United States General Accounting Office

GAO

Report to Congressional Committees

March 1995

VETERANS' BENEFITS

Basing Survivors' Compensation on Veterans' Disability Is a Viable Option

GAO/HEHS-95-30

GAO

United States
General Accounting Office
Washington, D.C. 20548

Health, Education, and
Human Services Division

B-259214

March 6, 1995

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United States Senate

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Ranking Minority Member
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The Honorable G. V. (Sonny) Montgomery
Ranking Minority Member
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House of Representatives

This report provides information on the income and benefits received by surviving spouses of servicemembers who died on active duty and the surviving spouses of certain disabled veterans. It also assesses alternative ways of determining these spouses' benefits under the Department of Veterans Affairs' Dependency and Indemnity Compensation program. The report was requested by the Congress in the Veterans' Benefits Act of 1992.

This report was prepared under the direction of Ruth Ann Heck, Assistant Director, Federal Health Care Delivery Issues, who may be reached at (202) 512-7007 if you have any questions concerning the report. Other major contributors are listed in appendix IV.

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Executive Summary

Purpose

In 1993, the Department of Veterans Affairs' (VA) Dependency and Indemnity Compensation (DIC) program paid benefits totaling $2.7 billion to about 276,000 surviving spouses of servicemembers who died on active duty and surviving spouses of certain disabled veterans. These benefits were paid under the Veterans' Benefits Act of 1992, which changed the basis for DIC benefits from the military rank of the deceased servicemember or veteran to a flat rate for all surviving spouses.

In enacting this legislation, the Congress expressed continued interest in the adequacy of support surviving spouses receive and asked GAO to study and report on DIC benefits. In response, GAO, among other things, (1) estimated DIC recipients' total income and determined the kinds and amounts of benefits received from other programs, (2) determined the financial impact on surviving spouses of the deaths of totally disabled veterans and of veterans who had been receiving supplemental payments because they had multiple severe disabilities and were unable to care for themselves, and (3) assessed alternative ways to set DIC benefits.

Background

The DIC program's objectives are (1) to partially compensate survivors for income lost as a result of the deaths of servicemembers or of veterans who died because of service-connected disabilities and (2) to indemnify the survivors for a life lost as a result of service to the country. For most surviving spouses, the flat rate benefit in 1994 was $9,228 annually. However, survivors of veterans who had been 100-percent disabled for 8 or more years received a supplemental benefit of $2,028 annually. Those surviving spouses who were receiving higher benefits when the flat rate took effect continue to receive benefits at the higher levels.

In determining DIC recipients' income and other benefits, GAO used several data sources, including the Bureau of the Census' Current Population Survey and automated benefit files from VA, the Department of Defense (DOD), and the Social Security Administration (SSA). GAO used actuarial projections in developing cost estimates for the alternatives it assessed: (1) limiting the period of entitlement to benefits, (2) replacing monthly payments with a lump sum, (3) funding benefits through reductions in veterans' disability compensation, and (4) using a percentage of veterans' disability compensation to set the amount of benefits.

Results in Brief

In 1993, DIC recipients had an estimated median income of $16,495. The minimum DIC benefit equaled about 55 percent of that income. The

spouses often received other benefits; chief among them, Social Security (received by 61 percent) and DOD survivor benefits (received by 6 percent).

When severely disabled veterans die, their spouses receive significantly less VA support. Veterans who are 100-percent disabled receive basic disability compensation of about $21,000 annually; their surviving spouses receive about 50 percent less. In addition to basic compensation, some veterans receive supplemental payments because they have multiple severe disabilities or are unable to care for themselves. For the surviving spouses of these veterans, the reduction in support is more dramatic; DIC benefits can be as much as 80 percent less than the annual support the veterans received from VA.

Most of the alternatives GAO assessed have substantial drawbacks in that they would dramatically reduce benefits to all recipients or substantially increase federal outlays. However, one alternative—basing DIC benefits on the level of veterans' basic disability compensation—would, without increasing program costs, increase benefits for about two-thirds of recipients while decreasing them for about one-third. This alternative would also ensure that when veterans die, VA support to their spouses changes more proportionately. Currently, support to the spouses of the most severely disabled is reduced the most while support to the spouses of the least disabled may increase as much as ninefold.

GAO's Analysis

DIC Benefits Are a Significant Part of Surviving Spouses' Incomes

Surviving spouses had an estimated median total income from all sources of $16,495 in 1993. This income was more than double the federal poverty level of $7,363 for a single person with no dependents. While the total incomes of about 20 percent of these spouses were below the federal poverty level, twice as many would have been below that level if they had not received DIC benefits.

During 1993, surviving spouses received an average of $9,846 in DIC benefits. Sixty-one percent of these survivors also received an average of $6,405 in Social Security benefits. About 6 percent received an average of $6,326 under DOD's Survivor Benefit Plan, which provides benefits to survivors of military personnel who die in retirement, or after becoming eligible for retirement, and had elected survivors' coverage.

Many DIC recipients are eligible for other benefits, including death gratuities (immediate cash payments) from DOD and SSA, burial benefits from VA, monthly cash benefits for education or training, and medical benefits from VA or DOD.

Benefits Decline Sharply for Spouses of the Severely Disabled

Almost 70 percent of the surviving spouses who become eligible for DIC benefits were married to veterans who were receiving VA compensation at the basic 100-percent disability rate—which in 1994 was $21,288 annually. Upon the veterans' deaths, most spouses receive DIC benefits of less than half that amount.

The basic disability compensation is intended to replace veterans' income lost because of disabilities. In addition, totally disabled veterans who have multiple severe disabilities and are unable to care for themselves receive supplemental payments intended to defray their costs of care. These additional payments can increase their total benefits to over $60,000 annually. About 4 percent of DIC recipients had been married to such veterans. These spouses can receive maximum DIC benefits of $11,256, less than 20 percent of the compensation the veterans had been receiving.

Basing DIC Benefits on Veterans' Disability Compensation Would Reduce Disparities in Lost VA Support

Compared with the current DIC program and the other three alternatives GAO studied, basing payments on the extent of veterans' basic disability compensation (excluding supplemental payments) would have several advantages. All spouses would experience the same proportional change relative to the basic disability compensation that the veterans had been receiving prior to death. Benefits would be related to the VA support paid to the veterans but lost by their families upon the veterans' deaths. In contrast, under the current program about 26 percent of surviving spouses receive more DIC benefits than the basic disability compensation the veterans had been receiving. For example, those who were married to veterans who were 10-percent disabled receive $8,184 more annually than the $1,044 in disability compensation the veterans had been receiving.

