model parameters are estimated with data on thousands of service members who are followed over their active and reserve careers. We then use the model parameter estimates to simulate individual retention behavior under the status quo system, and next we aggregate individual retention behavior up to a force-level retention profile. Finally, we used the DRM to simulate the effects of raising pay or offering reenlistment bonuses to restore end strength under a FES approach. For these analyses, we have separate models for each service and, within each service, for officers and enlisted personnel.

The DRM indicates that a small pay raise across the board for both enlisted and officers would be required, on the order of about 0.04 percent, to restore the reduction in active force end strength resulting from eliminating the ratings step in the IDES process. However, while the percentage increase is small, the cost of such a pay raise would be $169 million in 2019 dollars.

An alternative approach is the use of bonuses. Since over 90 percent of the total 12,664 active-duty members in the IDES on September 30, 2018, were enlisted personnel, we used the enlisted DRM models to simulate the cost of restoring enlisted end strength in each service with reenlistment bonuses.[7] In 2019 dollars, we estimate that the cost of bonuses to restore enlisted strength across the services would be $143 million, or about 85 percent of the $169 million estimate for the across-the-board pay raise. While the bonus results only apply to 90 percent of the members in the IDES who are enlisted, the fact that $143 million is less than 90 percent of the $169 million cost suggests that given the choice between an across-the-board pay raise and the use of bonuses, bonuses would likely be less costly. The reason is that the reduction in end strength is concentrated among enlisted personnel, but an across-the-board pay raise would apply to officers as well. Because officers receive higher pay on average than enlisted personnel, a given percentage increase would mean higher absolute dollar amounts. In contrast, bonuses can be targeted toward enlisted personnel, a group that represent 90 percent of members in the IDES.

Across-the-board pay raises and retention bonuses focus on restoring end strength by increasing retention of members already in service, holding accessions constant. But an alternative method of restoring end strength is to increase accessions instead. Which method is more cost effective is ambiguous a priori. On the one hand, restoring end strength by increasing accessions reduces the experience mix of the force, resulting in a lower total pay bill and lower selective reenlistment bonus costs. The total pay bill is lower because a more junior force has a higher share of lower-paid members. But increased accessions also mean greater recruiting and training costs. On the other hand, restoring end strength by increasing retention using bonuses means higher bonus costs and a higher total pay bill because the force mix becomes more senior but has lower recruiting and training costs. Thus, both methods involve both higher and lower costs.

Following the approach used in Tong et al. (2021), we examine whether increasing accessions to restore end strength is more cost effective than increasing retention with bonuses. We focus on 11B enlisted soldiers in the Army and use a DRM model estimated in Asch et al. (2021) to simulate the cost of increasing 11B force size by increasing bonuses or accessions to restore the 0.2 percent reduction expected in Army enlisted strength shown in Table 5.1. Drawing from estimates in Orvis et al. (2018), we assume that the average cost of recruiting and training a nonprior service Army recruit is $80,000 in 2019.[8]

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[7] This analysis is similar to recent DRM analyses that estimated the effects of higher retention bonuses for career enlisted aviators and their costs (Tong et al., 2021).

[8] This estimate is based on the Orvis et al. (2018) figure of $18,030 basic training cost per graduate plus a figure of $29,200 advanced individual training cost per graduate plus a recruiting cost per additional recruiting contract of $26,067, a total of $73,297 (= $18,030 + $29,200 + 26,067) in 2015. Inflating this total to 2019 by 2.2 percent per year since 2015 and rounding, we arrive at a figure of $80,000.

The DRM computes retention bonus costs as well as changes in compensation costs due to a change in the experience mix of the force (see Tong et al., 2021). Accounting for recruiting and training costs, compensation costs associated with any change in experience mix, and retention bonus costs, we find that restoring the size of the Army enlisted 11B force by accessions would be almost half as costly as restoring the 11B force with bonuses. Higher bonuses not only increase bonus costs, but they also increase the pay bill for 11B soldiers by increasing the average experience of infantry soldiers. Increased accessions increase accession and training costs but reduce the pay bill because the average experience of 11B soldiers is lower. We find that the costs associated with raising accessions are less than the cost of increasing bonuses to achieve the same increase in the number of 11B soldiers.

Summary

Eliminating the ratings step in the IDES process will reduce IDES processing time and therefore the number of service members being processed in the IDES at a point in time who are considered nondeployable. To increase deployability, these personnel could be replaced with deployable service members. While replacements should generally cost the same as the members they are replacing, costs will still increase if the services must increase pay, bonuses, or accessions to achieve the correct number of replacements.

Since most members in the IDES are enlisted personnel and mostly Army enlisted personnel, and the most common occupation among these Army enlisted personnel is 11B infantry soldier, we consider the relative cost effectiveness of replacing end strength by increasing retention via bonuses or by increasing accessions through increases in recruiting and training costs. We find that increasing accessions is more cost effective than either policy to increase retention for 11B soldiers in the Army. Comparing the two options to increase retention (bonuses and a pay raise), we also find that bonuses are generally more cost effective than an across-the-board pay raise as a means to restore end strength.

CHAPTER SIX

Policy and Legislative Considerations

The current IDES is codified in, and mandated by, federal law—specifically, Title 10 of the U.S. Code (U.S.C.), Chapter 61.[1] In order to execute the requirements of these statutory sections, DoD and the services have issued various directives, instructions, regulations, and policy memoranda ("DoD authorities"). These DoD authorities establish the policies, assign the responsibilities, and provide for the detailed procedures that make up the current IDES. Given this, any substantive changes to the system—including all four possible FES alternatives described in this report—will likely require both the repeal and amendment of numerous statutory sections contained in Title 10, Chapter 61. These statutory changes will then require rescissions, changes, and reissuances of their corresponding DoD authorities (or the parts, sections, or enclosures thereof). This chapter provides an overview of the types of changes that would be required. Details of the current IDES functions and requirements contained in Title 10, Chapter 61, and the corresponding DoD authorities, are in Appendix D.

Current Key Requirements

The current statutory and regulatory structure of the IDES requires that each service member receive a disability rating, in accordance with the VASRD[2] rating assigned to that particular medical condition. Additionally, under current law, DoD may not make a determination of fitness or unfitness that is divorced from the use of the term *disability*, as that term is defined by regulation.[3] To make a determination of "unfitness," DoDIs direct that the following criteria must apply:

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[1] See 10 U.S.C. Chapter 61, §§ 1201–1222; *Veterans' Benefit Act of 1957*, Public Law 85-86, enacted June 17, 1957, as amended. This act has been substantively amended ten times (1958, 1962, 1986, 1997, 1999, 2004, 2006, 2008, 2009, and 2011) to reflect its current codified form.

[2] The VASRD itself is a codified in the U.S. Code of Federal Regulations (C.F.R.). See 38 C.F.R. Part 4, §§ 4.1–4.130. These regulations are administered by the VA pursuant to 38 U.S.C. §§ 301 and 303.

[3] *Disability* is defined as "any *condition* due to disease or injury, regardless of degree, that reduces or prevents an individual's actual or presumed ability to engage in gainful employment or normal activity. The term 'disability'

> a. A Service member will be considered unfit when the evidence establishes that the member, due to *disability*, is unable to reasonably perform duties of his or her office, grade, rank, or rating, including those during a remaining period of Reserve obligation.
>
> b. A Service member may also be considered unfit when the evidence establishes that:
>
> (1) The Service member's *disability* represents a decided medical risk to the health of the member or to the welfare or safety of other members; or
>
> (2) The Service member's *disability* imposes unreasonable requirements on the military to maintain or protect the Service member. (DoDI 1332.18, 2014, p. 30; emphasis added)

Given these criteria, the substitution of a fitness determination in place of a disability determination (incorporating the VASRD rating) will necessarily require, where appropriate, the elimination and replacement of the terms *disability* and *disability rating* and the substantive applications of these terms from the statutes, regulations, and DoD authorities. Whether or not the term *disability* or *disability rating* need be eliminated or replaced in a particular statutory section or DoD authority will necessarily depend on the context. For example, where DoD medical authorities refer a service member for an evaluation after it is determined that the service member may have a disability resulting in unfitness, the application of the term *disability* need not be eliminated or amended.[4] For a FES-only alternative (as opposed to a Disability Evaluation System), however, DoD authorities that presently refer to a "disability" or "disability rating" for the purposes of determining a compensation level will need to be amended.

The amendments may require that the terms be eliminated and replaced with *unfitness* or revised such that it is clear that DoD is not applying the VASRD rating system for compensation purposes.[5] These amendments, revisions, and changes would, however, only be a first step. The current application of the VASRD disability rating by DoD, by itself, creates systemic requirements that are also codified in several laws and regulations, the violation of which by DoD personnel would be unlawful. These systemic requirements are delineated in more detail in Appendix D.

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or 'physical disability' includes mental disease, but not such inherent defects as developmental or behavioral disorders. A medical *condition*, mental disease, or physical defect standing alone does not constitute a disability. To constitute a disability, the medical *condition*, mental disease, or physical defect must be severe enough to interfere with the Service member's ability to adequately perform his or her duties." DoDI 1332.18, 2014, p. 56.

[4] See, for example, DoDI 1332.18, 2014, pp. 30–33, where the term *disability* is used to describe a medical finding made by medical officials in order to determine whether a service member meets the definition of *unfitness*.

[5] See, for example, DoDI 1332.18, 2014, pp. 34–38, where the term *disability* is used in conjunction with the VASRD rating scheme to delineate whether a service member with a disability is to be retired or separated from service.

The term *disability* (as defined by regulation) and the VASRD disability rating are fundamental, core elements to the current disability evaluation system. For example, the term *disability* is used nearly 200 times in Title 10, Chapter 61 (i.e., within 25 sections of federal statutory law). The VASRD disability "rating" is mentioned approximately 32 times, including a in mandate to use the VASRD rating to make the disability determination itself (see 10 U.S.C. § 1216a(a)(1)). Similarly, the DoDI for the IDES uses the term *disability* in excess of 225 times (within 56 pages of regulation). Many of these instances are substantive in nature in that they serve to delineate how determinations of compensation are made, as well as what appellate options are available to those service members who are designated disabled. In other instances, the term *disability* refers to the definition of the word itself (as a medical condition), or to its use within the definition of *unfitness*. In these instances, the term is not substantively linked to the VASRD rating or any issues of compensation.

Additionally, the disability rating system is employed by both DoD and the VA in an interconnected fashion. The VA provides the VASRD rating for the IPEB/PEB process but then uses that same rating to adjudicate the VA benefits claims process in order to determine the scope of benefit awards.[6] Although the VA uses the rating to determine a monthly disability compensation payment similar to DoD's retirement payment system, the rating is also used to determine a number of other benefits (e.g., education, housing, rehabilitation, and insurance) (see Congressional Research Service, 2020b). Determinations of unfitness (without a corresponding disability rating), however, play no role in the VA benefits process. Thus, unless the VA were to abandon its use of the term *disability* and its VASRD rating system, the service member would be required to undergo an examination to determine a rating of disability either before discharge or shortly thereafter in order to file a VA claim.[7]

Due Process

The current process provides significant protections for service members facing separation or retirement based on a disability determination. Section 1214 of Title 10 U.S.C. states, "No member of the armed forces may be retired or separated for physical dis-

[6] An IDES claim and ratings assignment satisfies the VA requirements for a submission of a claim for VA benefits. See 38 C.F.R. § 3.1.p (definition of "Claim"); see also U.S. Department of Veterans Affairs, undated, pp. 34–36.

[7] See 38 C.F.R. §§ 3.26 and 3.27. We do not suggest that the VA should alter its application or use of the term *disability*, or suggest that any VA-specific laws or regulations need to be amended should DoD adopt a FES rather than a disability evaluation compensation system. However, should DoD adopt a compensation system that does not apply the VASRD rating, service members will still need to receive a rating from the VA at some point in their retirement or separation process in order to receive certain VA benefits. This may or may not require a second examination by VA medical personnel. If the rating is assigned by VA medical personnel during the MEB/PEB process, no other examination to determine a VASRD rating may be necessary.

ability without a full and fair hearing if he demands it." The IDES incorporates the right to a full and fair hearing by providing the service member the opportunities to rebut, request reconsideration, and appeal disability evaluation findings throughout the process over which the MEB and PEB phases occur (see U.S. Department of Defense Manual [DoDM] 1332.18, Vol. 2, 2014, p. 43). Pursuant to the DoD regulations that implement the due process protections of Section 1214, the right to a full and fair hearing includes the right to rebut, appeal, or have reconsidered the disability rating itself (after it is initially determined by the VA and becomes part of the IDES during the IPEB/PEB stage).[8]

The opportunities to exercise the due process rights under 10 U.S.C. § 1214, as implemented by DoD regulations DoDM 1332.18, Volume 1 and DoDI 1332.18, occur at several specific points during the IDES process. First, a service member may rebut the MEB's findings within five days of receiving the MEB's decision (see DoDM 1332.18, Vol. 2, 2014, p. 14). Next, the member may rebut the findings of the IPEB within ten days of receiving its decision or request an FPEB.[9] Finally, a member may "appeal the Formal Physical Evaluation Board decision to the Board for the Correction of Military/Naval Records of the Military Department concerned" (DTM-20-001, 2020, p. 2).

It is important to note that current federal court precedent decisions place a high normative value on service member due process rights when it comes to disability compensation. In 2009 the United States Court of Appeals for the Federal Circuit determined in *Cushman v. Shinseki* that "both applicants for, and recipients of [service-connected death and disability] benefits possess a constitutionally protected property interest in these benefits."[10] This includes the right to a fair hearing, such as those offered for IPEBs, PEBs, and FPEBs, to establish eligibility for such benefits.

We note, however, that *Cushman* was a case that concerned VA benefits. Service members may not have the same level of constitutionally protected due process to the statutory benefits provided by DoD because of the military deference doctrine, which directs courts to afford DoD with significant deference to the decisions made

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[8] See DoDM 1332.18, Vol. 1, 2014, p. 10 ("The PEB will apply ratings for unfitting conditions provided by VA to establish the Service member's disability rating under IDES."). Further, the disability rating, as determined by the VASRD, is made part of the disability evaluation system record of proceedings that become the basis for a service member's rebuttal, appeal, or request for reconsideration. See DoDI 1332.18, 2014, Parts 3.h., 3.i, 3.j.1, and 3.j.2, pp. 20–21. We note that these regulations implement the general due process right of the service member to demand a full and fair hearing with regard to separation or retirement "for physical disability" in 10 U.S.C. § 1214. The Secretary of Defense could amend these regulations to remove the opportunity to rebut the VASRD disability rating (and other elements of the DES process) if a fitness-for-duty evaluation system framework were to be adopted.

[9] See DoDM 1332.18, Vol. 2, 2014, p. 15. The request for an FPEB constitutes the request for a "full and fair hearing" pursuant to 10 U.S.C. § 1214. See also DoDI 1332.18, 2014, Part 3.c, p. 18.

[10] *Cushman v. Shinseki*, 576 F.3d 1290, 1296 (Fed. Cir. 2009) (quoting *Nat'l Ass'n of Radiation Survivors v. Derwinski*, 994 F.2d 583, 588 (9th Cir. 1992)).

by military administrators vis-à-vis the treatment of service members (Carnelli, 2013, pp. 163–164). The deference is not absolute, however. Thus, should service members appeal a decision of DoD to move from a disability determination system to a fitness determination system, a federal court could find that the FES is unconstitutional or otherwise in violation of federal law.