Under this alternative, DIC survivors' benefits would be 61 percent of veterans' disability compensation—without increasing program costs. Benefits to survivors of the most severely disabled veterans would increase. The 69 percent of DIC recipients who survive veterans who were compensated at the 100-percent disability rate would have their annual payments increase to $12,986—or by as much as $3,758. Because this alternative focuses the program on the goal of replacing lost support

rather than the goal of indemnification, the minimum benefit would be substantially reduced. The spouses of veterans rated less than 100-percent disabled would receive from $1,418 to $8,591 less per year.

Changing the DIC payment structure will require a policy decision by the Congress. If it believes that ensuring that all DIC recipients experience a more proportional change in VA support is more important than ensuring that all spouses receive the same benefit, the Congress should pay survivor benefits as a percentage of the disability compensation veterans received prior to their deaths.

Agency Comments

The Assistant Secretary of Defense, Force Management Policy, generally concurred with the report. (See app. II.)

The Secretary of Veterans Affairs noted that the report described the impact of the 1992 changes to the DIC program in a credible and competent manner, but that it did not raise issues sufficient to warrant revising the program at this time. The Secretary pointed out that basing DIC benefits on veterans' disability compensation payments alone fails to recognize that the Congress envisioned partial replacement of other sources of support besides disability compensation, such as veterans' lifetime earnings. However, GAO could find no basis for VA's belief that the Congress ever linked DIC benefits to the total support lost by individuals. The practical effect of this alternative is to change the proportion of total lost support that the DIC program replaces.

The Secretary was also concerned that basing survivor benefits on disability compensation would cause inequities, principally because survivors of veterans who die from less severe service-connected disabilities would receive less than survivors of veterans who die from more severe disabilities. GAO believes that any survivor program that determines benefit levels on a basis other than individual economic circumstances, including the current flat rate program, will result in some inequities. In contrast to the current program, however, the alternative that bases survivors' benefits on veterans' compensation decreases benefits for those married to less disabled veterans and increases benefits to those married to the most severely disabled veterans. Surviving spouses of the most severely disabled veterans constitute almost 70 percent of future beneficiaries. (See app. III.)

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Abbreviations

BEA	Budget Enforcement Act
CHAMPUS	Civilian Health and Medical Program of the Uniformed Services
CHAMPVA	Civilian Health and Medical Program of the Department of Veterans Affairs
COLA	cost-of-living adjustment
CPS	Current Population Survey
DIC	Dependency and Indemnity Compensation
DOD	Department of Defense
PAYGO	pay-as-you-go
SBP	Survivor Benefit Plan
SGLI	Servicemen's Group Life Insurance
SSA	Social Security Administration
VA	Department of Veterans Affairs
VGLI	Veterans' Group Life Insurance

Introduction

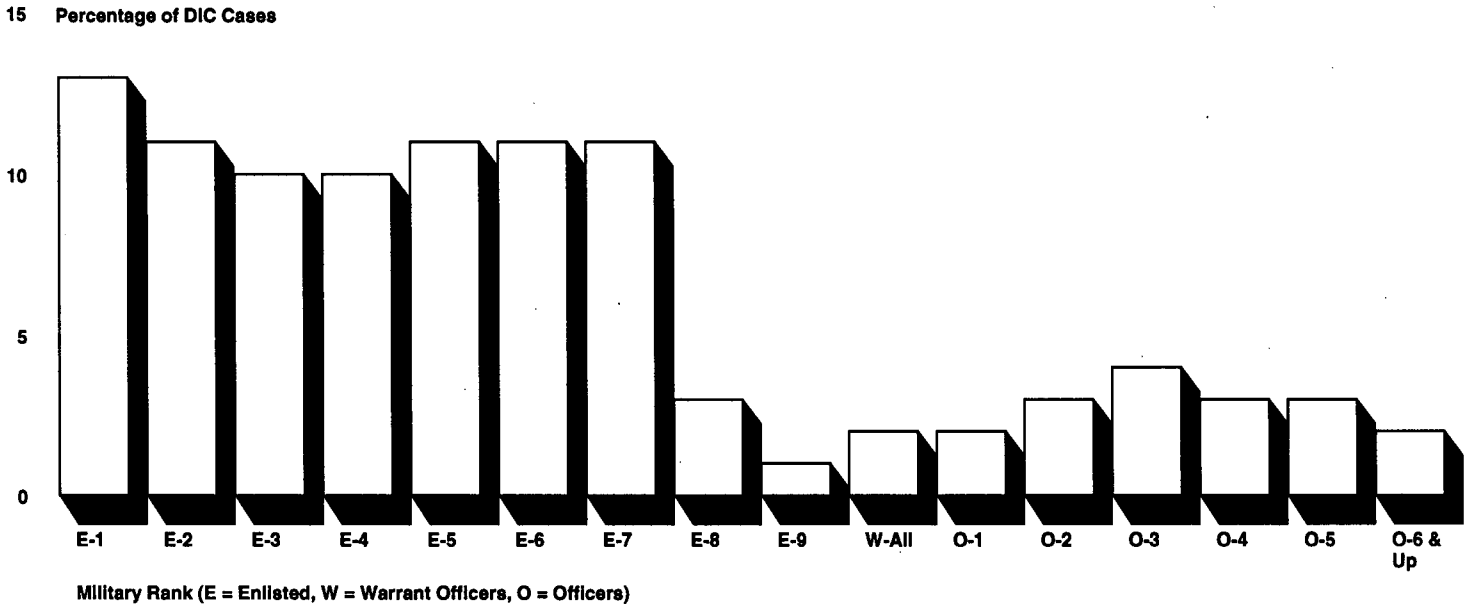
The federal government has provided benefits to the surviving spouses of servicemembers and veterans through a variety of programs since the Revolutionary War period. The Department of Veterans Affairs (VA), under the Dependency and Indemnity Compensation (DIC) program, pays monthly benefits to surviving spouses[1] of (1) servicemembers who die while on active duty, (2) veterans who die as a result of service-connected disabilities, and (3) other veterans who had been totally disabled for at least 10 years or for at least 5 years from the date of discharge from military service. These benefits are intended to partially compensate survivors for income lost as a result of the deaths of servicemembers or veterans from service-connected disabilities and to indemnify survivors for lives lost as a result of service to the country. In 1993, VA paid DIC benefits totaling $2.7 billion to about 276,000 surviving spouses.

To be eligible for benefits, surviving spouses in general must have been married at least 1 year and must have lived continuously with the veterans up to the date of the veterans' deaths. The benefits are not needs-tested or subject to federal or state income taxes. Also, the benefits are provided for the lifetimes of the surviving spouses or until they remarry. During several periods in the past, and as recently as 1990, if a remarriage ended because of the death of the new spouse or divorce, the veteran's survivor could again receive DIC benefits. As part of the Omnibus Budget Reconciliation Act of 1990, however, the Congress prohibited reinstatement of benefits to surviving spouses who remarried.

Over the years, the Congress has used various bases for determining the amount of compensation for surviving spouses, including (1) the veterans' military ranks, (2) the extent of their disability, (3) the spouses' ages, (4) a flat rate for all, and (5) combinations of these factors. When it established the DIC program, which took effect in 1957, the Congress provided surviving spouses with a flat rate payment supplemented by 12 percent of the veterans' basic military pay adjusted for military pay increases. In 1969, the Congress amended the law to base DIC benefits solely on the deceased's military pay grade. In 1992, these benefits ranged from $7,392 annually for surviving spouses of the lowest ranking servicemembers to $18,960 for those of the highest ranking. At the end of 1992, about 81 percent of DIC recipients were surviving spouses of enlisted personnel (see fig 1.1).

[1]While our review focused on surviving spouses, children and parents of deceased servicemembers and veterans may also be eligible for benefits. Children must be under age 18, permanently disabled before reaching age 18, or students under age 23. Surviving parents must be needy and are not eligible if their incomes exceed certain statutory limits.

Figure 1.1: Most DIC Recipients Had Been Married to Enlisted Personnel



When it enacted the Veterans' Benefits Act of 1992 (P.L. 102-568), the Congress changed the basis of the benefits from that of the servicemember's or veteran's rank to that of a flat monthly payment. The House report on the legislation noted that the flat rate was adopted in an attempt to establish parity among all surviving spouses under the program. DIC recipients who were spouses of veterans who died after December 31, 1992, receive a flat rate, which in 1994 was $9,228 annually.[2] If the veteran was rated totally disabled for at least 8 years immediately prior to death, the spouse receives a $2,028 annual supplement. In addition, disabled surviving spouses receive supplements of $2,340 if they require the aid and attendance of another person, or $1,140 if housebound, but not in need of aid and attendance.

[2]Those who were spouses of veterans who died prior to January 1, 1993, receive the greater of the flat rate or the amount they were receiving prior to that date. Consequently, some spouses currently receive over $19,600 annually.

Objectives, Scope, and Methodology

The Veterans' Benefits Act of 1992 required us to study and report on veterans' survivor benefit programs. We agreed with the House and Senate Veterans' Affairs Committees to focus on the DIC program and to do the following:

- Estimate DIC recipients' total income and determine the kinds and amounts of benefits they receive from other VA programs and from programs operated by the Department of Defense (DOD) and the Social Security Administration (SSA).
- Determine the likely impact on surviving spouses and federal costs of allowing DIC benefits to be reinstated if remarriages end.
- Determine the financial impact on surviving spouses of the deaths of catastrophically disabled veterans.
- Assess alternative ways of determining DIC benefits. We assessed four alternatives that were specified in the act or suggested by literature discussing this and other survivor benefits programs.

To estimate the total individual income of surviving spouses receiving DIC benefits, we used the 1993 income reported in the 1994 Current Population Survey (CPS) conducted by the Bureau of the Census. To determine the kinds and amounts of benefits DIC recipients may be eligible to receive from other VA programs and from programs operated by DOD and SSA, we reviewed program literature and legislation and interviewed agency officials. To determine the amounts received from SSA's Old Age and Survivors' Disability Insurance program, automated VA files for all DIC beneficiaries were matched with beneficiary files maintained by SSA. We analyzed an automated DOD file to determine the amounts received from DOD's Survivor Benefit Plan.

To determine the potential impact of reinstating DIC benefits to surviving spouses whose remarriages terminate, we estimated the number who might request reinstatement and multiplied that number by current benefit amounts. To estimate the number of potential reinstatements, we used VA records of applications for reinstatement of benefits made shortly after enactment of the 1990 legislation that prohibited future reinstatements. We then estimated the first year impact, assuming that the DIC benefits of spouses whose remarriages terminated after the effective date of the 1990 legislation would be reinstated, and the impact in subsequent years, assuming that benefits would continue for the lifetimes of the beneficiaries.

In assessing the four alternatives to VA's current DIC program, we estimated the cost and impact on the federal budget of each alternative and identified the relative advantages and disadvantages for DIC recipients. We then compared each alternative with the current program on these bases. Our cost estimates were based on the present value of DIC benefits paid over a 15-year period from 1994 through 2008. We chose this period as the minimum length of time required to permit the long-term cost and budgetary implications of all alternatives to become clear. As projections are made further into the future, the assumptions on which they are based become more subject to uncertainty.

In these calculations, we (1) used 1994 benefit rates because these were the rates that were in effect when we did our work and (2) assumed annual cost of living adjustments (COLA). We applied the alternatives only to newly eligible surviving spouses who would begin entering the program in January 1994.[3] Based on VA DIC program records for recent years, we estimated that there would be 12,000 new entrants annually. These new entrants would be on average 61 years old at time of enrollment, have an estimated remaining life expectancy of 23 years, and would be almost exclusively female. Relatively few would be survivors of servicemembers who died while on active duty; most would be survivors of disabled veterans who were in the enlisted ranks while in the military. Using mortality experience and remarriage rates, we assumed that each year there would be attrition of 2.1 percent.

For our analyses, we also assumed the following:

- Spouses who receive supplemental benefits because they have dependents or are housebound or require aid and attendance would continue to be paid those benefits just as they are under the current program.
- Economic conditions would not significantly change.
- The nation would not enter into a significant armed conflict.

The purpose of our estimates was to compare the relative value of the various alternatives, not to precisely estimate their cost or financial impact. Consequently, while future events could affect our assumptions and related expenditure estimates, we believe the relative comparisons of the current program and the alternatives would likely remain valid.