Legislative, Regulatory, and Policy Implications of the Four Alternatives

Each of the four alternatives considered in this report would have significant implications for current laws, regulations, and policies. These authorities, depending on their type, would need to be amended, repealed, rescinded, changed, or revised (collectively, we will refer to these methods of altering existing authorities as "modifications"). We define these methods of modification[11] as follows:

- **amendment:** the change, modification, alteration, deletion, or addition of language to federal statutes (U.S.C.) by Congress or regulations (C.F.R.) by a federal department or agency
- **repeal:** the abrogation or annulling of an existing federal statute by the enactment of a subsequent statute (revoking the authorities expressed in the repealed law) by Congress
- **rescission:** the abrogation or annulling of a federal regulation or policy
- **change:** the alteration, rephrasing, rewording, or reorganization of a federal regulation or policy
- **revision:** the reexamination of a federal regulation or policy for corrections or improvements.

For Alternatives 1a, 2, 3, and 4, the application of the term *disability* (as currently defined by regulation; DoDI 1332.18, 2014, p. 56) and the application of the VASRD disability rating scheme would require significant substantive modifications to all current authorities (described in Table D.2). These modifications are required primarily because these authorities require disability determinations and ratings to occur before discharge and during the IDES (IPEB, PEB, and FPEB).

There is one distinction with respect to the scope of modifications that would be required for Alternative 1b. This alternative would not require modification of the language for these authorities as it applies to the junior ranks but would require modification for the senior ranks. Because the senior ranks for Alternative 1b would not

[11] The five methods are adopted from *Black's Law Dictionary*, 6th ed., 1990, and applied to the types of authorities addressed in this report—i.e., federal statutes, federal regulations, and policies generated by federal departments or agencies.

receive a disability rating, any sections of these authorities where the term *disability* or the VASRD rating is applied will need to be modified in a manner that bifurcates treatment of the two populations.

Furthermore, these changes would also need to be reflected in the DoD *Wounded, Ill, and/or Injured Compensation and Benefits Handbook* (2019). While this document summarizes other authorities rather than being a primary source itself, it is a main source of communication of policy guidance and would need to be substantially revised if the law changed.

Finally, this review focused specifically on disability-related authorities. However, many other state and federal benefits are also linked to disability ratings and would likely require additional changes. For example, Massachusetts offers varying levels of property tax relief benefits for disabled veterans depending on VASRD ratings (see Mass. Gen. Laws, Chapter 59, Section 5).

Other Legal, Regulatory, and Policy Regimes

The intended purpose of the statutory and regulatory regimes previously discussed is to establish, describe, and delineate the IDES itself, and therefore why these regimes would require substantive modifications in order to facilitate change to a FES. Additionally, other statutory, regulatory, and policy regimes would also require modification because they reference the IDES or use certain terms (e.g., *disability*, *temporary retired disabled list*, *disability severance*, and others). These modifications would be less substantive and in many cases involve replacing terms such as *disability* with *fitness*. In other instances, the computational system used by the IDES (based on a formulation of YOS and VASRD rating) would have to be excised and replaced with language that reflected the appropriate computational language of the FES alternative that was selected.

For example, Title 37 of the U.S.C. contains provisions related to the "pay and allowances of the uniformed services" (see 37 U.S.C. §§ 101–1015). Numerous sections of this title define and describe pay types (e.g., basic, special, bonus, and retirement), initiation and duration times, conditions associated with payments, and the applicability of certain statuses (such as disabled, retired, etc.). Many of these include terminology associated with the IDES.[12] These sections would require fairly minor amendments to purge IDES-related language in favor of FES-appropriate language.

[12] See, for example, 37 U.S.C. § 205(a)(7) ("Computation: service credits"), § 371(c)(2) ("Relationship to other incentives and pays"), § 372(b)(3) ("Continuation of pays during hospitalization and rehabilitation resulting from wounds, injury, or illness incurred while on duty in a hostile fire area or exposed to an event of hostile fire or other hostile action; duration"), § 373(b)(2) ("Repayment of unearned portion of bonus, incentive pay, or similar benefit, and termination of remaining payments, when conditions of payment not met; special rule for disabled members"), and § 439(g) ("Special compensation: members of the uniformed services with catastrophic injuries or illnesses requiring assistance in everyday living: catastrophic injury or illness defined").

Similarly, for the DoD Financial Management Regulations, similar revisions would be required throughout the more than 7,000 pages of rules and related policies in order to be consistent with a new FES.[13] These modifications would relate to the terminology, processes, procedures, and financial mechanisms associated with paying service members who become unfit and separate or retire. Although Financial Management Regulations modifications may amount to more than nonsubstantive housekeeping revisions because they concern financial operations, they would not necessarily require the broad and sweeping modifications associated with 10 U.S.C. Chapter 61 or DoDM 1332.18, which focus squarely on the IDES.

A complete review of all federal statutes, regulations, and policies related to uniformed service members, including those within the jurisdiction of the VA,[14] would have to be carefully reviewed to determine whether they contained IDES terms, definitions, conditions, computations, or other references. Once reviewed, the appropriate modifications associated with the selected FES alternative would need to be applied. The breadth of such an effort would be significant and is beyond the scope of this report.

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[13] See U.S. Department of Defense Financial Management Regulations, DoD 7000.14-R, undated, containing 16 volumes and 64 chapters of rules, policies, and guidance for DoD financial operations.

[14] For example, 38 U.S.C. Chapter 11 ("Compensation for Service-Connected Disability or Death"), §§ 1101–1163, and Chapter 51 ("Claims, Effective Dates, and Payments"), §§ 5100–5126; 38 C.F.R. Chapter 1 ("Department of Veterans Affairs"), §§ 0.600–77.21.

CHAPTER SEVEN

Additional Design Considerations

The DoD disability rating also has important implications beyond the value of disability retirement compensation. As described in Chapter Two, the rating also determines whether the service member will receive disability severance versus a disability retirement annuity. Under a FES that eliminates ratings, there would no longer be a separate formula for compensation under severance or retirement: all service members would receive compensation based on one of the alternatives discussed in Chapter Four. However, there may still be a compelling reason to offer this compensation in the form of a lump sum for some service members, particularly if the value of the compensation would be relatively low if provided as a monthly annuity. In this chapter, we consider cutoffs that might be used for providing compensation as a lump sum or an annuity. Our analyses suggest that 50 percent of all disability discharges would receive payment as a lump sum with a threshold of $100, and 60 percent would receive a lump-sum payment with a threshold of $500.

Additionally, the disability rating determines whether a service member is eligible for 180 days of health care benefits, or health care benefits for life. In this chapter, we also estimate what the cost implications would be of changing the parameters that determine health care eligibility under a FES. We present an upper-bound estimate of the costs under a scenario in which lifetime health care would be provided to all disability discharges. Under the status quo, approximately 80 percent of disability discharges are disability retirements and do receive lifetime health care, meaning there would be no change for the majority of cases under a FES. However, the cost of extending lifetime health care to the remaining 20 percent is still substantial. We conclude with a short discussion of other policy considerations.

Lump-Sum Versus Annuity Payments

When considering a FES, the form of payments that would be dispersed to eligible service members would need to be addressed. Under the current system, disability severance pay is paid as a lump sum, while disability retirement is paid as a monthly annuity. The distinction between separation and retirement is determined by whether

a service member has a rating of 30 percent or higher. As a result, the frequency of payment (e.g., lump sum or monthly annuity) would need to be determined by different criteria under a FES.

One option for determining the payment frequency is to set a threshold based on the size of the payment. For perspective, we analyzed the distribution of the size of monthly disability retirement payments observed under the status quo among 2015 disability discharges in our analysis file. For current disability separations, we estimated a hypothetical payment that members could receive under a FES. In particular, we used the retirement formula for this calculation rather than the disability ratings formula to estimate a payment that might be received under Alternative 2c. We analyzed both gross monthly payments and net monthly payments, net of any VA benefits and taxes.[1] Because VA ratings (and thus VA compensation and offsets) and tax withholdings can change over time, the net payment amounts could change over time. Therefore, if the threshold for determining a lump sum were set using net payments, it would have to be based on the size of net payments at the time of separation, rather than on an ongoing basis.

Table 7.1 shows the distribution of gross monthly and net monthly disability benefits received by service members depending on whether they separated or retired in 2015 under the status quo system. We found that all disability retirements had gross monthly payments of $500 or higher. Furthermore, 91 percent of disability retirees who are eligible for CRSC and 100 percent of retirees who are eligible for CRDP had gross monthly payments exceeding $1,000. By contrast, only 32 percent of disability separations would have had gross monthly payments of $500 or more if they had qualified for disability retirement and received benefits based on the retirement formula.

Panel B of Table 7.1 shows the distribution net of VA benefits. Here, the distribution shifts, and only 47 percent of disability retirees without CRDP or CRSC and 58 percent of retirees eligible for CRSC have monthly payments greater than $500. Nearly all retirees eligible for CRDP still receive monthly payments of $1,000 or more. By contrast, only 11 percent of disability separations would receive payments of $500 or more, and 63 percent would receive no net monthly payment, because their full payment would be offset by VA compensation.

Figure 7.1 shows the cumulative distribution of gross and net monthly payments, which provides a visualization of the distributions shown in Table 7.1. The vertical lines in the figure show hypothetical thresholds for determining which service members would receive compensation in a lump sum or a monthly annuity set at $100, $200, or $500. Suppose the threshold were set such that any service member with an estimated gross monthly payment of $100 or less would receive his or her compensation as a lump sum. In this scenario, nearly all service members would receive their compensation in monthly payments. By contrast, if the threshold were set at $500,

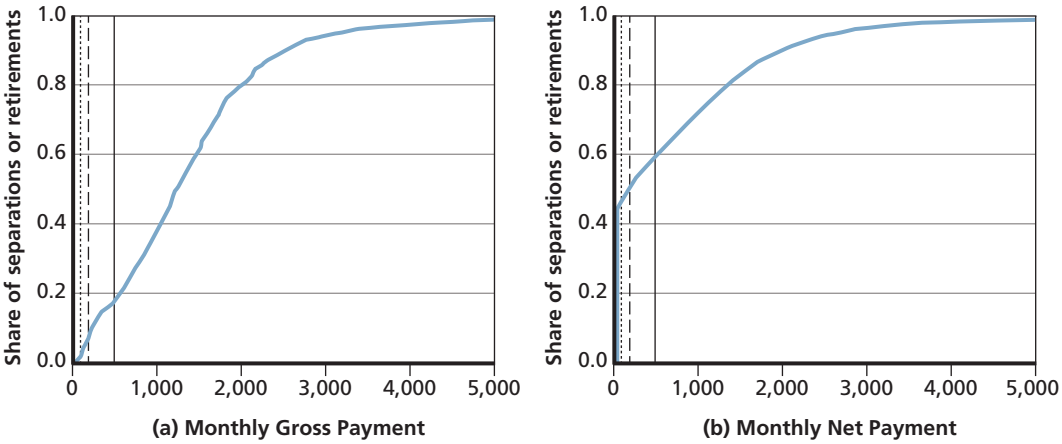
[1] We do not directly observe VA payments for disability separations in our data file but estimate what the VA payment would be based on the VA rating taken from VTA and dependent information taken from DEERS.

Table 7.1
Percentage of Service Members Receiving Monthly Payments of Various Sizes, 2015

	Separations	Retirements	Retirements with CRSC	Retirements with CRDP
Panel A: Gross Monthly Payment				
$0	0	0	0	0
$1–$200	29	0	0	0
$201–$500	38	0	0	0
$501–$1,000	21	24	9	0
> $1,000	12	76	91	100
Panel B: Net Monthly Payment				
$0	63	43	0	1
$1–$200	17	5	7	0
$201–$500	10	4	35	0
$501–$1,000	7	13	36	1
> $1,000	4	34	22	98
Observations	8,044	19,419	2,891	1,002

SOURCE: Authors' calculations based on disability discharges in 2015 using data from DMDC: Retiree Pay file, ADM file, ADP file, DEERS; and VA: VTA data.

Figure 7.1
Cumulative Distribution of Monthly Net and Gross Payments for All Disability Retirees



SOURCE: Authors' computations using data from DMDC: Retiree Pay file, ADM file, ADP file, DEERS; and VA: VTA data. Estimations based on the cohort of service members medically discharged in FY 2015.
NOTE: Vertical lines indicate monthly payments of $100, $200, and $500, moving from left to right.

approximately 20 percent of all disability discharges would have received payment as a lump sum—all of whom would have been disability separations under the status quo.

If the threshold were based on net compensation instead of gross compensation, the picture would change. Approximately 50 percent of all disability discharges would receive payment as a lump sum with a threshold of $100, and 60 percent would receive a lump-sum payment with a threshold of $500.

These analyses highlight several factors for consideration when determining whether compensation should be provided as a lump sum or monthly annuity. First, any choice of threshold will yield a significantly different percentage of individuals receiving payment as a lump sum or annuity depending on whether the threshold is based on gross or net compensation. If net compensation is used, a higher percentage of discharges would receive a lump sum. Second, if career metrics such as the retirement formula are used to determine compensation, individuals who currently receive disability severance pay would have smaller monthly benefits on average than the current disability retirees and would be more likely to qualify for a lump sum based on any given threshold.

Health Care

An important component of disability retirement is access to health care. Under the current system, disability retirees with ratings at or above 30 percent and their dependents are eligible for TRICARE for life. Disability separations (e.g., ratings below 30 percent), on the other hand, are eligible for 180 days of continued health care after separation. Thus, if ratings are eliminated, then the process for determining access to health care benefits, and for what time frame, would also need to change. Importantly, if those who were not eligible for TRICARE for life under the current system are made eligible for this benefit under a FES, costs could be expected to increase. A key question is by how much.