We estimated the financial impact on surviving spouses of the deaths of catastrophically disabled veterans in terms of the difference between the

[3]Our calculations apply only to these new entrants and exclude all costs related to current recipients.

disability compensation received by these veterans prior to death and the DIC benefits currently being received by their spouses. This reduction in VA-provided support to the veterans' families was a concern expressed during congressional hearings on the Veterans' Benefits Act of 1992. We estimated the impact for two categories of veterans who might be considered to be catastrophically disabled: (1) all veterans who had been 100-percent disabled and (2) those who had been 100-percent disabled and had received supplemental benefits for aid and attendance because they were unable to care for themselves.[4]

Because the DIC record in VA's automated compensation and pension payment files does not contain information showing the disability level of deceased veterans, we (1) used the 1993 DIC record to identify those veterans who died in 1991 or 1992 and (2) matched these veterans to the veteran records in VA's disability compensation payment files for 1990. We could not obtain this information for all current recipients because, in many cases, the veterans died many years ago and compensation files are not readily available. In addition to using this information to determine the impact on surviving spouses of the deaths of catastrophically disabled veterans, we used it in our analyses of alternatives to the current program.

We discussed the alternatives and issues involved in our study with VA and DOD officials, the Congressional Research Service, the Congressional Budget Office, and representatives of veterans' services organizations, including Disabled American Veterans, Paralyzed Veterans of America, the Army and Air Force Mutual Aid Association, and Gold Star Wives. The latter two groups represent many survivors of servicemembers and veterans.

We did our work between November 1993 and October 1994 in accordance with generally accepted government auditing standards. We did not independently verify the accuracy of the VA, DOD, or SSA databases we used. However, each is used extensively in day-to-day program management, and we believe they are sufficiently reliable for the purposes of our analyses. (See app. I for a more detailed discussion of our scope and methodology.)

[4]There is no generally accepted definition of "catastrophically disabled." Participants in the hearings on the Veterans' Benefits Act of 1992 focused on veterans who received supplemental benefits for aid and attendance. On the other hand, some veterans and experts argue that any veterans who are 100-percent disabled are catastrophically disabled. There are many gradations in between these two definitions.

VA Survivors' Benefits Are a Large Portion of Surviving Spouses' Incomes

Most DIC recipients have total incomes above the poverty level. DIC and other federal benefits—chiefly Social Security and DOD survivor benefits—constitute a substantial part of their incomes. A wide range of additional payments and benefits, such as life insurance and education, are available to some or all of those receiving DIC benefits.

DIC benefits provide support throughout the spouses' lifetimes or until they remarry; until 1991, benefits could be reinstated if the remarriages ended. While the cost of allowing reinstatements would be relatively small, under current budget rules the increase would need to be offset by spending reductions or revenue increases.

DIC benefits for surviving spouses of totally disabled veterans are significantly less than the disability compensation payments the veterans received during their lifetimes. An estimated 69 percent of DIC beneficiaries recently entering the program had been married to veterans who received disability compensation payments at the 100-percent disability level. After such veterans die, the DIC benefits paid to their spouses are at least 47 percent less than the veterans were receiving in disability compensation. For some spouses, the disparity between disability compensation and DIC benefits is substantially greater.

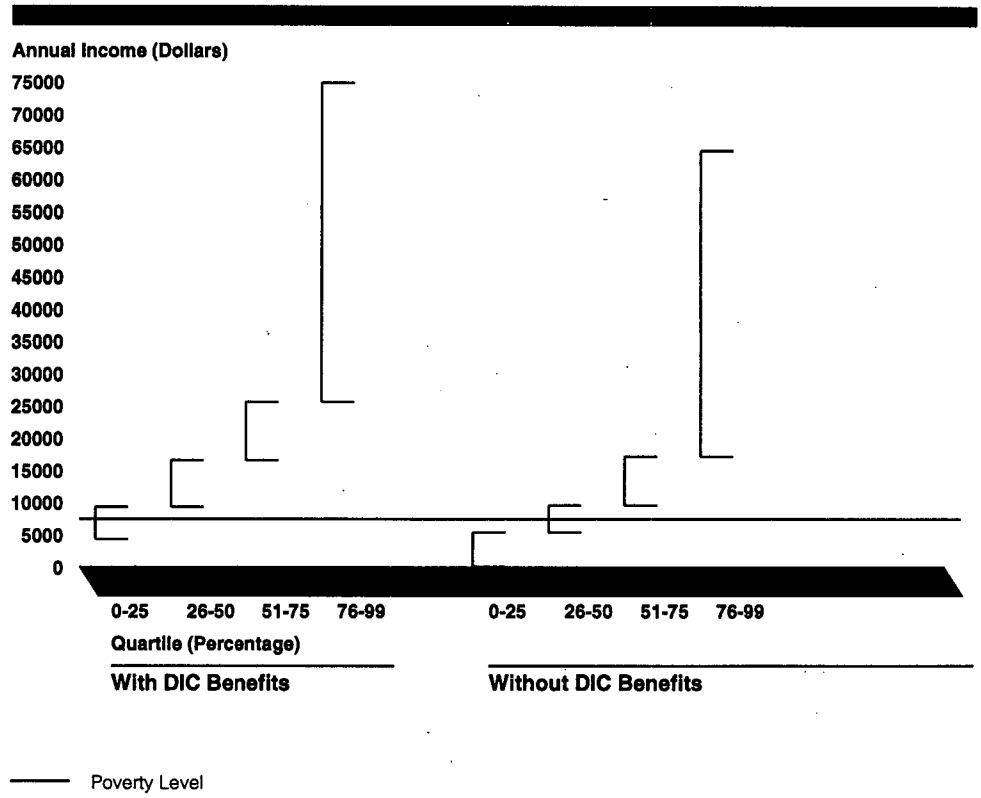
VA DIC Benefits Make Up About One-Third of Surviving Spouses' Total Income

The most recent CPS data available show that the median total income from all sources, including earnings, for surviving spouses receiving DIC benefits was $16,495 in 1993.[5] This amount is more than two times the federal poverty level of $7,363 for a single person with no dependents. As figure 2.1 shows, in 1993 total estimated income for all but the wealthiest DIC recipients ranged from $4,248 to about $74,800,[6] and about 20 percent of recipients had incomes below the poverty level.

[5]At the 95-percent confidence level, the true median falls between $11,200 and $20,183.

[6]As noted by the Bureau of the Census, there is a tendency in surveys such as the CPS for respondents to underreport their incomes by both source and amount. Reporting of income from earnings is generally more accurate than reporting of income from other sources, including cash and noncash transfer programs such as Social Security and veterans' benefits. We found, in fact, that two-thirds of the respondents we identified as probable DIC recipients reported DIC payments that were less than the statutory minimum, which in 1993 was $9,000, or about 55 percent of spouses' reported income. If DIC payments were adjusted to the minimum level, both the estimated total income and the portion comprised by DIC benefits would increase, and no recipients would have total incomes below the poverty level.

Figure 2.1: More Recipients Would Be Below the Poverty Level Without DIC Benefits



Note:The 100th percentile was excluded because it contained few very high incomes.

Source: Bureau of the Census, Current Population Survey, March 1994.

Further analysis of the CPS data demonstrates the importance of the DIC benefit to some spouses. DIC payments were, on average, about 33 percent of total income received by a DIC recipient in 1993.[7] Additionally, without DIC benefits, the number of 1993 recipients with total income below the poverty level would increase. As also shown in figure 2.1, without DIC benefits about 40 percent of DIC recipients would have had incomes below the poverty level.

Most surviving spouses who are eligible for DIC benefits are also eligible for Social Security benefits on the basis of their past earnings, the earnings

[7]At the 95-percent confidence level, we estimate that the actual percentage is between 23 and 46 percent.

of the deceased veterans,[8] or both. Surviving spouses are eligible for Social Security widows' benefits if they are 60 years old or for mother's benefits if they have children under age 16 in the home. Our comparison of VA's DIC database with that of SSA showed that, in 1993, about 61 percent of the surviving spouses receiving DIC benefits also received Social Security benefits; these benefits averaged $6,405 annually and ranged as high as $25,600.

Some surviving spouses receiving DIC benefits are also eligible for benefits under the DOD Survivor Benefit Plan (SBP). These benefits are payable to survivors of military personnel who die in retirement, or after becoming eligible for retirement, and had elected survivors' coverage. These benefits are reduced by the amount of DIC payments.[9] Because SBP benefits generally increase with the rank of the servicemember, most recipients are survivors of officers; their SBP payments are less likely than the payments to survivors of enlisted personnel to be totally offset by DIC benefits. Our analysis of DOD automated records of DIC recipients who also receive SBP payments showed that about 6 percent of DIC recipients are in that category. Their payments averaged $6,326 annually and ranged as high as $34,440.

Family income of DIC recipients may be higher than the individual income discussed above. VA data show that of all spouses receiving DIC benefits in 1993, about 5 percent had dependents. On average, these spouses received DIC benefits of $11,112, while those without dependents received $9,785. Of surviving spouses who received SSA benefits, the average SSA benefit to those with dependents was $5,700 and to those without, $6,429.[10]

[8]Members of the uniformed services were covered by Social Security beginning on January 1, 1957.

[9]DOD data show that about 10 percent of surviving spouses are eligible for both DIC and SBP benefits. The spouses can choose whether to receive DIC or SBP benefits. Most choose DIC benefits because they may be higher than SBP benefits and are not taxable. They receive SBP only to the extent that the SBP benefits to which they are entitled exceed the amount they receive from DIC.

[10]Of newly eligible spouses, about 14 percent had dependents. On average, these spouses received DIC benefits of $11,410; spouses without dependents averaged $10,019. For new entrants receiving SSA benefits, those benefits averaged $5,882 and $7,175 for spouses with and spouses without dependents, respectively.

Other Benefits Available to Surviving Spouses

In addition to SSA and SBP benefits, many surviving spouses receiving DIC benefits are eligible for one-time cash benefits as well as noncash benefits under other programs, most of which are administered by VA or DOD.[11] The principal cash benefits are summarized in table 2.1.

Table 2.1: DIC Recipients Are Eligible for a Variety of Cash Benefits

Kind of benefit	Estimated percentage eligible for benefit	Amount
Annual		
DIC	100	$9,846 (avg.)
SSA	61	6,405 (avg.)
SBP	6	6,326 (avg.)
One-time		
Life insurance		
Active duty	5	100,000/200,000
Veterans	[a]	Up to 100,000/200,000
Burial	95	1,500
Death gratuity	5	6,000

[a]As described below, the current program design is new. Sufficient data are not yet available to allow us to estimate the number of DIC recipients who will be eligible.

The one-time cash benefits and the noncash benefits are discussed below. Additionally, survivors of servicemembers who die on active duty may receive additional types of benefits.

Group Term Life Insurance

Since December 1, 1992, spouses of servicemembers who die on active duty may receive up to $200,000 under the Servicemen's Group Life Insurance (SGLI) program. Servicemembers are automatically covered for the first $100,000 unless they decline the coverage. They must elect the remaining $100,000.[12] Over 99 percent of servicemembers currently carry at least $100,000 of coverage, and over 50 percent have elected the additional $100,000. The current maximum is significantly higher than the amounts historically available under this program. When instituted in 1965, the maximum available was only $10,000. It was increased to $15,000 in

[11]Government-sponsored life insurance is seen by many as a part of the total package of support available to surviving spouses and we have included it in the list of benefits. However, as discussed later, in most cases veterans and servicemembers must elect the insurance and their premiums fund most of the proceeds paid out.

[12]Premiums are 9 cents per month for each $1,000 of coverage. This low rate reflects the relatively healthy status of servicemembers in peacetime. Insurance claims above the normal peacetime level are paid by the government.

1970, $20,000 in 1974, $35,000 in 1981, $50,000 in 1986, and $100,000 in 1991.

Surviving spouses who invest the $100,000 at 1994 interest rates could draw an annuity equivalent to current DIC benefits for over 20 years. Those spouses who receive $200,000 of life insurance could invest substantially less than this amount to receive an annuity equivalent to the DIC benefits for well over 20 years.

Survivors of veterans would receive life insurance proceeds from the Veterans' Group Life Insurance (VGLI) program if the veterans elected to enroll in this program and left military service after August 1, 1974. Veterans are eligible to enroll if they elected SGLI coverage while in military service. Veterans can purchase, at commercial rates, this renewable 5-year term insurance after discharge up to the amount of their coverage while in service. However, until 1992 this insurance was only available for 5 years and was not renewable; as a result, many veterans currently are not covered. Also, since the maximum insurance is limited to the amount of SGLI the veteran had while in service, the coverage for many is less than $100,000.

Disabled veterans have been eligible for additional life insurance coverage of up to $30,000 at commercial rates since December 1, 1992. Veterans who are under 65 and choose not to renew their VGLI are eligible to convert to this insurance at the time their VGLI policy expires. Several plans are available (whole life and term, for example), and premium rates depend on the type of plan selected and the veteran's age.

Veterans with service-connected disabilities who left the service after April 24, 1951, and are otherwise in good health may also apply to VA for up to $10,000 of life insurance at standard rates. Those who are totally disabled may obtain up to $30,000 of coverage; the premiums on their first $10,000 of coverage may be waived.