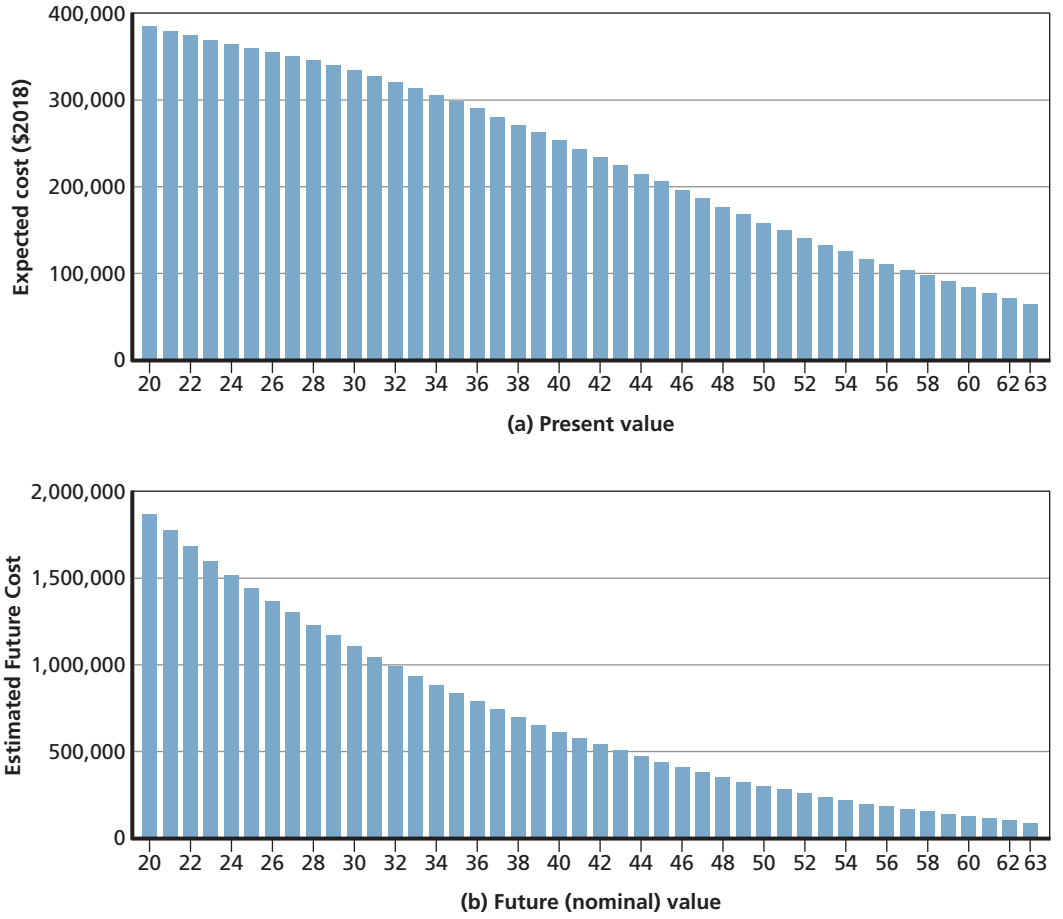
To provide an upper bound on the estimated change in cost if all medically discharged members were given access to health care benefits, we compare an estimate of expected lifetime health care costs if all members were given health care coverage with coverage under the status quo. To generate this upper bound, we first estimate expected lifetime health care costs under the status quo following the general approach described in Krull, Armour, et al. (2019), using 2018 annual health care costs for retirees and their dependents in five-year age ranges from the DoD Office of the Actuary (OACT) Retiree Health Care Valuation Reports (DoD, 2019a). These costs are provided separately for enlisted and officer ranks, so we incorporated both into our analysis.

Then we used these costs to derive the expected lifetime costs for retirees at each possible age of retirement. For example, consider a service member who medically retired at age 25 in 2020. We compiled OACT's annual costs from age 25 until age 76, OACT's life expectancy for disability retirees. In each year after age 25, we applied OACT's long-term medical growth trend of 5 percent to the current cost estimates

to account for growth in expenses over time. To estimate the present value of lifetime health care costs, we then discounted these costs to the year 2020 using OACT's reported discount rate of 5 percent. To estimate the value of lifetime health care in nominal terms, we added the inflated costs without discounting. We applied a similar process for each possible age of retirement up to age 62, the oldest observed age of retirement in our medical discharge analysis file, described in Appendix B.

Figure 7.2 shows the estimated lifetime health care costs for an enlisted disability retiree at each age, in both present discounted and future (nominal) value under the

Figure 7.2
Expected Present and Future Value of Health Care Costs for an Enlisted Disability Retiree, by Age at Retirement



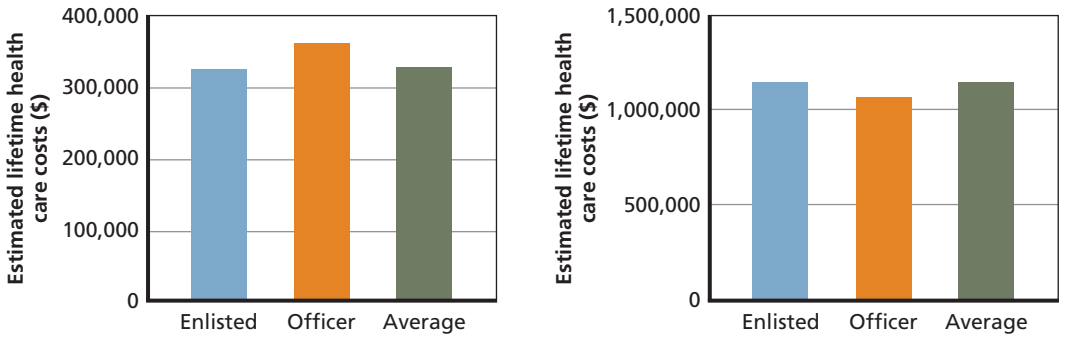
SOURCE: Authors' computations using data from DMDC: Retiree Pay File, Active Duty Master file, ADM file, ADP file, and Active Duty Pay File, DEERS. Estimations based on the cohort of service members medically discharged in FY 2015. Estimates of medical costs, medical cost growth rate, and discount factor based on assumptions from OACT.

status quo system. Present value costs range from approximately $386,000 for a service member who retires with a disability at age 20 to approximately $67,000 for a disability retiree at age 63. Nominal costs range from $1.8 million to $97,000 for disability retirees at age 20 and 63, respectively.

For a different perspective, we also computed the expected lifetime costs for a hypothetical "typical" disability retiree, where we multiplied the age-specific costs in Figure 7.2 by the age distribution of the 2015 disability discharges and summed the resulting shares. The results, shown in Figure 7.3, indicate that the average cost of lifetime health care under the status quo system for an individual enlisted retiree is $326,000; and is $364,000 for an officer retiree, both in present value terms. Costs are slightly lower for enlisted ranks because OACT estimates that their health care costs tend to be lower, even though they tend to retire at earlier ages, thereby incurring costs for a longer time period. By contrast, future value costs are higher for enlisted ranks because they are, on average, younger than officers and thus would receive health care benefits for a longer period of time.

Finally, we use these per-person costs to estimate total expected health care costs under a model for determining health care eligibility for a FES approach that would not provide ratings. To provide an upper bound on how total costs may change, we compared costs under the status quo with costs in a scenario in which *all* disability discharges receive lifetime health care benefits. In other words, this scenario provides an estimate of the total cost of changing from providing 180 days of health care benefits to disability separations to providing lifetime health care benefits for disability separations as well as for disability retirees.

Figure 7.3
Expected Present and Future Value of Lifetime Health Care Costs for the Average Disability Retiree



SOURCE: Authors' computations using data from DMDC: Retiree Pay file, ADM file, ADP file, and DEERS. Estimations based on the cohort of service members medically discharged in FY 2015. Estimates of medical costs, medical cost growth rate, and discount factor based on assumptions from OACT.
NOTE: Average costs shown are in 2018 dollars.

To do this, we multiplied the age-specific costs in both present and future value terms by the number of all disability discharges at that age in our 2015 cohort. Separately, we multiplied the age-specific costs by the number of all disability discharges with observed ratings over 30 percent in the 2015 cohort. Table 7.2 shows the ratio of the cost of providing health care to all discharges to the current estimated cost of providing lifetime health care to retirees with ratings of 30 percent or higher plus 180 days of health care for separations with ratings below 30 percent, separately for enlisted and officer ranks.

The table shows that approximately 79 percent of enlisted disability discharges and 86 percent of officer discharges in 2015 had a rating of 30 percent or higher. The implication is that providing health care benefits to those who, under the status quo system, would only receive 180 days of benefits would only affect a relatively small share of all discharges. By adding up the age-specific costs, we estimate that the present value of lifetime health care to those who would be currently eligible (e.g., have a rating of 30 percent or higher) is approximately $6.9 billion, compared with an estimated $9.6 billion if DoD were to provide health care to all disability discharges. In other words, health care costs would be approximately 40 percent higher if all enlisted ranks were provided lifetime benefits relative to the status quo.

The reason that the costs increase by 40 percent to expand coverage to only 21 percent of all enlisted disability discharges is that the individuals with ratings below 30 percent are disproportionately younger than those who are currently eligible for health insurance. As a result, expanding coverage to these younger service members means

Table 7.2
Expected Health Care Costs for All Disability Discharges Versus Current Disability Retirees

	Enlisted	Officer
% with a DoD rating > 30%	79.1%	86.3%
Total present value cost of health care for all disability retirees (millions)	$9,636	$625.9
Total present value cost of health care for all disability retirees with ratings > 30% (millions)	$6,908	$543.5
Total future value cost of health care for all disability retirees (millions)	$34,000	$1,847
Total future value cost of health care for all disability retirees with ratings > 30% (millions)	$23,800	$1,583
Severance pay (millions)	$24.3	$1.1
Ratio of present value costs for all retirees to retirees > 30%	1.39	1.16
Ratio of future value costs for all retirees to retirees > 30%	1.43	1.17

SOURCE: Authors' computations using data from DMDC: Retiree Pay file, ADM file, ADP file, and DEERS. Estimations based on the cohort of service members medically discharged in FY 2015. Estimates of medical costs, medical cost growth rate, and discount factor based on estimates from OACT.

that they would receive health benefits for a longer period of time, driving up the cost. This difference in the age distribution is particularly pronounced in the enlisted ranks. For example, in the 2015 cohort we examine in this analysis, 66 percent of enlisted disability separations are under age 30, compared with 49 percent of enlisted disability retirements. For officers, 35 percent of disability separations are under age 30, compared with 17 percent of disability retirements.

The same calculation for officers shows that the present value of health care provided to all officers who are currently eligible is approximately $543 million, compared with $625 million if health care were provided to all officers—an increase of approximately 15 percent. The large difference in total cost for enlisted and officer results is due to the fact that the majority of disability discharges are attributable to enlisted personnel; enlisted ranks represent nearly 95 percent of all disability separations, and thus they represent the majority of health care costs. The total cost of enlisted and officer health care is estimated to be $7.5 billion under the status quo and $10.3 billion if lifetime health care were provided to all disability discharges. By contrast, severance health care costs for 180 days as provided under disability severance for enlisted ranks who have a disability rating below 30 percent would amount to approximately $25 million.

In summary, in the absence of disability ratings, the FES approach would significantly increase health care costs if all medical discharges were provided lifetime health care benefits. This scenario presents an upper bound on the potential cost, and DoD could consider alternative methods for determining health care eligibility that do not rely on disability ratings.

Other Considerations

Several other important topics need to be considered by policymakers should the transition to a FES occur. Among these topics are logistics related to the evaluation process and service member perspectives.

Policymakers will need to resolve several logistical aspects of the evaluation process itself. First, parts of the process need to be completed in coordination with the VA. For example, the VA currently conducts the medical exam, but the requirements of the medical exam may change under a system that only assesses a service member's fitness for duty, rather than all unfitting conditions. Second, if the ratings step occurs after discharge, this change would also need to be coordinated with the VA, which currently conducts ratings. In addition, the process would need to define the opportunities at which a service member may appeal the decision, and what aspects of the decision may be appealed. Moreover, the review criteria for the Temporary Disability Retired List (TDRL) may also need to be modified for conditions where the fitness decision may be anticipated to change over time.

Third, service member perspectives should also be taken into consideration in making a decision to adopt a FES. While some members may value a faster process that enables them to move on with the next phase of their lives more quickly, others may view the ratings as an important part of the process that ensures full and fair consideration of the member's service and condition. Finally, eligibility for other federal and state benefits (e.g., educational benefits, housing, adaptive equipment, insurance, and taxes) currently linked to the final disability rating may need to be redefined as well. For example, Massachusetts offers varying levels of property tax relief benefits for veterans depending on their VASRD rating (see Mass. Gen. Laws, Chapter 59, Section 5).

CHAPTER EIGHT

Conclusion

The DoD IDES process is lengthy and complex, and the duration of this process has implications for readiness. Service members in the IDES are counted toward end strength but are nondeployable, thus reducing force readiness. As a result, numerous policy efforts—both prior and ongoing—have focused on finding ways to reduce the length of the IDES process while maintaining a process that ensures service members receive a full and fair consideration of their health and service. One option for reducing the length of the process is to eliminate disability ratings and instead assess members on an overall evaluation of fitness for duty. This approach is similar to other proposals offered in the past, including those offered by the President's Commission on Care for America's Returning Wounded Warriors.

In this report, we considered alternative methods of disability compensation that could be implemented under a FES. We defined our objectives based on three main criteria: the compensation objective, the compensation formulas, and the effects on the ratings steps in the process. Each alternative offers a different objective—compensating based on current objectives of the DoD system and using the current benefit formulas, compensating on the basis of a military career, compensating on the basis of unfitting conditions, or compensating like U.S. allies.

We considered how DoD disability compensation could change under each of the alternatives. Alternative 1a presents the "lightest touch" option for service members by maintaining the benefit structure as under the status quo and simply moving the ratings process after discharge. However, this alternative would increase the overall cost because of the transition benefit and would require coordination with the VA to change the timing of the ratings step in the evaluation process.[1] As discussed in Chapter Six, legal changes would also be needed in order to implement a change in the ratings process. Alternative 1b would also maintain benefits at the level received under the status quo for most members, with the exception of senior members with relatively severe disability ratings, who would experience a decrease in benefits.

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

Alternatives 2b, 2c, and 3 also tend to result in larger decreases in benefits for service members with higher ratings, although the extent of the decrease and the exact service members who would be affected vary across these alternatives. For Alternative 2a, however, in many cases benefits would increase relative to the status quo. Finally, because Alternative 4 would combine the benefits provided under Alternatives 2a and 3, it is possible that many service members could see an increase in benefits relative to the status quo. However, Alternatives 2a and 3 both independently offer scenarios in which service members could experience a decrease in benefits, and it is unclear how these changes would end up affecting the net benefit for many service members when they are combined. In all, with the exception of Alternative 1a, none of the alternatives guarantees that all service members would see benefits at least as large as the benefits they would qualify for under the status quo.

Each alternative would reduce the length of the IDES process. Based on data from the VTA on process durations for service members referred in 2018, we estimate that eliminating ratings would reduce the length of the process relative to a sequential process by an average of 29 days, or approximately 13 percent of the average duration in 2018. The estimated time savings relative to a sequential process could be a lower-bound estimate because the shift to a FES could also lead to efficiencies in other steps in the process, including the medical evaluation, MEB, and PEB stages, which we did not model in our estimates. It is also possible that appeals would be shorter in a FES where members only appeal the fitness decision, rather than unfitting conditions or ratings. These time savings relative to a sequential process also imply that DoD could save on RMC and retirement contributions for service members who separate more quickly. However, if DoD makes a concurrent decision to restore end strength, these cost savings would largely be offset by the costs of RMC and retirement contributions for the new or retained service members, as well as the costs associated with restoring end strength.

We did not estimate how removing the ratings process would affect the duration of the IDES in a parallel ratings process. In FY 2020, cases that processed DoD and VA stages in parallel averaged 41 days to complete the three stages, whereas sequential processing of those stages averaged 77 days (Department of Veterans Affairs, 2021)—a savings of 36 days on average. These preliminary tabulations based on the early months of the implementation of parallel rating suggest that the time saved using a parallel ratings process could be similar to our estimates of time saved by removing the ratings process all together.

The estimated time savings of implementing a FES imply that active-duty end strength for the Army enlisted force would fall by at most 0.2 percent more than under the sequential system. Army enlisted represents the majority of IDES referrals, though there would be similar, though slightly smaller, effects on the other services. Service members who are discharged via a FES could represent a loss of human capital to the military. We found that 90 percent of the service members who are discharged through

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

Taking these human capital considerations into account, we modeled several options to restore end strength—increasing retention via a pay raise or through reenlistment bonuses or increasing accessions. We focused on Army-enlisted infantry soldiers (11B), who form the largest share of members in the IDES, and found that increasing accessions is more cost effective than increasing retention for 11B soldiers in the Army. When comparing a pay raise or reenlistment bonuses, we find that bonuses are generally more cost effective than an across-the-board pay raise.