Education Assistance

All surviving spouses who are eligible for DIC benefits are also eligible for VA education assistance. They may receive as much as $404 a month for up to 45 months of full-time education or training directed toward a definite educational or vocational goal approved by VA. Eligibility extends for 10 years from the date that VA determines that a spouse is eligible. Those who have passed the 10-year limit but have some months of entitlement

remaining may, if financially needy, borrow up to $2,500 per academic year for up to 2 years of postsecondary studies.

Medical Care

All DIC recipients are eligible for medical care through DOD or VA programs. Surviving spouses who are survivors of deceased active duty and retired servicemembers may receive medical care at military health facilities when space is available. When space is not available, these survivors may receive care from civilian sources under the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS). CHAMPUS pays for such care subject to copayments and deductibles, which vary according to the type of care received.

Other DIC recipients can receive care under the Civilian Health and Medical Program of the Department of Veterans Affairs (CHAMPVA). VA pays for medical care to the surviving spouses of veterans who had service-connected disabilities if they are not eligible for CHAMPUS or Medicare. The spouses may receive medical care in VA facilities when space is available. Most often, they receive care from civilian sources, with VA paying a portion of the cost and the recipient paying any required copayment.

Burial Benefits

Generally, servicemembers who die while on active duty and veterans are eligible for burial benefits, including burial in national cemeteries, a VA headstone or grave marker, and a presidential memorial certificate. In addition, when a veteran dies as a result of a service-connected disability, VA will pay a burial allowance of $1,500 as well as the cost of transporting the veteran's remains to a national cemetery. The military reimburses up to $4,850 of burial expenses depending on approved arrangements.

Shopping Privileges

Many surviving spouses have shopping privileges at military commissaries and exchanges. Those eligible surviving spouses include those of servicemembers who died while on active duty, 100-percent service-connected disabled veterans, military retirees, and servicemembers involuntarily discharged from the military as a result of downsizing efforts. Eligible surviving spouses are able to purchase subsistence items, merchandise, and services at estimated cost savings of 20 to 25 percent compared with commercial retail prices.

Death Gratuity

DOD provides a death gratuity in the form of an immediate cash payment of $6,000 to survivors of servicemembers who die on active duty or within 120 days of separation if the death was service-connected. Most surviving spouses would also receive a $255 SSA death gratuity. This benefit is paid if the veteran had employment covered by Social Security and the spouse was either living with the veteran at the time of death or is eligible for monthly Social Security dependents' benefits.

Housing Assistance

All surviving spouses eligible for DIC benefits may receive housing assistance from VA or DOD. VA provides housing loan guarantees to veterans' surviving spouses. VA will guarantee 50 percent of amounts up to $45,000, the greater of $22,500 or 40 percent of amounts over $45,000 up to $144,000, and 25 percent of loans over $144,000; the maximum guarantee is $46,000. In addition, DOD will continue to pay housing allowances, which on average partially offset civilian housing costs when government quarters are unavailable, to surviving spouses of active duty personnel for up to 180 days after the servicemembers' deaths.

Additional Benefits for Survivors of Servicemembers Who Die on Active Duty

Survivors of servicemembers who die on active duty may receive additional monetary benefits or reimbursements.

- Accrued leave: DOD pays these surviving spouses the amount due the servicemembers for accrued leave. The payment is generally limited to 60 days of leave.
- Tax forgiveness: The current federal income taxes of any servicemember who dies while serving in a combat zone are forgiven. Also, any such taxes for prior years that are unpaid at the time of death are forgiven, including interest and additional amounts.
- Unpaid separation incentive: DOD continues to pay to surviving spouses the remaining unpaid payments of veterans who participate in the Voluntary Separation Incentive Program. Under this program, which is part of the military's downsizing effort, qualified servicemembers with at least 6 years of active service who separate from military service before they are eligible for retirement receive an annual amount equal to 2.5 percent of annual basic pay times the number of years of service. These payments continue for twice the veterans' length of service.

Reinstating DIC Benefits to Spouses Whose Remarriages Terminate Would Increase Program Costs by About 2 Percent

We estimate that about 1,200 beneficiaries leave the DIC rolls annually as a result of remarriage. Prior to 1991, DIC benefits were reinstated if these subsequent marriages ended. Using VA data on applications for reinstatement of benefits in 1991, we estimate that, at current payment levels, reinstating spouses whose remarriages subsequently end would increase program costs by about $43 million, about 2 percent of program costs, in the first year. This first-year cost includes estimated payments to beneficiaries who would have applied for reinstatement during the years since 1991 when reinstatement was prohibited. The increased cost in the second year would be about $12 million more, or $55 million, and increased costs resulting from this change would continue to rise by an estimated additional $12 million annually as more spouses are reinstated. The DIC program is classified as a mandatory spending program under the Budget Enforcement Act (BEA) and subject to pay-as-you-go (PAYGO) rules. Therefore, any increased spending from expanding DIC benefits would need to be offset by reduced spending or increased revenues in other PAYGO-controlled legislation.[13]

Data were not available to allow us to determine the financial impact on these surviving spouses of being reinstated. We could not, for example, determine their total income, including any survivor benefits they may receive from the second marriage. Several officials from organizations that represent veterans' widows have pointed to other possible impacts, however. According to these officials, many spouses believe the current provision is unfair when compared with other federal programs, including Civil Service Retirement, Social Security, and Railroad Retirement, which reinstate the benefits of spouses whose subsequent remarriages terminate. Many also view the enactment of the provision as a breach of faith because it was applied not only to future remarriages but also to those who had already left the rolls because of remarriage.

Furthermore, though they could provide no estimates of the frequency, these officials said that many widows are choosing not to remarry, rather than lose the security of having their DIC benefits to fall back on if the new marriages do not last. To the extent this is occurring, VA is paying benefits to widows who, in the absence of this provision, would remarry and no

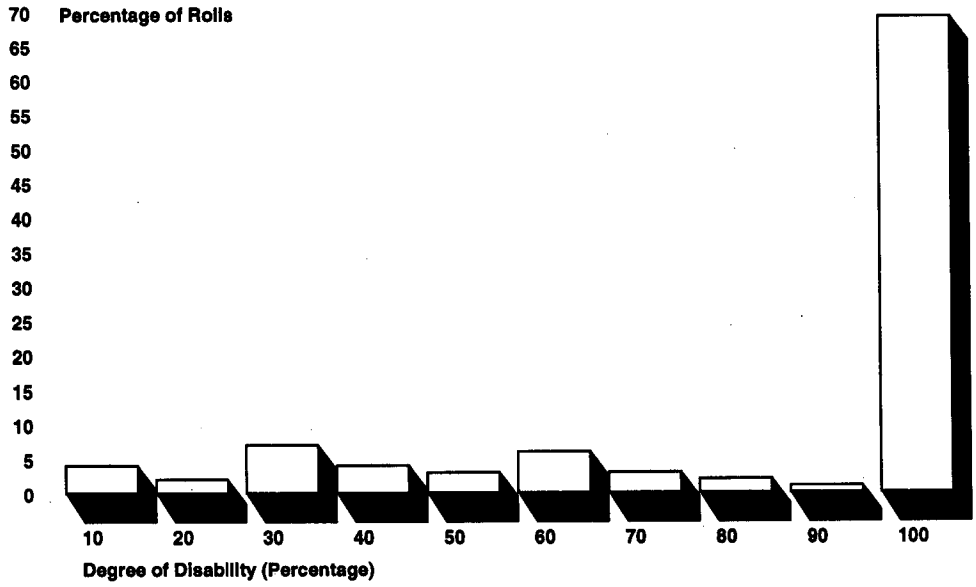
[13]Other potential changes in DIC benefits analyzed in this report would also be subject to PAYGO. This is because BEA placed mandatory spending and revenue legislation into a single PAYGO-controlled category and required that legislation in this category be deficit-neutral. This means that any policy expansions of existing mandatory programs or any tax cut requires offsetting revenue increases or spending reductions in other PAYGO-controlled legislation affecting aggregate deficit changes for 2 fiscal years. The Office of Management and Budget keeps a PAYGO spending scorecard, and deficit neutrality can be enforced through sequestration. For a more detailed discussion, see chapter 1 in Budget Policy: Issues in Capping Mandatory Spending (GAO/AIMD-94-155, July 18, 1994).

longer receive benefits. If allowing reinstatements resulted in increased remarriages, the net cost of allowing reinstatements would be lower than we estimated.

Spouses of the Most Severely Disabled Veterans Lose the Most VA Benefits Upon the Veterans' Deaths

As shown in figure 2.2, an estimated 69 percent of the 12,000 surviving spouses who become eligible for DIC benefits each year had been married to veterans who received VA disability compensation at the 100-percent disability rate.[14]

Figure 2.2: Most DIC Recipients Had Been Married to Veterans Who Received Compensation at the 100-Percent Disability Rate



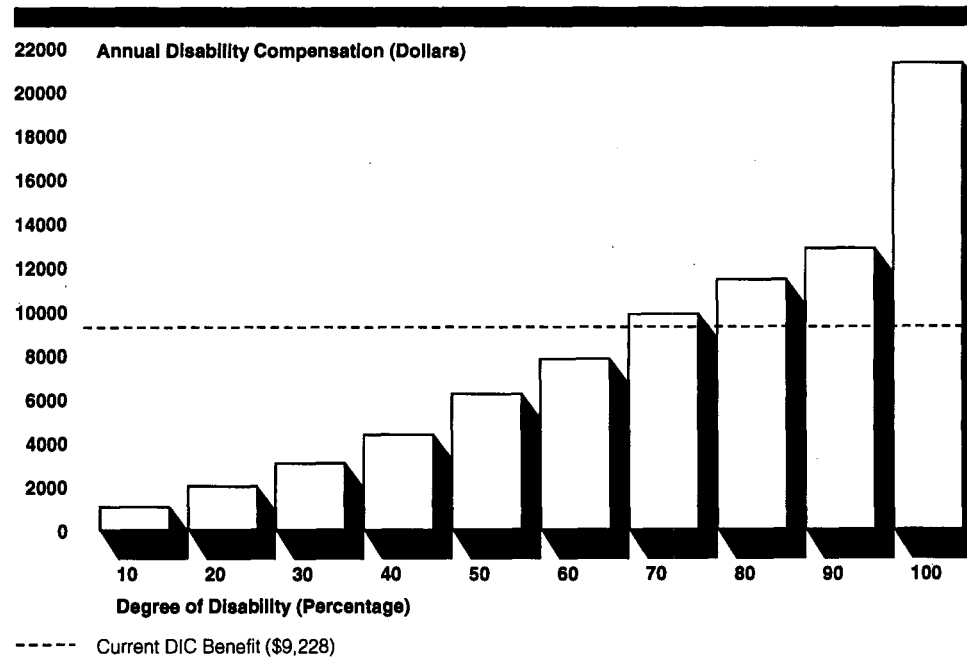
In 1994, veterans at the 100-percent disability level received compensation payments of at least $21,288 annually. Upon these veterans' deaths, eligible spouses would receive DIC benefits of $9,228 annually, or $11,256 if the veterans had been receiving benefits at the 100-percent level for at least 8

[14]About 43 percent of these veterans had disability ratings less than 100 percent, but because VA had determined them to be unemployable, they received payments equivalent to the 100-percent rate.

years. Thus, at a minimum, DIC benefits to surviving spouses are $10,032 less than the disability compensation the veterans had been receiving prior to death.

In contrast, benefits to spouses of less severely disabled veterans are dramatically higher than the veterans' compensation. For example, the 1994 minimum DIC benefit of $9,228 annually is almost nine times the $1,044 disability compensation received by veterans who were 10-percent disabled (see fig. 2.3).

Figure 2.3: Spouses of the Most Severely Disabled Experience the Greatest Decline in Support



About 4 percent of new entrants had been married to totally disabled veterans whose disabilities were so severe that they were unable to care for themselves. These veterans had been receiving supplemental payments to compensate for multiple severe disabilities and for aid and attendance that when combined with their disability compensation, totaled as much as $60,852 in 1994. After they died, their spouses received about $50,000 less than the veterans had been receiving.[15]

[15]Many more spouses were married to veterans who were receiving supplemental payments for multiple disabilities but did not need aid and attendance.

According to officials of some veterans' organizations, many spouses of veterans who are unable to care for themselves choose to forgo employment and career opportunities to stay at home and care for the veterans. These officials argue that because many of these spouses are elderly when the veterans die, they may have difficulty obtaining employment at that point in their lives. Therefore, the officials believe that these surviving spouses should be provided with supplemental benefits to help reduce the financial impact of the veterans' death. Others do not see the need for added benefits. Officials of VA and another veterans' organization noted that spouses have the option of using the aid and attendance payments to purchase care for the veterans, thus enabling the spouses to pursue employment opportunities.