Finally, the policies and legislation underpinning the current system are complex and interconnected, and many of them directly rely on, or reference, disability ratings. For example, the terms *disability* and *rating* are used numerous times in Title 10, Chapter 61, of the U.S.C. and the DoDI for IDES references. Nearly all of these instances are substantive in nature in that they serve to delineate how determinations of compensation are made, as well as what appellate options are available to those service members who are designated disabled. As a result, many aspects of Title 10, Chapter 61, would likely require repeal or amendment under a shift to a FES, and associated authorities would then require rescissions, changes, or reissuances.

In conclusion, while these four alternative FES approaches are possible, our analyses do not point to one clear winner. Instead, we find that across all alternatives, compensation would increase for some service members and decrease for others, and that numerous process and legal changes would be required to implement these alternatives. However, any FES should be evaluated not only on the direct costs and benefits but also on the basis of whether the system is consistent with the broader objective of disability compensation.

For example, if DoD were to decide that DoD disability compensation should be based on career metrics and other compensation objectives should be addressed by the VA, that would provide justification for pursuing a solution like Alternative 2. Similar arguments could be made for the other alternatives if broader policy objectives are to compensate on the basis of disability, unfitting conditions, or the approaches undertaken by our allies. Ultimately, any future changes to the DoD disability compensation system that come under consideration will come down to weighing an alternative's ability to meet the policy objectives against the costs and implication for processing time, end strength, and human capital loss, as laid out in this report.

APPENDIX A

Prior Reform Proposals and Other Disability Compensation Systems

To inform our development of disability compensation alternatives, we reviewed past proposals to reform the IDES as well as military disability compensation systems in selected U.S. allies. This appendix summarizes the key findings from that review.

Prior Proposals to Reform Disability Compensation

Dole-Shalala Commission

In the wake of scandals about substandard care for wounded service members at Walter Reed Hospital, in 2007 the president established the President's Commission on Care for America's Returning Wounded Warriors, also known as the Dole-Shalala Commission. In its report, the commission recommended a major overhaul of the disability determination and compensation systems (Dole and Shalala, 2007).

With respect to the disability compensation system, the commission recommended that DoD determine fitness for service and, for those found not fit for duty, provide payment for years served. In contrast, the commission recommended that the VA should establish the disability rating, compensation, and benefits. Thus, each branch of the armed services would retain the authority to determine whether a member is fit for continued service, but DoD would not provide a DoD disability rating. Instead, members would get a "fit or not fit" decision from DoD. Those found medically unfit would receive a DoD annuity payment where the dollar value would be based solely on rank and length of service, not on rating.

In addition, the commission recommended that Congress create transition payments to cover living expenses for disabled veterans and their families while they are waiting for their final determinations from the VA. The payment either would equal three months of base pay if the veteran is returning to his or her community and not participating in further rehabilitation or would consist of longer-term payments to cover family living expenses while the veteran is participating in rehabilitation or education and training programs. With respect to the VA disability compensation, the commission recommended that once transition payments end, disabled veterans

should receive payments reflecting their reduced earnings capacity (after training) as well as quality-of-life payments to compensate for non-work-related effects of permanent physical and mental combat-related injuries. While many of the commission's recommendations were followed, those related to transforming the disability compensation system were not.

2014 Department of Defense Working Group

In September 2011 the Office of the Secretary of Defense convened a working group of senior representatives throughout DoD to conduct a comprehensive review of military compensation, focusing particularly on retirement compensation, including disability retirement compensation. The working group issued a working paper in 2014 that recommended a streamlined disability retirement benefit that better compensates for the value of a lost career (DoD, 2014a).

Under the proposed system, the amount of the disability benefit would be based solely on years of service, not also on the DoD disability rating, as under the current system. However, qualification would depend on the disability rating. Members deemed unfit and with a DoD disability rating of at least 30 percent, or with at least 12 YOS, would qualify for the benefit. The benefit would equal the highest three years of basic pay times YOS, times a multiplier. Importantly, the DoD disability benefit would no longer be offset for receipt of VA disability compensation, as is the case under the current system. Eliminating the offset also eliminates the need for combat-related special compensation and concurrent retirement and disability pay from DoD that is used today to offset the VA offset.

Moreover, members placed on the TDRL, to be renamed the Interim Disability Retirement List, would receive a benefit with a floor of 70 percent, compared with a floor of 50 percent in the current system. Members found unfit but with a DoD disability rating of less than 30 percent or with fewer than 12 YOS would receive a lump-sum disability severance payment computed as it is in the current system. The formula for severance pay is two times YOS times current monthly basic pay, with a floor of six YOS.

RAND conducted an analysis of alternative military retirement reform concepts for the working group, including an analysis of the proposed reform to the DoD disability retirement system (Asch, Hosek, and Mattock, 2014). The analysis found that the current DoD disability benefit does not fully compensate for the expected value of a lost military career for either enlisted personnel or officers. The value of a lost career depends on both financial and nonfinancial factors, including the length of a military career, whether a member stays in the military long enough to qualify for retirement benefits, whether individuals plan to retire from the military and enter a civilian career, and various similar concerns. The value of being able to continue a military career changes over the course of a member's career, increasing the closer a member gets to 20 YOS and retirement eligibility, and also depends on whether the member is an officer or enlisted member. The proposed disability benefit attempted to close the gap for

a greater number of disabled service members. The analysis found that the proposed system would be a clear improvement, due primarily to eliminating the VA offset.

Other Disability Compensation Systems

U.S. Civilian Disability Compensation

In some cases, veterans may qualify for civilian disability benefits in addition to disability benefits provided by DoD or the VA. Veterans may also be eligible for SSDI or Supplemental Security Income (SSI) through the Social Security Administration. SSDI and SSI are designed to compensate for any disability that renders an individual unable to work for at least a year. In order to qualify for SSDI, individuals must have a disability that renders them unable to work at substantial gainful activity levels ($1,260 monthly in 2020) for 12 months and have sufficient work history in order to be insured. Social Security taxes are withheld from military earnings, meaning that 10 quarters of military service would meet this requirement (Social Security Administration, 2020). Individuals with lower incomes may qualify for SSI. SSI uses the same criteria for evaluating the severity of disability as SSDI, but eligible beneficiaries must also satisfy a means test and an asset test. The formula for SSDI benefits is based on individuals' earnings while they were working, while the SSI benefit is set at a federal maximum, which is reduced with an individual's earned and unearned income.[1]

Because SSI is a means-tested benefit, the benefit is reduced dollar for dollar by other forms of unearned income, such as VA or DoD disability benefits (Duggan, Kearney, and Rennane, 2016). Service members are also eligible for Social Security Retirement benefits under the same eligibility guidelines as civilians, with no offsets (Social Security Administration, 2020). Individuals who receive SSDI are eligible for Medicare beginning 24 months after disability entitlement, and all individuals over age 65 also qualify for Medicare. Individuals receiving SSI are automatically eligible for Medicaid in 33 states and the District of Columbia; other states either use the same eligibility criteria and require a separate application or have some additional eligibility criteria that an SSI beneficiary must meet in order to receive Medicaid (Rupp, Kalman, Riley, 2016).

U.S. Allies

For comparison, we also reviewed disability compensation in three U.S. allies: the United Kingdom, Canada, and Australia. We describe at a high level the basic structure of disability compensation, which is common across the three U.S. allies considered. We provide details about the specific formulae for compensation in each nation.

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[1] See Social Security Administration, undated, for more details on the SSDI benefit calculation; and Duggan, Kearney, and Rennane, 2016, for more details on the SSI benefit calculation.

The structure of benefits in these nations highlights some similarities with the U.S. approach but also offers a perspective on alternative ways to structure compensation. However, these alternatives must be considered in the broader context of the size, culture, and overall safety net in each of these countries, as well as the health care delivery systems, all of which vary significantly from the United States.

Military Pension Compensation

Service members who experience a disability that leaves them unable to serve are all eligible for disability compensation through the military pension system in each of the nations in our review. The amount of disability compensation, similar to the DoD retirement benefit, is determined by the standard military pension formula and is based on prior earnings. The timing of benefit payments (immediately after disability or delayed until retirement age) and structure of benefits (e.g., monthly or lump sum) vary with the severity of the disability. These payments are intended to compensate for the loss of the military career.

Veterans Disability Compensation

In addition, in each nation, the Department of Veterans Affairs provides two main types of disability benefits. These benefits have a similar structure across all three nations in our review. First, service members are eligible for an impairment-based award that is determined based on the rated severity of the disability. This payment is described as compensating service members for the pain and suffering associated with the injury or illness they experienced as a result of their military service. The amount of the payment is determined by the severity of the disability, typically summarized in a disability rating or schedule. Depending on the nation, service members are eligible to receive all or part of the award in a onetime lump sum. The impairment-based award is provided tax-free and is not offset by any other forms of compensation the veteran may receive.

Second, service members may be eligible to receive an additional payment that is designed to compensate for earnings losses associated with the disability. This award is determined by the difference between the service member's earnings before and after the disability and is sometimes adjusted by age or disability severity. The earnings loss payment is provided only to service members with more severe disabilities, for one of two reasons. In some countries, such as the United Kingdom, there is an explicit rule that only service members with more severe disabilities are eligible for the earnings loss payment (United Kingdom, 2012). In others, the payment is implicitly only available to service members with more severe disabilities, because there must be an earnings loss present in order for the service member to qualify. If service members are able to earn similar amounts after experiencing disability compared with what they earned before, they typically are not eligible for this payment. Furthermore, these earnings loss payments can be offset by defense disability compensation provided through the pension system.

Because all three U.S. allies have national health insurance systems, a veteran's eligibility for health benefits is guaranteed under the national system rather than by the severity of condition or eligibility for a particular type of benefit. In some of the countries, such as the United Kingdom, service members may receive priority access for services (United Kingdom National Health Service, 2020).

Additional details on disability compensation in the United Kingdom, Canada, and Australia are provided in Tables A.1–A.3.

Table A.1
Military Disability Compensation in the United Kingdom

Compensation Type	Title	Details
Defense compensation	Armed Forces Ill-Health Pension	• Based on prior earnings and years of service • Monthly payment or lump sum depending on severity • Tax-free
Veterans compensation—lump sum	Lump-sum payment (AFCS)	• Payment for pain and suffering • Based on injury tariff schedule (Tiers 1–15) • Tax-free
Veterans compensation—earnings losses	Guaranteed Income Payment (GIP) (AFCS)	• Monthly pension for individuals in 11 most severe tariff tiers • Formula based on preinjury salary, age, and an adjustment factor linked to the tariff schedule • Tax-free
Other compensation	Employment and Support Allowance	*Eligibility for Employment and Support Allowance* • Must be under pension age • Must have a disability or health condition that affects how much veteran can work • Can receive while receiving payment from the AFCS
	Personal Independence Pay (PIP) (previously Disability Living Allowance)	*Eligibility for PIP* • Must be between age 16 and state pension age • Must have a health condition or disability where veteran has had difficulties with daily living for three months, expect these to continue for at least nine months • If someone is receiving Armed Forces Independence Pay, he or she cannot receive PIP at the same time. However, someone can receive PIP while waiting for the AFCS decision. Armed Forces Independence Pay is only for those with a GIP >50%, so if the GIP <50%, member can still receive PIP.
	Armed Forces Independence Pay	*Eligibility for Armed Forces Independence Pay* • Receiving GIP >50%
Offsets	GIP offset by Armed Forces Pension	
Health Insurance	Priority access under national health insurance system	

SOURCES: Infolaw Limited, 2016; United Kingdom Ministry of Defence, 2020; Veterans Affairs Canada, 2014.

NOTES: AFCS = Armed Forces Compensation Scheme

Table A.2
Military Disability Compensation in Canada

Compensation Type	Title	Details
Defense compensation	Armed Forces Disability Pension	• Based on earnings and YOS • Taxable
Veteran's compensation—lump sum	Pain and Suffering Compensation	• Based on Veteran's Disability Assessment • Monthly payments for life, option for a lump sum • Tax-free
Veteran's compensation—earnings losses	Income Replacement Benefit	• Provides income support during rehabilitation • If impairment results in permanently diminished earnings capacity, payments continue indefinitely • Based on higher of the veteran's salary at release or a minimum threshold with inflation adjustment • Taxable
Other compensation	Canada Pension Plan Disability Benefit	*Pension Plan Eligibility* • Must be greater than 60 years old • Made at least one valid contribution to the Canada Pension Plan *Disability Pension* • Severe and prolonged disability • Under age 65 • Meet Canada Pension Plan contribution requirements
Offsets	Income Replacement Benefit offset by other income sources, including Armed Forces Disability Pension and civilian benefits	
Health insurance	Covered under Canadian National Health Insurance	

SOURCES: Government of Canada, 2021; Veterans Affairs Canada, 2014, 2019.

Table A.3
Military Disability Compensation in Australia

	Title	Details
Defense compensation	Invalidity retirement—Military Superannuation	• Based on incapacity, age, prior annual pay • Taxable
Veteran's compensation—lump sum	Permanent Impairment Compensation	• Payment for functional loss, pain, suffering, and lifestyle effects • Based on disability rating, lifestyle rating • 25%–75% paid as lump sum, remainder paid biweekly • Tax-free
Veteran's compensation—earnings losses	Incapacity payments	• Payment for economic loss or reduced work capacity • Based on the difference between preinjury and actual earnings • Generally taxable
Other compensation	National Disability Insurance Scheme	*Eligibility Criteria for National Disability Insurance Scheme* • Under age 65, Australian citizen or resident, meet the disability or early intervention requirement
	Disability Support Pension	*Eligibility Criteria for Disability Support Pension* • Between ages 16 and 66, Australian resident for 10 years • Meet additional income rules • Must meet manifest medical rules (either Department of Veterans Affairs or general medical rules)
Offsets	Incapacity payments offset by Commonwealth contributions to military pension	
Health insurance	Covered under Medicare Australia (national health insurance)	

SOURCES: Australian Government, Department of Veterans' Affairs, 2020; Australian Government, Services Australia, 2020; Veterans Affairs Canada, 2014.

APPENDIX B

Analysis File Development on Medical Discharges

Our retiree pay analysis data file is composed of variables from multiple data sets: (1) Retiree Pay files, (2) ADP files, (3) DEERS files, (4) ADM files, (5) the VTA header file, and (6) the associated VTA conditions file.[1]

The Retiree Pay file serves as the foundation for linking all of these files in our analysis data file. Records in the Retiree Pay files are monthly snapshots organized by scrambled Social Security number (SSSN). We restricted these data to records with a pay entitlement effective date within FY 2015 and kept only those meeting any of the following conditions: retirement group was disability, DoD disability rating was not equal to 0, and separation payment code indicated disability severance pay. After these constraints were applied, if multiple records remained per SSSN, the one with a Retiree Pay file date closest to the record's pay entitlement effective date was used. The resulting file provides data on disability ratings and monthly benefit amounts for all service members who were discharged because of disability and began receiving disability retirement during FY 2015.

To incorporate service members who instead received disability severance, we added additional service members and associated fields from the ADP files. The ADP files include data on receipt of disability severance pay, and we included all records for service members who received disability severance pay in FY 2015, based on the ADP file date. A single date variable (which we call the monthly pay entitlement effective date) was created for these SSSNs by keeping the month and year of the pay entitlement effective date or ADP file date, depending on where the record came from (two overlapping Retiree Pay file and ADP file SSSNs were dropped). The key variables from ADP files included disability severance pay and basic monthly pay. This combined list of SSSNs and monthly pay entitlement effective date formed the foundation of our retiree pay analysis data file, onto which all other variables were linked.

One additional note is required describing how one variable—basic monthly pay—was pulled from the ADP files. Pay adjustments to basic monthly pay are at or near the time of disenrollment, resulting in very low or even negative amounts. So it

[1] When analyzing sensitive information from DMDC or VA data sources, we followed appropriate guidelines on the use of personally identifying information.

was not accurate to pull the value of this field for the last month that we found them in the data. Instead, we pulled the basic pay of service members up to and including six months before their last appearance in the ADM files, then kept the basic monthly pay value with an ADP file date that was (1) closest to the last month we saw them in the ADM files and (2) greater than $500. Basic monthly pay was coded as missing in the few cases these criteria could not be met.

All additional variables were linked using one or a combination of SSSN, monthly pay entitlement effective date, and the file date associated with the variable being added. First, data on dependents were pulled from DEERS. Dependents were identified as the spouse, child, or other dependent of a service member using a combination of the dependent suffix code, multiple membership identifier, person association reason code, and member relationship code. Additionally, because DEERS is self-reported, divorced spouses often appear in the data alongside current spouses. For these records, we set the number of spouses associated with the SSSN to 1. These data were then linked to the retiree pay analysis foundation by SSSN and date. Next, DoD occupation code and service occupation code were added from ADM files, again using SSSN and date.

For both the DEERS and ADM variables, an exact match between monthly pay entitlement effective date and file date was typically not possible. Instead, for each variable, we selected and merged only the record with the file date closest to a service member's monthly pay entitlement effective date. In the event of ties, where, for instance, a record existed two months before and another two months after a service member's monthly pay entitlement effective date, we selected the record before.

Finally, the merged version of the VTA header and conditions files (described in Appendix C) was linked to the retiree pay analysis data file by SSSN. Only one case per SSSN was kept: the case with the latest disenrollment date. Included in this merged version of the VTA data were the grade from the ADM files and YOS, which was derived using the pay entry base date from the ADP files.

APPENDIX C

File Development for Analysis of Alternative 3

This appendix describes the data and analysis file development for our analysis of Alternative 3. Under this Alternative, DoD would provide a fixed level of benefits to all service members with a given unfitting condition. As discussed in the main text, we termed this form of compensation system a *fixed-rate* approach to disability compensation.

Data

RAND received extracts from the DoD of two data sets in March 2020: (1) a VTA header file and (2) a conditions file. Together, these form the basis of our analysis of Alternative 3. The VTA header file is organized by service and case ID, providing details on the dates at which service members entered and completed the various stages of the IDES. The conditions file provides information on the medical conditions associated with each case ID, such as whether the condition is fitting or unfitting, whether the condition is combat related, and the VA rating and VASRD code it was assigned. Additionally, two other data sets were used to add the years of service and grade of service members: (1) the ADP files and (2) the ADM files. Both data sets are organized as monthly snapshots of service members by SSSN. We extracted all months from January 2007 to March 2019, keeping SSSN, file dates for ADP and ADM, pay entry base date from ADP, and grade from ADM.

The VTA header and conditions files were linked using the combination of service and case ID. The resulting data set was then merged with the ADP and ADM data using a combination of SSSN, disenrollment date from VTA, and file dates from ADP and ADM. For this merge, disenrollment date and file dates needed to be used because the grade and pay entry base date for service members generally change over time. For our analysis, we needed the value of both variables for the file month closest to a service member's disenrollment date. To this end, the disenrollment date from the VTA header file was converted into a monthly date by dropping the day and keeping only the single record with an ADP and ADM file date closest to this disenrollment date. In the event of two records being the closest to a disenrollment date—for example, the

closest ADP or ADM records are two months before and two months after a disenrollment date—the tie was settled by selecting the record before the disenrollment date.

Ideally, we would have been able to link the monthly ADP and ADM file dates exactly with the disenrollment dates. In practice, data availability was such that this did not yield a usable number of matches. However, using the method just described, most cases (greater than 90 percent) were linked to grade and pay entry base date within four months before a service member's monthly disenrollment date. As a final note, YOS were derived at this point by taking the difference between a service member's monthly disenrollment date and his or her pay entry base date. Rare instances of negative YOS from the calculation were replaced as missing.

Step-by-Step Sample Construction for Department of Defense Ratings Sample

Our analysis uses VTA data extracted in March 2020 on active-duty personnel referred to an MEB between 2012 and 2018. Numerous restrictions were made on this combined data set as follows:

- We only kept cases from the VTA header file that linked to the conditions file.
- We excluded the Coast Guard and cadets and required that cases had an MEB referral date between 2012 and 2018, had a disenrollment date[1] after the MEB referral date, and were disenrolled at the time of the data pull.
- We kept cases that linked to our ADP and ADM extracts.
- We only considered active-duty cases.
- We only included cases that resulted in a medical discharge.
- We also required that both the VASRD codes and the DoD disability percentage assigned to cases be nonmissing.
- All these restrictions left us with a sample of 91,435 cases (from a starting point of 276,155), which we referred to as the "full sample with medical discharge."
- For the fixed-rate analysis, one additional constraint was applied: Only cases that had a single unfitting condition were considered. This left us with a final "fixed-rate sample" of 59,710 cases.

These constraints and their effects on the number of cases in the final fixed-rate sample are listed in Table C.1.

Several considerations led us to make the final constraint—keeping cases that consist of only a single unfitting condition. First, our analysis required detailed data on each unfitting condition, including the VASRD code and the DoD rating it was assigned.

[1] Disenrollment date identifies the date on which a service member is recorded as exiting the IDES process, irrespective of outcome. All disenrolled cases in the VTA have nonmissing disenrollment dates.

Table C.1
Veterans' Tracking Application Sample Construction

Restriction Made	Number of Cases
All cases in March 2020 extract	276,155
Case links to VTA conditions file	148,731
Case has MEB referral date in 2012–2018; disenrolled by time of data pull; excludes Coast Guard and cadets; disenrollment date after MEB referral date	110,237
Case links to pay files (ADP and ADM)	95,052
Case is for an active-duty service member	93,240
Case resulted in medical discharge	91,577
VASRD and DoD percentage are nonmissing ("full sample with medical discharge")	91,435
Case consists of a single unfitting condition ("fixed-rate sample")	59,710

SOURCE: Authors' computations based on data from the VTA, 2012–2018.

While VTA data capture the total DoD rating by case, DoD rating by condition is not recorded. For single-condition cases, this is not an issue, as the total rating is also the condition's rating, but for cases with multiple unfitting conditions, the same inference is not possible. By way of providing a sense of scale for this problem, about 35 percent of cases from our full sample have multiple conditions. Finally, the fixed-rate sample represents the simplest cases and excludes many higher-severity and higher-complexity cases. This frees the analysis from additional considerations, such as the impact of the interaction between two or more related conditions on ratings and overall compensation.

Sample Descriptive Statistics

As indicated in Table C.2, roughly two-fifths of cases in our single-condition sample come from the Army, with the remainder represented relatively equally by each of the three other services. Further, cases are overwhelmingly drawn from the ranks of the enlisted, which compose nearly 96 percent of the total number cases in the fixed-rate sample. The average ratings are also lowest in the Army, and lowest among enlisted ranks. The VASRD is an extremely detailed coding system, and there are 716 unique conditions (VASRD codes) that appear in the fixed-rate sample. However, half of all cases in the fixed-rate sample are accounted for by the ten VASRD codes, shown in Table C.3. Seven of the ten most common conditions are musculoskeletal disorders. Two mental disorders (PTSD and clinical depression) account for about 13 percent of cases; and asthma, which accounts for 2.2 percent of cases, rounds out the ten most common conditions. Average ratings are substantially higher for PTSD than for other conditions.

Table C.2
Summary Statistics for Single-Condition Cases

	Number of Cases	Percentage of Total	Average Rating
Service Branch			
Air Force	10,999	18.4	40
Army	24,682	41.3	20
Marines	12,750	21.4	31
Navy	11,279	18.9	41
Rank			
Enlisted	57,202	95.8	29
Officer	2,294	3.8	43
Warrant	214	0.4	31
Total	59,710	100	30

SOURCE: Authors' computations based on data from the VTA, 2012–2018.

Table C.3
Ten Most Common Veterans Administration Schedule for Rating Disabilities Codes in Single-Condition Cases

VASRD Condition and Code	Mean Rating	Number of Cases	Percentage of All Cases
PTSD (9411)	60	4,719	7.9
Degenerative Arthritis of the Spine (5242)	20	4,506	7.5
Intervertebral Disc Syndrome (5243)	20	3,766	6.3
Back Pain (5237)	20	3,653	6.1
Clinical Depression (9434)	60	3,170	5.3
Knee Cannot Bend All the Way (5260)	10	3,082	5.2
Shoulder/Arm Limitation of Motion (5201)	20	2,495	4.2
Degenerative Arthritis (5003)	10	2,096	3.5
Ankle Is Limited in Motion (5271)	10	1,915	3.2
Asthma (6602)	40	1,313	2.2
Subtotal of top ten		*30,715*	*51.4*

SOURCE: Authors' computations based on data from the VTA, 2012–2018.

Impacts of Fixed Compensation on Specific Groups of Highly Prevalent Conditions

As suggested by the analysis presented in Chapter Four, the impact of assigning a fixed rating depends on the extent of variation in ratings within specific conditions under the status quo. To illustrate this point further, we analyzed three specific conditions that appeared among the top ten most common unfitting conditions for service members with a single condition—PTSD, asthma, and back pain. In these analyses, we reported the frequency with which service members would experience increases or decreases in their ratings relative to the status quo.

In practice, all DoD disability ratings are multiples of ten, and many service members have increases or decreases in ratings that may not lead to a change after rounding to the nearest multiple of ten. To address this issue, we also counted how many service members would experience increases or decreases with a magnitude greater than ten. To illustrate the financial stakes of these changes, we considered two representative career profiles, one enlisted (E-5 with 8 YOS) and one officer (O-3 with 9 YOS). These assumptions were necessary for us to calculate the monthly amount of DoD disability retirement under the status quo and the alternative rating assigned.

Posttraumatic Stress Disorder

In our single-condition sample of service members referred to the IDES in 2012–2018 and medically discharged, PTSD (VASRD code 9411) was the most common unfitting impairment, accounting for about 8 percent of cases. The range of possible ratings for PTSD is very limited: over 90 percent of single-impairment PTSD cases are assigned a rating of 50 percent (50 percent of cases) or 70 percent (43 percent of cases). One-hundred-percent ratings are assigned to 5 percent of cases.

Under a mean rating, all PTSD cases would receive a rating of 60 percent. Because the status quo distribution of ratings for PTSD is tightly clustered and close to symmetric, positive and negative impacts on ratings are very close to balanced: Ratings would fall for 52 percent of service members, and ratings would rise for 48 percent of service members (Table C.4). The presence of 100 percent ratings skews the distribution somewhat, so that service members who would receive higher ratings slightly outnumber service members who would receive lower ratings.

Nearly all of these changes are service members moving from ratings of 50 or 70 percent to a rating of 60 percent, but we note that the 5 percent of service members with 100 percent ratings would also be assigned a rating of 60 percent. These individuals account for nearly all cases that would see a change in ratings larger than 10 percentage points. The average increase in ratings for those with increasing ratings would be $340 for our hypothetical E-5, and $663 for our hypothetical O-3. For those individuals for whom ratings decreased, the average decrease was $321 for our hypothetical E-5 and $624 for our hypothetical O-3.

Table C.4
Impact on Benefits for Posttraumatic Stress Disorder

	Mean Rating E-5, 8 YOS	Mean Rating O-3, 9 YOS
% with an increase in ratings	51.6	51.6
% with increase in ratings (strictly > 10%)	1.4	1.4
Average change in DoD benefit for those with any increase	$340	$663
% with decrease in ratings	48.3	48.3
% with decrease in ratings (strictly > 10%)	5.6	5.6
Average change in DoD benefit for those with any decrease	–$321	–$624
N	4,719	4,719

SOURCE: Authors' computations based on data from the VTA, 2012–2018. Distribution of changes in ratings, including percentage with increase in ratings and percentage with decrease in ratings, is calculated using all PTSD cases in the VTA data.

Asthma

Asthma (VASRD code 6602) is the tenth most common single condition, accounting for 2.3 percent of single-condition cases. We chose asthma to represent an additional body system, since all other conditions among the ten most common were musculoskeletal conditions (such as back pain) or mental disorders (such as PTSD). Asthma also had an average rating of 40, intermediate between PTSD and back pain.

Compared with PTSD, ratings for asthma are much lower on average and far more right skewed. Ratings for asthma generally fall into three clusters that account for the bulk of asthma cases. Most (64 percent) receive a rating of 30 percent disabled. Some receive higher ratings of 60 percent (15 percent of cases) or 50 percent (4 percent of cases), while a few receive lower ratings of 10 percent (10 percent of cases).

Under a mean rating, all asthma cases would receive a rating of 40 percent. Because the status quo distribution of ratings for asthma is right skewed, using the mean rating would result in slight increases for the bulk of cases, including the nearly two in three service members whose asthma is rated at 30 percent under the status quo. Relatively few (12.3 percent of all asthma cases) would see an increase over 10 percentage points, though (Table C.5). These increases would be balanced by much larger reductions in ratings for 23 percent of cases, including the 15 percent of all asthma cases who would see their ratings fall from 60 percent to 40 percent. Over four in five of these cases with declining ratings (19.1 percent of all asthma cases) would see reductions larger than 10 percentage points, however.

The average increase in ratings for those with increasing ratings would be $476 for our hypothetical E-5 and $926 for our hypothetical O-3. The average decrease in

Table C.5
Impact on Benefits for Asthma

	Mean Rating E-5, 8 YOS	Mean Rating O-3, 9 YOS
% with an increase in ratings	76.7	76.7
% with increase in ratings (strictly > 10%)	12.3	12.3
Average change in DoD benefit for those with any increase	$476	$926
% with decrease in ratings	23.2	23.2
% with decrease in ratings (strictly > 10%)	19.1	19.1
Average change in DoD benefit for those with any decrease	–$641	–$1,248
N	1,313	1,313

SOURCE: Authors' computations based on data from the VTA, 2012–2018. Distribution of changes in ratings, including percentage with increase in ratings and percentage with decrease in ratings, is calculated using all asthma cases in the VTA data.

ratings for those with decreasing ratings would be $641 for our hypothetical E-5 and $1,248 for our hypothetical O-3.

Back Pain

Our third case study focused on back pain, which we defined as cases with any of three specific conditions: degenerative arthritis of the spine (VASRD code 5242), intervertebral disc syndrome (VASRD code 5243), and generic back pain (VASRD code 5237). These three conditions were the second, third, and fourth most common unfitting conditions in our sample, respectively. All three of these conditions have an average rating of 20 percent under the status quo, so they would be treated identically under a system with a fixed rating.

Taken together, back pain cases are numerous, accounting for one in five single-condition cases. These cases play a major role in shaping the overall distributions shown in Chapter Five: most cases receive ratings of 10 percent or 20 percent, but a large minority receive a higher rating of 40 percent (14 percent for arthritis, 20 percent for disc disease, and 9 percent for generic back pain). These higher ratings make the distribution moderately right skewed.

Under the mean rating, all back pain cases would receive a rating of 20 percent. Forty-five percent of cases would receive higher ratings, but nearly all of these are cases currently rated at 10 percent that would be shifted to 20 percent (Table C.6). Sixteen percent of cases would receive lower ratings, nearly all of which (15.2 percent of all back pain cases) would be a reduction of more than 10 percentage points.

Table C.6
Impact on Benefits for Back Pain

	Mean Rating E-5, 8 YOS	Mean Rating O-3, 9 YOS
% with an increase in ratings	44.9	44.9
% with increase in ratings (strictly > 10%)	1.6	1.6
Average change in DoD benefit for those with any increase	$0	$0
% with decrease in ratings	16.3	16.3
% with decrease in ratings (strictly > 10%)	15.2	15.2
Average change in DoD benefit for those with any decrease	–$1,296	–$2,522
N	11,925	11,925

SOURCE: Authors' computations based on data from the VTA, 2012-2018. Distribution of changes in ratings, including % with increase in ratings and % with decrease in ratings, is calculated using all back pain cases in the VTA data.

Because the mean rating for back pain is 20 percent, service members who receive a rating of 10 percent under the status quo would see no change in their benefits even though their ratings would be higher. The average decrease in ratings for those with decreasing ratings would be $1,296 for our hypothetical E-5 and $2,522 for our hypothetical O-3.

APPENDIX D

Policy and Legal Requirements

This appendix contains an overview of the statutes, regulations, and policy authorities governing the disability evaluation system. We begin with a summary of the requirements in Title 10 U.S.C. Chapter 61 and other regulatory requirements and then summarize statutory, regulatory, and policy modifications for alternative disability compensation systems.

Current Integrated Disability Evaluation System Statutory, Regulatory, and Policy Authorities

Specific Title 10 U.S. Code Chapter 61 Requirements

Title 10 U.S.C. Chapter 61 requires that a "disability determination" be made for the service members and that such a determination include a percentage rating that is less than, equal to, or greater than 30 percent (10 U.S.C. § 1201(b)). The law requires DoD to make a determination as to whether the disability is of a "permanent nature and stable" (10 U.S.C. § 1201(b)(1)). Moreover, the payments for disability severance separation or retirement must be based on YOS and disability rating calculations (see 10 U.S.C. § 1212(a), 10 U.S.C. § 1201(a), and 10 U.S.C. § 1401, respectively). With respect to determining the disability percentage rating itself, the statute directs (or implies) the use of the VASRD in 13 of the 26 sections of Chapter 61 (as noted in Table D.1). Exception to use of the VASRD is permissible for a service member only if the Service Secretary and Secretary of the VA agree on alternative criteria. However, the alternative criteria must pay a greater benefit than that resulting from use of the VASRD (10 U.S.C. § 1216a(a)).

With regard to temporary disability determinations, Title 10 also mandates the use of a TDRL for service members whose disability determination results in a finding that the disability is not of a "permanent nature and stable" (10 U.S.C. § 1216a(a)). The TDRL is to be used in lieu of separation or retirement (and in lieu of separation or retirement compensation) for disabled service members who meet medical qualifications. Service members may remain on the list for five years and must be reevaluated every 18 months (10 U.S.C. § 1216a(a)).

Title 10 also requires that distinctions be made between a disability incurred in the line of duty (or a qualified preexisting condition that may be as though it were in the line of duty) and a disability that results from intentional misconduct or willful neglect of the service member (10 U.S.C. § 1216a(a)). It also imposes a condition on disability separation or retirement pay such that service members may not receive any additional payments (unless they rejoin the service) (10 U.S.C. § 1216a(a)). In terms of both legal protections and direct support provided to the service member, the law requires the following: (1) the provision of due process by means of providing the opportunity for a "full and fair hearing" before their being separated or retired based on a disability determination (10 U.S.C. § 1214), (2) the extension of disability separation and retirement processes and benefits to nonregular service members (under certain conditions) (10 U.S.C. §§ 1215, 1217), and (3) the mandatory provision of PEBs[1] and physical evaluation board liaison officers (PEBLOs), as well as the corresponding standards, guidance, training, and operating procedures for these officers (10 U.S.C. § 1222).

Finally, Title 10 also requires each of the service components to publish regulations that are particular to the disability evaluation system. These regulations must be consistent with all the requirements of Chapter 61 (10 U.S.C. § 1216). Additionally, none of the service components may discharge a service member based on a disability until he or she either has made a claim for compensation, pension, or hospitalization with the VA or has refused to file such a claim (10 U.S.C. § 1218). Table D.1 contains a list of relevant authorities.

Specific Regulatory Requirements

The regulations noted in Table D.1 also delineate specific requirements that DoD personnel must abide in order to implement the disability evaluation system statutorily prescribed by Title 10 U.S.C. Chapter 61. These regulations direct that a disability evaluation system must exist for the purposes of making disability separation and retirement compensations determinations (DoDI 1332.18, 2014, pp. 1–2). As part of this system, DoD is required to empanel both MEBs and PEBs, both of which are required to have defined operating procedures and standards (DoDI 1332.18, 2014, pp. 15–21; see also DoDM 1332.18, Vol. 2, 2014, pp. 10–12, 29–31). Further, service member disability-related medical documentation must be generated as part of a rigorous and defined set of steps and procedures that begin at the military treatment facility and then are followed through as part of the MEB, IPEB, and—if required—FPEB processes (DoDI 1332.18, 2014, pp. 11-14, 16–21; see also DoDM 1332.18, Vol. 2, 2014, pp. 31–36). Regulations also dictate that DoD personnel must employ the IPEB, FPEB, and VA D-RAS mechanisms in order to evaluate a service member's

[1] In addition to determining disability, PEBs also determine issues related to suitability findings by a service with respect to deployment or assignment eligibility. See 10 U.S.C. § 1214a.

Table D.1
Summary of Current Integrated Disability Evaluation System Statutory, Regulatory, and Policy Authorities

Statute, Regulation, or Other Authority	IDES Function	Description	Disability-Related Requirements
Statutes:			
10 U.S.C. § 1201	Retirement payments	Retirement of active-duty SMs who are determined to be unfit because of disability	SM has least 20 YOS and at least 30% disability rating; VASRD required
10 U.S.C. § 1202	TDRL standards	Placement on TDRL of active-duty SMs who are determined to be unfit because of disability	Determination that SM's disability is not "of a permanent nature and stable" but may become so
10 U.S.C. § 1203	Separation payments	Separation of active-duty SMs who are determined to be unfit because of disability	SM has less than 20 YOS and less than 30% disability rating; VASRD required
10 U.S.C. § 1204	Retirement payments	Retirement of active-duty SMs (served for <30 days) or inactive-duty training members who are determined to be unfit because of disability	SM disability must be deemed "permanent nature and stable"; at least 20 YOS and at least 30% disability rating; VASRD required
10 U.S.C. § 1205	TDRL standards	Placement on TDRL of active-duty SMs (served for <30 days) who are determined to be unfit because of disability	Determination that SM's disability is not "of a permanent nature and stable" but may become so
10 U.S.C. § 1206	Separation payments	Separation of active-duty SMs (served for <30 days) who are determined to be unfit because of disability	SM has less than 20 YOS and less than 30% disability rating; VASRD required
10 U.S.C. § 1207	Separation payments	Separation of active-duty SMs who are determined to be unfit because of disability resulting from intentional misconduct or willful neglect	SM is separated without disability benefits
10 U.S.C. § 1207a	Retirement payments	Retirement of SMs with at least 8 YOS with preexisting disability	SM shall be eligible for disability retirement payments
10 U.S.C. § 1209	Retirement payments	Placement (by voluntary election) of SM on the inactive status list because of disability in lieu of separation	SM has at least 20 YOS and less than 30% disability rating; eligible for retirement payments at 60 years of age; VASRD required

Table D.1—Continued

Statute, Regulation, or Other Authority	IDES Function	Description	Disability-Related Requirements
10 U.S.C. § 1210	TDRL standards	Reevaluation of SMs on TDRL to determine disability status	Reevaluation every 18 months; TDRL term not to exceed five years; SM returned to duty, retired, or separated (in accordance with YOS and disability rating); VASRD required
10 U.S.C. § 1211	TDRL standards	Reevaluation resulting in finding of fitness and return to duty	Disability retirement pay terminates upon return to duty
10 U.S.C. § 1212	Separation payments	Disability severance payments for SMs separated under § 1203 or 1206	SM is paid twice the amount of basic pay times YOS (not to exceed 19 years); VASRD required
10 U.S.C. § 1213	Separation payments	Effects of disability severance payments for separated SMs	Separated SM may not receive any other disability payments unless SM rejoins a service
10 U.S.C. § 1214	Due process	Retirement or separation because of a disability: procedural rights	No SM may be retired or separated for a disability without a full and fair hearing (if demanded by the SM)
10 U.S.C. § 1214a	Fitness determinations	PEB fitness-for-duty determinations versus unsuitability for deployment	SM cannot be separated by Service Secretary if PEB finds fitness; final determination by the Secretary of Defense
10 U.S.C. § 1215	Retirement payments	Applicability for SMs who are nonregular members	Disability benefits extended to regular members shall be extended to nonregular SMs; VASRD required
10 U.S.C. § 1216	Service Secretaries	Powers, functions, and duties of Service Secretaries	Service Secretaries shall prescribe regulations to carry out 10 U.S.C. Ch. 61 and shall have powers to make determination of fitness, percentage disability, severance payments, and disability retirement pay; VASRD required
10 U.S.C. § 1216a	VASRD	Requirements and limitations on determinations of disability	Service Secretary required to use VASRD for disability determinations; shall also take into account all medical conditions rendering SM unfit
10 U.S.C. § 1217	Retirement and separation payments	Applicability of 10 U.S.C. Ch. 61 to cadets and midshipmen	Cadets and midshipmen are to be considered "service members" for the purposes of all disability benefits; VASRD required
10 U.S.C. § 1218	Disability claims	Discharge or release requirements of active-duty SMs because of disability	SM may not be discharged or released until he or she has made a claim for compensation, pension, or hospitalization (or has waived or refused to make such claim)

Table D.1—Continued

Statute, Regulation, or Other Authority	IDES Function	Description	Disability-Related Requirements
10 U.S.C. § 1221	TDRL standards	Effective dates of retirement or placement on TDRL	Service Secretary may specify an effective date of retirement or placement on TDRL notwithstanding 5 U.S.C. 8301 requirements; VASRD required
10 U.S.C. § 1222	PEBs	Describes and details requirements for services to establish PEB and PEBLOs	Service Secretary must ensure PEBs operate under Secretary of Defense published regulations, training, and procedures (including appeals procedures)
10 U.S.C. § 1071 note	Definitions	National Defense Authorization Act stand-alone provisions related to DoD and VA disability programs	A DES must include PEBs, MEBs, counseling members, and mechanisms for final disability evaluations by appropriate personnel; VASRD required
10 U.S.C. § 1413a	CRSC standards	Retirement determinations for SMs with combat-related disabilities	CRSC disability payments are separate from retired pay; CRSC may reduce disability retirement pay received under 10 U.S.C. Ch. 61
Regulations			
DoDM 1332.18 vol. 1	DES implementation	Describes and details responsibilities and standards for implementation of 10 U.S.C. Ch. 61 DES requirements	• MEB documentation standards • Requires PEB use of VASRD to assign disability rating • PEBLO responsibilities • SM legal representation requirements • Timeline standards for DES process
DoDM 1332.18 vol. 2	IDES implementation	Describes and details responsibilities and standards for implementation of 10 U.S.C. Ch. 61 IDES requirements	• Delineates process steps from military treatment facility through FPEB • Detail procedures for SM and DoD for MEB, IPEB, FPEB, and VA D-RAS • Delineates time to completion goals for MEB, PEB, VA D-RAS, and VA phases
DoDM 1332.18 vol. 3	DES quality assurance	Describes and details DoD procedures to assess IDES performance	MEB and PEB decisions must be reviewed for accuracy and consistency
DoDI 1332.18	IDES implementation	Establishes policy, assigns responsibilities, and provides procedures for IDES	• Delineates specific operational standards and procedures for MEB and PEB • Defines the term *disability* and establishes criteria to determine unfitness

Table D.1—Continued

Statute, Regulation, or Other Authority	IDES Function	Description	Disability-Related Requirements
DoDI 6040.44	PDBR functions	Establishes policy, responsibilities, and standards for PDBR	PDBR reassess the accuracy and fairness of the SM's combined disability ratings (from PEB)
Army Regulation AR 635-40	IDES implementation (Army)	Establishes Army DES to comply with all requirements of 10 U.S.C. Ch. 61 and the DoDM and DoDI 1332.18 series	• Delineates process and standards for Army MEB and PEB • Establishes criteria for unfitness • Details use of VASRD and TDRL • Describes appellate process
Navy Manual M-1850.1	IDES implementation (Navy)	Establishes Navy DES to comply with all requirements of 10 U.S.C. Ch. 61 and the DoDM and DoDI 1332.18 series	• Delineates process and standards for Navy MEB and PEB • Establishes criteria for unfitness • Details use of VASRD and TDRL • Describes appellate process
Air Force Instruction AFI 36-3212	IDES implementation (Air Force)	Establishes Air Force DES to comply with all requirements of 10 U.S.C. Ch. 61 and the DoDM and DoDI 1332.18 series	• Delineates process and standards for Air Force MEB and PEB • Establishes criteria for unfitness • Details use of VASRD and TDRL • Describes appellate process

NOTES: DES = disability evaluation system; D-RAS = Disability Rating Activity Site; PDBR = Physical Disability Board of Review; SM = service member.

disability and determine the disability rating (DoDI 1332.18, 2014, p. 44; see also DoDM 1332.18, Vol. 2, 2014, pp. 24–26, 29–31).

The regulations also impose detailed requirements that enable DoD to implement certain statutory demands of Title 10 U.S.C. Chapter 61. For example, the regulations describe how DoD should apply the VASRD, the use of which is mandatory, when determining disability ratings (DoDM 1332.18, Vol. 1, 2014, pp. 10–11). With regard to the TDRL, the regulations lay out a detailed management framework that DoD personnel must employ to make determinations as to how service members are placed on the TDRL and how they are subsequently reevaluated (including exams, appeals, prioritization of cases, etc.) (DoDI 1332.18, 2014, pp. 43–46). In order to provide due process and other protections to service members, the regulations direct the assignment of PEBLOs and describe specific qualifications, duties, and training standards that are applicable to PEBLOs.[2] Finally, the regulations delineated IDES case processing timelines and standards that DoD personnel must meet in order to fulfill the statutory requirements of Chapter 61 (DoDM 1332.18, Vol. 2, 2014, pp. 38–42).

[2] As to due process protections, see DoDI 1332.18, 2014, pp. 12, 18-21. As to PEBLO support, see DoDM 1332.18, Vol. 1, 2014, pp. 12–17.

Statutory, Regulatory, and Policy Modifications for Alternative Disability Compensation Systems

Table D.2 organizes each of the statutes according to how much modification would be required under a FES. We categorize modifications as likely to be required if the section of the authority could not be modified with the simple replacement of the term *unfitness* for the term *disability*. We categorize modifications as "maybe" required if the section of the authority could possibly retain its current form but for the replacement of the term *unfitness* for the term *disability*. These were qualitative assessments made based on an interpretation of the authoritative section's reliance on conducting disability determinations or application of the VASRD rating scheme. We categorize modifications as unlikely for sections that do not reference the term *disability* or the VASRD rating. In total, 18 statutes and 12 regulations are categorized as likely to require modification, and six statutes and one regulation have modifications categorized as "maybe." We find that four statutes and one regulation are unlikely to require modifications.

Table D.2
Alternative Courses of Action: Statutory, Regulatory, and Policy Modifications

Statute, Regulation, or Other Authority	Current IDES Function	Modifications Required	Suggested Modifications
Statutes			
10 U.S.C. § 1201	Retirement payments	Likely	• Strike disability rating determination • Strike use of VASRD rating • Maintain use of disability as it relates to causation (of unfitting condition) • Relate "permanent nature and stable" to unfitness (not disability)
10 U.S.C. § 1202	TDRL standards	Likely	• Repeal section or strike use of *disability* and replace with *unfitness*
10 U.S.C. § 1203	Separation payments	Likely	• Strike disability rating determination • Strike use of, and reference to, VASRD rating
10 U.S.C. § 1204	Retirement payments	Likely	• Strike disability rating determination • Strike use of VASRD rating • Maintain use of disability as it relates to causation (of unfitting condition) • Relate "permanent nature and stable" to unfitness (not disability) • Strike disability determination
10 U.S.C. § 1205	TDRL standards	Likely	• Repeal section or strike use of *disability* and replace with *unfitness*
10 U.S.C. § 1206	Separation payments	Likely	• Strike disability rating determination • Strike use of VASRD rating • Maintain use of disability as it relates to causation (of unfitting condition)

Table D.2—Continued

Statute, Regulation, or Other Authority	Current IDES Function	Modifications Required	Suggested Modifications
10 U.S.C. § 1207	Separation payments	Maybe	• Strike and replace the term *disability* with *unfitness*
10 U.S.C. § 1206a	RC member processing	Unlikely	None
10 U.S.C. § 1207a	Retirement payments	Maybe	• Strike and replace the term *disability* with *unfitness*
10 U.S.C. § 1208	Computing service time	Unlikely	None
10 U.S.C. § 1209	Retirement payments	Likely	• Strike disability rating determination • Strike use of VASRD rating
10 U.S.C. § 1210	TDRL standards	Likely	• Repeal section or amend and strike use of *disability* and replace with *unfitness* • If amend, strike disability rating determination • If amend, strike use of VASRD rating
10 U.S.C. § 1211	TDRL standards	Likely	• Repeal section or amend and strike use of *disability* and replace with *unfitness* • If amend, strike reference to "disability retired pay"
10 U.S.C. § 1212	Separation payments	Likely	• Strike disability rating determination • Strike use of VASRD rating • Maintain use of disability as it relates to causation (of unfitting condition)
10 U.S.C. § 1213	Separation payments	Maybe	• Strike and replace the term *disability* with *unfitness*
10 U.S.C. § 1214	Due process	Likely	• Strike and replace the term *disability* with *unfitness* for the purposes of providing a "full and fair hearing"
10 U.S.C. § 1214a	Fitness determinations	Likely	• Strike disability rating determination • Strike use of PEB for evaluation purposes (unless limited to unfitness or unsuitability for deployment only)
10 U.S.C. § 1215	Retirement payments	Likely	• Strike and replace the term *disability* with *unfitness*
10 U.S.C. § 1216	Service Secretaries	Likely	• Strike disability rating determination • Strike use of VASRD rating • Maintain use of disability as it relates to causation (of unfitting condition)
10 U.S.C. § 1216a	VASRD	Likely	• Repeal section or amend to strike use of disability rating • If amend, strike disability rating determination • If amend, strike use of VASRD rating and substitute unfitness finding • If amend, maintain use of disability as it relates to causation (of unfitting condition)

Table D.2—Continued

Statute, Regulation, or Other Authority	Current IDES Function	Modifications Required	Suggested Modifications
10 U.S.C. § 1217	Retirement and separation payments	Likely	• Strike use of *physical disabilities* and replace with *unfitness determinations*
10 U.S.C. § 1218	Disability claims	Likely	• Strike disability rating determination and disability evaluation process
10 U.S.C. § 1218a	Discharge transition assistance	Unlikely	None
10 U.S.C. § 1219	Origin of injury statements	Unlikely	None
10 U.S.C. § 1221	TDRL standards	Maybe	• Strike and replace the term *disability* with *unfitness*
10 U.S.C. § 1221	PEBs	Maybe	• Amend to include statement that PEBs (if retained to make determination under FES) shall evaluate SMs for "unfitness"
10 U.S.C. § 1071 note	Definitions	Likely	• Repeal note sections or amend to strike the definition and use of the terms *disability* and *disability evaluation system* as parts of physical evaluation process as they relate to disability ratings and compensation determinations • If amend, strike disability rating determination • If amend, strike use of VASRD rating and substitute unfitness finding • If amend, maintain use of disability as it relates to causation (of unfitting condition)
10 U.S.C. § 1413a	CRSC standards	Maybe	• Strike and replace the term *disability* with *unfitness*
Regulations			
DoDM 1332.18 vol. 1	DES implementation	Likely	• Strike and replace the term *disability* with *unfitness* throughout as it relates compensation determinations
Enclosure 3	MEB	Unlikely	None
Enclosure 4	VASRD	Likely	• Strike use of VASRD to determine a physical evaluation rating • Strike use of disability determinations and ratings
Enclosure 5	PEBLOs	Likely	• Change or revise to delineate training, guidance, and standards for PEBLO application of a FES (to properly advise or support SMs)

Table D.2—Continued

Statute, Regulation, or Other Authority	Current IDES Function	Modifications Required	Suggested Modifications
Enclosure 6	Due process	Likely	• Strike use of VASRD to determine disability rating • Strike use of disability determinations and ratings • Change or revise legal counsel requirements to address "unfitness" rather than "disability"
Enclosure 7	DES process	Maybe	• Change or revise to focus on "fitness" versus "unfitness" determinations rather than "disability" • Change or revise to remove implied application of VASRD as a disability rating metric
DoDM 1332.18 vol. 2	IDES implementation	Likely	• Strike and replace the term *disability* with *unfitness* throughout as it relates to compensation determinations
Enclosure 3	IDES process	Likely	• Change or revise to strike disability rating procedures from IPEB, VA D-RAS, and PEBLO procedures as they relate to compensation determinations • Strike application of VASRD as a disability rating metric
Enclosure 4	IPEB, PEB, and D-RAS process	Likely	• Change or revise to strike *disability* and *disability rating determination* from IPEB, FPEB, VA D-RAS, and PEBLO procedures as they relate to compensation determinations • Strike application of VASRD as a disability rating metric
Enclosure 5	TDRL process	Likely	• Change or revise to strike disability rating procedures from PEB and VA D-RAS procedures for TDRL as they relate to compensation determinations • Strike application of VASRD as a disability rating metric
Enclosure 7	IDES timeline	Likely	• Change or revise to strike disability rating procedures from PEB and VA D-RAS timeline standards as they relate to compensation determinations • Strike application of VASRD as a disability rating metric
DoDI 1332.18	IDES implementation		• Strike and replace the term *disability* with *unfitness* throughout as it relates to compensation determinations
Enclosure 3	PEB	Likely	• Change or revise to strike disability rating as a standard for evaluation determinations as it relates to compensation determinations • Change or revise *disability determination* to *unfitness determination* • Strike application of VASRD as a disability rating metric

Table D.2—Continued

Statute, Regulation, or Other Authority	Current IDES Function	Modifications Required	Suggested Modifications
Appendix 2	Unfitness	Likely	• Change or revise the use of the definition of *disability* to determine the criteria for "unfitness" determinations only (as opposed to compensation determinations)
Part II	Definitions	Likely	• Strike the term and definition of *disability* for the purposes of a physical evaluation system as it relates to compensation determinations
DoDI 6040.44	PDBR functions	Likely	• Change or revise to strike disability rating as a standard for evaluation determinations • Change or revise references to determination of "disability" to determination of "unfitness" • Strike application of VASRD as a disability rating metric
Army Regulation AR 635-40	IDES implementation (Army)	Likely	• Change or revise to strike disability rating as a standard for evaluation determinations • Change or revise *disability determination* to *unfitness determination* • Strike application of VASRD as a disability rating metric
Navy Manual M-1850.1	IDES implementation (Navy)	Likely	• Change or revise to strike disability rating as a standard for evaluation determinations • Change or revise *disability determination* to *unfitness determination* • Strike application of VASRD as a disability rating metric
Air Force Instruction AFI 36-3212	IDES implementation (Air Force)	Likely	• Change or revise to strike disability rating as a standard for evaluation determinations • Change or revise *disability determination* to *unfitness determination* • Strike application of VASRD as a disability rating metric
Policies			
DoD *Wounded, Ill, and/or Injured Compensation and Benefits Handbook*	IDES and VA processes	Likely	• Revise Chapter 5, "Disability Evaluation," to be consistent with a "fitness" evaluation system • Strike and replace the term *disability* with *unfitness* throughout when referencing military physical evaluation systems as they relate to compensation determinations

NOTE: Sections of law, regulation, or policy not addressed in this table have been deemed not to require substantive repeal, amendment, rescission, change, or revision. This is not to say, however, that these sections may not need to be modified to use terminology that is consistent with other sections that may be substantively modified because of the adoption of a FES rather than a DES.

APPENDIX E

Additional Results for Alternative 1b, With and Without Combat-Related Special Compensation

Because of the complexity of the CRSC formula, in this appendix we walk through examples of the computation of the net DoD disability benefit. These examples, given in Table E.1, show the computation of the benefit under the status quo and Alternative 1b with and without CRSC for an E-5 with 8 YOS, assuming a DoD rating of 30 percent. We show the benefit calculation when the VA rating is 30 percent (left panel) and when it is 60 percent (right panel).

In the no-CRSC case, the change in net DoD benefit between the status quo and Alternative 1b is negative when the VA rating is 30 percent, equal to –$278, because the DoD benefit is based on the rating formula under the status quo but on the retirement formula under Alternative 1b. When the VA rating is 60 percent, the DoD net benefit formula actually produces negative amounts, –$121 and –$400 for the status quo and Alternative 1b, respectively. Because benefits cannot be less than zero, the actual benefit is set to $0 in both cases and the difference is $0.

Next, we turn to the computation of the net DoD benefit including CRSC. Given our assumption that the combat portion on which CRSC is based is 20 points below the VA rating, the combat-related VA benefit would be 10 percent and 40 percent in the 30 percent and 60 percent VA rating cases, respectively. In the absence of a floor of $0 for CRSC or the retirement formula cap, the CRSC amount would be negative (equal to –$208) under the status quo and assuming a 30 percent total VA rating. This occurs because the deduction of the difference of the DoD gross benefit and the retirement amount ($962 – $614 = $348) exceeds the combat-related VA amount of $140. Instead, the CRSC amount is set to $0 for a 30 percent VA case because of the floor of $0 for the value of CRSC. Under Alternative 1b, the CRSC amount is $140 because there is no difference between the DoD gross benefit under Alternative 1b and the retirement amount. Given these amounts and the net DoD benefit in the absence of CRSC shown in the table, the net DoD benefit with CRSC is $427 under the status quo and $288 under Alternative 1b. The difference for the 30 percent VA rating case is –$138.

Similarly, in the absence of the cap, the CRSC amount would be $4 above the $614 retirement benefit under Alternative 1b when the VA rating is 60 percent, or $618.

Table E.1
Examples of the Computation of the Net Monthly Department of Defense Disability Benefit Under Alternative 1b and the Status Quo for an E-5 with 8 Years of Service, Assuming a Department of Defense Rating of 30 Percent Under the Status Quo, 2019 Dollars

	VA Rating = 30%			VA Rating = 60%		
	Status Quo	Alt. 1b	Difference	Status Quo	Alt. 1b	Difference
No CRSC						
Monthly retirement amount	$614	$614		$614	$614	
DoD gross disability benefit	$962	$614		$962	$614	
VA benefit	$429	$429		$1,114	$1,114	
Net DoD benefit formula without consideration of floor	$427	$148		–$121	–$400	
Net DoD benefit	$427	$148	($278)	$0	$0	$0
With CRSC						
Combat-related VA benefit	$140	$140		$618	$618	
CRSC amount without consideration of cap or floor	($208)	$140		$270	$618	
CRSC amount	$0	$140		$270	$614	
Net DoD benefit with CRSC	$427	$288	($138)	$270	$614	$344

SOURCE: Authors' computations using 2019 pay tables.

NOTES: The net DoD benefit is subject to taxation, and we assume a 20 percent tax rate. Tabulations assume member has no dependents and that the combat portion on which CRSC is based is 20 points below the VA rating.

Since CRSC cannot exceed the retirement benefit cap, the CRSC amount is $614 under Alternative 1b. Under the status quo, the CRSC amount is $270 per month. Given these amounts and the net DoD benefit in the absence of CRSC shown in the table, the net DoD benefit with CRSC is $270 under the status quo and $614 under Alternative 1b. The difference for the 60 percent VA rating case is $344. In short, the examples in Table E.1 illustrate the roles of the $0 floor for the CRSC amount and the DoD net benefit and the role of the retirement benefit cap on the CRSC amount. These constraints affect the net benefit computations with and without CRSC, thereby affecting the differences between Alternative 1b and the status quo system.

APPENDIX F

Additional Results for Alternative 1 and 2, With and Without Combat-Related Special Compensation

This appendix contains expanded tables (Tables F.1–F.4) for Alternatives 1 and 2. While the tables in Chapter Four show results for selected VA disability ratings, the tables in this appendix show results for the complete range of applicable ratings.

Table F.1
Alternative 1b: Difference in Net Monthly Department of Defense Disability Benefit Between Alternative 1b and the Status Quo for More-Senior Personnel for Selected Grades and Years of Service in 2019 Dollars, Assuming 30 Percent Department of Defense Rating Under Status Quo

		VA Disability Rating															
		30%		40%		50%		60%		70%		80%		90%		100%	
Grade	YOS	No CRSC	With CRSC	No CRSC	With CRSC	No CRSC	With CRSC	No CRSC	With CRSC	No CRSC	With CRSC	No CRSC	With CRSC	No CRSC	With CRSC	No CRSC	With CRSC
E-5	8	($278)	($138)	($275)	$1	($66)	$282	$0	$344	$0	$83	$0	$0	$0	$0	$0	$0
E-6	12	($35)	$9	($35)	$9	($35)	$9	($35)	$9	$0	$44	$0	$44	$0	$0	$0	$0
E-7	19	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
E-8	23	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
E-9	27	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
O-3	9	($392)	($252)	($392)	($116)	($392)	$36	($392)	$98	($375)	$115	($193)	$298	($31)	$438	$0	$241
O-4	17	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
O-5	23	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
O-6	27	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
O-7	30	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0

SOURCE: Authors' computations based on DoD compensation formulas using 2019 pay tables.

NOTES: The net DoD disability benefit is the gross monthly DoD benefit minus the VA benefit, after taxes. Tabulations assume member would receive a 30 percent DoD disability rating under the status quo and has no dependents, and that the combat portion on which CRSC is based is 20 points below the VA rating. Under Alternative 1b, junior personnel would receive a disability rating and be compensated as they are under the current system. Compensation for senior personnel who are found unfit to continue serving would be based on a benefit formula that uses career metrics.

Table F.2
Alternative 1b: Difference in Net Monthly Department of Defense Disability Benefit Between Alternative 1b and the Status Quo for More-Senior Personnel for Selected Grades and Years of Service in 2019 Dollars, Assuming 70 Percent Department of Defense Rating Under Status Quo

		VA Disability Rating							
		70%		80%		90%		100%	
Grade	YOS	No CRSC	With CRSC	No CRSC	With CRSC	No CRSC	With CRSC	No CRSC	With CRSC
E-5	8	($673)	($59)	($491)	$123	($329)	$285	$0	$613
E-6	12	($1,047)	($168)	($865)	$249	($703)	$416	$0	$1,081
E-7	19	($871)	$8	($871)	$218	($871)	$218	($212)	$877
E-8	23	($598)	$150	($598)	$150	($598)	$150	($598)	$150
E-9	27	($213)	$53	($213)	$53	($213)	$53	($213)	$53
O-3	9	($2,372)	($1,493)	($2,190)	($1,076)	($2,028)	($646)	($1,050)	$332
O-4	17	($1,774)	($895)	($1,774)	($660)	($1,774)	($371)	($1,774)	($143)
O-5	23	($995)	($115)	($995)	$119	($995)	$249	($995)	$249
O-6	27	($331)	$83	($331)	$83	($331)	$83	($331)	$83
O-7	30	$0	$0	$0	$0	$0	$0	$0	$0

SOURCE: Authors' computations based on compensation formulas using 2019 pay tables.

NOTES: The net DoD disability benefit is the gross monthly DoD benefit minus the VA benefit, after taxes. Tabulations assume member would receive a 70 percent DoD disability rating under the status quo and has no dependents, and that the combat portion on which CRSC is based is 20 points below the VA rating. Under Alternative 1b, junior personnel would receive a disability rating and be compensated as they are under the current system. Compensation for senior personnel who are found unfit to continue serving would be based on a benefit formula that uses career metrics.

Table F.3
Alternatives 2a, 2b, and 2c: Difference in Net Monthly Department of Defense Disability Benefit Between Each Alternative and the Status Quo for Selected Grades and Years of Service in 2019 Dollars, Assuming 30 Percent Department of Defense Rating Under Status Quo

		VA Disability Rating															
		30%		40%		50%		60%		70%		80%		90%		100%	
Grade	YOS	No CRSC	With CRSC	No CRSC	With CRSC	No CRSC	With CRSC	No CRSC	With CRSC	No CRSC	With CRSC	No CRSC	With CRSC	No CRSC	With CRSC	No CRSC	With CRSC
E-3	2: 2a	$51	$51	$51	$51	$0	$0	$0	($64)	$0	$0	$0	$0	$0	$0	$0	$0
	2b	($20)	($20)	($11)	($11)	$0	$0	$0	$14	$0	$0	$0	$0	$0	$0	$0	$0
	2c	($162)	($61)	($11)	$90	$0	$101	$0	$14	$0	$0	$0	$0	$0	$0	$0	$0
E-4	4: 2a	$49	$49	$49	$49	$0	$0	$0	($61)	$0	$0	$0	$0	$0	$0	$0	$0
	2b	($30)	($30)	($30)	($30)	$0	$0	$0	$37	$0	$0	$0	$0	$0	$0	$0	$0
	2c	($270)	($130)	($119)	$124	$0	$243	$0	$149	$0	$0	$0	$0	$0	$0	$0	$0
E-5	8: 2a	$18	$18	$18	$18	$18	($5)	$0	($23)	$0	($23)	$0	$0	$0	$0	$0	$0
	2b	($33)	($33)	($33)	($33)	($33)	$8	$0	$41	$0	$41	$0	$0	$0	$0	$0	$0
	2c	($278)	($138)	($275)	$1	($66)	$282	$0	$344	$0	$83	$0	$0	$0	$0	$0	$0
E-6	12: 2a	$175	$78	$175	($44)	$175	($44)	$175	($44)	$0	($218)	$0	$0	$0	$0	$0	$0
	2b	($35)	$9	($35)	$9	($35)	$9	($35)	$9	$0	$44	$0	$44	$0	$0	$0	$0
	2c	($35)	$9	($35)	$9	($35)	$9	($35)	$9	$0	$44	$0	$44	$0	$0	$0	$0
E-7	19: 2a	$588	$447	$588	$311	$588	$159	$588	($30)	$588	($147)	$588	($147)	$588	($147)	$0	($734)
	2b	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
	2c	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0

Table F.3—Continued

		VA Disability Rating															
		30%		40%		50%		60%		70%		80%		90%		100%	
Grade	YOS	No CRSC	With CRSC	No CRSC	With CRSC	No CRSC	With CRSC	No CRSC	With CRSC	No CRSC	With CRSC	No CRSC	With CRSC	No CRSC	With CRSC	No CRSC	With CRSC
E-8	23: 2a	$1,042	$902	$1042	$766	$1,042	$614	$1,042	$425	$1,042	$163	$1,042	($71)	$1,042	($261)	$1,042	($261)
	2b	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
	2c	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
E-9	27: 2a	$1,122	$982	$1122	$845	$1,122	$693	$1,122	$504	$1,122	$242	$1,122	$8	$1,122	($280)	$1,122	($280)
	2b	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
	2c	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
O-1	2: 2a	$576	$576	$576	$576	$576	$576	$482	$482	$250	$205	$67	($94)	$0	($162)	$0	($84)
	2b	($21)	($21)	($21)	($21)	($21)	($21)	$0	$0	$0	$26	$0	$0	$0	$0	$0	$0
	2c	($453)	($311)	($302)	($141)	($93)	$69	$0	$162	$0	$116	$0	$0	$0	$0	$0	$0
O-2	4: 2a	$572	$572	$572	$572	$572	$572	$572	$572	$572	$572	$462	$376	$300	($75)	$0	($466)
	2b	($77)	($77)	($77)	($77)	($77)	($77)	($77)	($77)	($73)	($73)	$0	$96	$0	$91	$0	$0
	2c	($823)	($683)	($701)	($424)	($492)	($63)	($304)	$162	($73)	$394	$0	$381	$0	$91	$0	$0
O-3	9: 2a	$778	$778	$778	$778	$778	$778	$778	$651	$778	$389	$778	$155	$778	($135)	$0	($973)
	2b	($24)	($24)	($24)	($24)	($24)	($24)	($24)	$6	($24)	$6	($24)	$6	($24)	$6	$0	$30
	2c	($392)	($252)	($392)	($116)	($392)	$36	($392)	$98	($375)	$115	($193)	$298	($31)	$438	$0	$241
O-4	17: 2a	$1,579	$1,439	$1,579	$1,302	$1,579	$1,150	$1,579	$961	$1,579	$699	$1,579	$465	$1,579	$175	$1,579	($53)
	2b	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
	2c	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0

Table F.3—Continued

		VA Disability Rating															
		30%		40%		50%		60%		70%		80%		90%		100%	
Grade	YOS	No CRSC	With CRSC	No CRSC	With CRSC	No CRSC	With CRSC	No CRSC	With CRSC	No CRSC	With CRSC	No CRSC	With CRSC	No CRSC	With CRSC	No CRSC	With CRSC
O-5	23: 2a	$2,325	$2,185	$2,325	$2,048	$2,325	$1,896	$2,325	$1,707	$2,325	$1,445	$2,325	$1,211	$2,325	$921	$2,325	$693
	2b	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
	2c	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
O-6	27: 2a	$2,402	$2,262	$2,402	$2,125	$2,402	$1,973	$2,402	$1,784	$2,402	$1,522	$2,402	$1,288	$2,402	$998	$2,402	$770
	2b	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
	2c	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
O-7	30: 2a	$2,518	$2,378	$2,518	$2,242	$2,518	$2,090	$2,518	$1,901	$2,518	$1,639	$2,518	$1,405	$2,518	$1,115	$2,518	$887
	2b	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
	2c	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0

SOURCE: Authors' computations using data from DMDC: Retiree Pay File, ADM File, ADP File, DEERS; and VA: VTA data. Alternative 2a was estimated using the DRM.

NOTES: The net DoD disability benefit is the gross monthly DoD benefit minus the VA benefit, after taxes. Tabulations assume member would receive a 30 percent DoD disability rating under the status quo and has no dependents from the standpoint of computing VA disability benefits. They also assume the combat portion on which CRSC is based is 20 points below the VA rating. The table shows the total VA rating, so the combat portion would be 20 points less. Thus, if the VA rating is 30 percent, the combat portion is assumed to be 10 percent. DRM estimation for Alternative 2a uses the 2007 pay table, inflated to 2019 dollars. Analyses for Alternatives 2b and 2c use the 2019 pay table. Alternative 2a replaces current disability benefit with a benefit based on an estimate of the expected value of the lost military career. Alternative 2b bases the disability benefit on the current retirement pay formula with a floor of 12 YOS. Alternative 2c bases the disability benefit on the current retirement pay formula without any YOS floor, as in 2b.

Table F.4
Alternatives 2a, 2b, and 2c: Difference in Net Monthly Department of Defense Disability Benefit Between Each Alternative and the Status Quo for Selected Grades and Years of Service in 2019 Dollars, Assuming 70 Percent Department of Defense Rating Under Status Quo

		VA Disability Rating							
		70%		80%		90%		100%	
Grade	YOS	No CRSC	With CRSC	No CRSC	With CRSC	No CRSC	With CRSC	No CRSC	With CRSC
E-3	2: 2a	($56)	$45	$0	$101	$0	$70	$0	$0
	2b	($56)	$45	$0	$101	$0	$70	$0	$0
	2b	($56)	$45	$0	$101	$0	$70	$0	$0
E-4	4: 2a	($308)	($65)	($126)	$117	$0	$243	$0	$157
	2b	($308)	($65)	($126)	$117	$0	$243	$0	$157
	2c	($308)	($65)	($126)	$117	$0	$243	$0	$157
E-5	8: 2a	($673)	($165)	($491)	$123	($329)	$285	$0	$613
	2b	($673)	($101)	($491)	$123	($329)	$285	$0	$613
	2c	($673)	($59)	($491)	$123	($329)	$285	$0	$613
E-6	12: 2a	($1,047)	($430)	($865)	($13)	($703)	$416	$0	$1,081
	2b	($1,047)	($168)	($865)	$249	($703)	$416	$0	$1,081
	2c	($1,047)	($168)	($865)	$249	($703)	$416	$0	$1,081
E-7	19: 2a	($284)	($139)	($284)	$71	($284)	$71	($212)	$143
	2b	($871)	$8	($871)	$218	($871)	$218	($212)	$877
	2c	($871)	$8	($871)	$218	($871)	$218	($212)	$877

Table F.4—Continued

		VA Disability Rating							
		70%		80%		90%		100%	
Grade	YOS	No CRSC	With CRSC	No CRSC	With CRSC	No CRSC	With CRSC	No CRSC	With CRSC
E-8	23: 2a	$444	$313	$444	$78	$444	($111)	$444	($111)
	2b	($598)	$150	($598)	$150	($598)	$150	($598)	$150
	2c	($598)	$150	($598)	$150	($598)	$150	($598)	$150
E-9	27: 2a	$909	$296	$909	$61	$909	($227)	$909	($227)
	2b	($213)	$53	($213)	$53	($213)	$53	($213)	$53
	2c	($213)	$53	($213)	$53	($213)	$53	($213)	$53
O-1	2: 2a	($486)	($486)	($486)	($486)	($392)	($392)	$0	$77
	2b	($736)	($664)	($553)	($392)	($392)	($230)	$0	$162
	2c	($736)	($574)	($553)	($392)	($392)	($230)	$0	$162
O-2	4: 2a	($1,022)	($1,022)	($1,022)	($1,022)	($1,022)	($1,022)	($344)	($344)
	2b	($1,667)	($1,667)	($1,484)	($1,302)	($1,323)	($856)	($344)	$122
	2c	($1,667)	($1,200)	($1,484)	($1,018)	($1,323)	($856)	($344)	$122
O-3	9: 2a	($1,219)	($1,219)	($1,219)	($1,219)	($1,219)	($1,219)	($1,050)	($881)
	2b	($2,021)	($1,602)	($2,021)	($1,368)	($2,021)	($1,078)	($1,050)	$121
	2c	($2,372)	($1,493)	($2,190)	($1,076)	($2,028)	($646)	($1050)	$332
O-4	17: 2a	($195)	($195)	($195)	($195)	($195)	($195)	($195)	($195)
	2b	($1,774)	($895)	($1,774)	($660)	($1,774)	($371)	($1,774)	($143)
	2c	($1,774)	($895)	($1,774)	($660)	($1,774)	($371)	($1,774)	($143)

Table F.4—Continued

		VA Disability Rating							
		70%		80%		90%		100%	
Grade	YOS	No CRSC	With CRSC	No CRSC	With CRSC	No CRSC	With CRSC	No CRSC	With CRSC
O-5	23: 2a	$1,330	$1,330	$1,330	$1,330	$1,330	$1,170	$1,330	$942
	2b	($995)	($115)	($995)	$119	($995)	$249	($995)	$249
	2c	($995)	($115)	($995)	$119	($995)	$249	($995)	$249
O-6	27: 2a	$2,070	$1,605	$2,070	$1,371	$2,070	$1,081	$2,070	$853
	2b	($331)	$83	($331)	$83	($331)	$83	($331)	$83
	2c	($331)	$83	($331)	$83	($331)	$83	($331)	$83
O-7	30: 2a	$2,518	$1,639	$2,518	$1,405	$2,518	$1,115	$2,518	$887
	2b	$0	$0	$0	$0	$0	$0	$0	$0
	2c	$0	$0	$0	$0	$0	$0	$0	$0

SOURCE: Authors' computations using data from DMDC: Retiree Pay File, ADM File, ADP File, DEERS; and VA: VTA data. Alternative 2a was estimated using the DRM.

NOTES: The net DoD disability benefit is the gross monthly DoD benefit minus the VA benefit, after taxes. Tabulations assume member would receive a 70 percent DoD disability rating under the status quo and has no dependents from the standpoint of computing VA disability benefits. They also assume the combat portion on which CRSC is based is 20 points below the VA rating. The table shows the total VA rating, so the combat portion would be 20 points less. Thus, if the VA rating is 30 percent, the combat portion is assumed to be 10 percent. DRM estimation for Alternative 2a uses the 2007 pay table, inflated to 2019 dollars. Analyses for Alternatives 2b and 2c use the 2019 pay table. Alternative 2a replaces current disability benefit with a benefit based on an estimate of the expected value of the lost military career. Alternative 2b bases the disability benefit on the current retirement pay formula with a floor of 12 YOS. Alternative 2c bases the disability benefit on the current retirement pay formula without any YOS floor, as in 2b.

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The joint U.S. Department of Defense (DoD)–Department of Veterans Affairs (VA) Integrated Disability Evaluation System is the process by which DoD determines fitness for duty and separation or retirement of service members because of disability. Service members who are evaluated for disability undergo a comprehensive medical examination to document all medical conditions and receive a disability rating for every condition documented during the exam. DoD and the VA use these ratings to determine the amount of disability compensation service members receive if they are determined to be unfit to continue serving and consequently medically discharged.

Proposals for reforming the DoD compensation system have been considered in the past, but a rigorous evaluation of what those alternatives might look like and how they would affect service member benefits and costs to DoD has not been conducted. In this report, the authors describe their evaluation of four hypothetical alternative disability compensation approaches that would support a simpler disability evaluation process: compensating based on the current objectives of the DoD system (and using current benefit formulas), compensating on the basis of a military career, compensating on the basis of unfitting conditions, or compensating similar to U.S. allies.

Each alternative reduces reliance on disability ratings for determining DoD disability compensation and focuses primarily on a single decision about whether a service member is fit to perform his or her duties. The authors evaluate the potential effects of each alternative on service member compensation, processing times, end strength, lost skills and experience, and readiness.

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