Some Alternatives Would Substantially Reduce Benefits or Be Too Costly

The three alternative approaches to computing DIC survivors' benefits that were contained in the Veterans' Benefits Act of 1992 would either substantially increase federal outlays, at least in the early years, or would dramatically limit benefits. The legislation suggested three types of alternatives:

- limiting the period of entitlement to benefits,
- replacing monthly payments with a one-time lump sum payment, and
- funding DIC benefits with premiums paid by the veterans through reductions in veterans' disability compensation.

Limiting Benefit Periods Would Reduce VA Costs and Beneficiaries' Income

Under the alternative limiting the period of entitlement, DIC benefits would be terminated after some specified number of years, rather than continuing over the lifetimes of the spouses. We examined two options under this alternative, limiting benefits to periods of 5 and 10 years. As shown in figure 3.1, we calculated that, for future entrants, the present value of the estimated total payments under the current program would be $8,655 million over a 15-year period, compared with $5,187 million if benefits were paid to surviving spouses for 5 years and $7,826 million if they were paid for 10 years. Thus, the present value of federal payments over 15 years would be reduced by $3,468 million under the 5-year option and by $829 million under the 10-year option.

Figure 3.1: Limiting DIC Payment Periods Would Reduce Federal Outlays

Dollars in millions

Year	DIC payment		
	5-year term	10-year term	Lifetime (current)
1994	$111	$111	$111
1995	227	227	227
1996	348	348	348
1997	476	476	476
1998	609	609	609
1999	631	749	749
2000	653	895	895
2001	675	1,048	1,048
2002	699	1,207	1,207
2003	724	1,374	1,374
2004	749	1,422	1,549
2005	775	1,472	1,731
2006	802	1,524	1,921
2007	830	1,577	2,120
2008	859	1,632	2,327
Present value	**$5,187**	**$7,826**	**$8,655**

Explanation

For the first 5 years, the three payment options would require the same outlays.

Outlays increase each year as a result of COLAs and because the number of new entrants would greatly exceed the number who would leave the program because of death or remarriage.

In the sixth and subsequent years, outlays under the 5-year entitlement are lower than under the other two options because surviving spouses who entered the program in the first year would leave the program after the fifth year, those entering the second year would leave after the sixth year, and so on.

For the sixth through tenth years, outlays under the lifetime and the 10-year limitation options continue to be identical.

In the eleventh year, under the 10-year limitation, outlays drop below those of the lifetime method because initial program entrants would begin to leave the program.

The most obvious advantage of this alternative is that federal outlays would be reduced. Assuming that current payment levels remained unchanged other than for COLAs, program costs would begin to decline significantly after the end of either entitlement period. This alternative would also offer some minimal administrative advantages. VA would have

fewer benefit checks to process. Furthermore, because the relationship between VA and surviving spouses would last for a shorter period than it does under the existing program, VA would have to handle fewer administrative matters, such as changes of address.

However, this alternative would substantially reduce the incomes of many surviving spouses after the payment period ends. It changes the character of the DIC program from one providing partial lifetime support to one providing transitional assistance. Thus, the program would provide financial support for a limited time to enable surviving spouses to make a transition to new circumstances. Younger surviving spouses may be more likely to develop new means of support through employment or to remarry. Older beneficiaries, in contrast, may be less likely to do so.

On average, recent entrants to the DIC program were 61 years old, and only 11 percent were younger than 40. Limiting the period of entitlement of older spouses would leave them dependent on other means of support for the remainder of their lives, which on average would be 18 and 14 years under the 5- and 10-year limits, respectively. Given that DIC benefits constitute, on average, about one-third of surviving spouses' total incomes, the incomes for many of these spouses could be substantially reduced by the termination of these benefits.

In addition, savings to the federal government may be less than indicated in the figure. Currently, most surviving spouses who are also eligible for SBP choose to receive DIC benefits because they may be higher than SBP payments and are not taxed. DOD data indicate that about 10 percent of current DIC recipients are eligible for SBP benefits, but do not receive full benefits because of the DIC offset. Reductions in DIC benefits would cause increases in SBP payments to these recipients, which would reduce estimated savings to the federal government. The reduction in savings would be partially offset, however, by revenues from taxes paid on SBP benefits.

Two Lump Sum Payment Alternatives Analyzed

Of the alternatives assessed, the greatest short-term impact on the federal budget would be from a lump sum alternative. This alternative would provide a one-time payment to surviving spouses rather than monthly payments over their lifetimes. Under this alternative as we analyzed it, all surviving spouses becoming eligible for the program in a given year would receive the same lump-sum amount, regardless of their ages. We looked at two configurations of this alternative. One, described in figure 3.2, is a

lump sum equivalent to the present value of the average lifetime benefits under the current program structure.[16] The second, described in figure 3.3, is a substantially reduced, and optional, lump sum.

Providing a Lump Sum Payment Equivalent to Lifetime Benefits Would Be Too Costly in Early Years

Under this alternative's first option, the lump sum payments in any given year would be equivalent to the present value of the total DIC benefits, on average, that surviving spouses entering the program in that year could expect to receive over their lifetimes; the calculation assumes that the benefit level in effect in that year remains unchanged throughout the beneficiaries' lifetimes. At the 1994 annual benefit level of $9,228, the lump sum paid to that year's entrants to the program would be $107,318. However, because the Congress would likely increase the benefit in future years to reflect increases in the cost of living, beneficiaries entering the program in 1995 and subsequent years would receive lump sum payments greater than $107,318. Because the lump sum paid is equivalent, on a present value basis, to the expected lifetime benefits under the current program, we assumed that DOD SBP benefits would not be affected by the adoption of this alternative.

Figure 3.2 compares outlays under this configuration with those under the current program over a 15-year period. For the first several years the annual federal outlays would be considerably higher than they would be under the current payment method—almost $1.2 billion, or nearly 12 times as high in the first year alone. Over the 15-year period, the present value of outlays would be almost double those under the current method.

[16]In most pension plans, lump sum payments would be calculated for each individual based on factors such as age. We calculated a single lump sum for everyone because that was more simplified. Calculating lump sums on an individual basis would not significantly alter costs.

Figure 3.2: 15-Year Outlays and Costs of Providing Lump Sum Payments Are Substantial

Dollars in millions

Year	Lump sum method	Current program
1994	$1,288	$111
1995	1,333	227
1996	1,380	348
1997	1,428	476
1998	1,478	609
1999	1,530	749
2000	1,583	895
2001	1,638	1,048
2002	1,696	1,207
2003	1,755	1,374
2004	1,817	1,549
2005	1,880	1,731
2006	1,946	1,921
2007	2,014	2,120
2008	2,085	2,327
Present value	**$14,941**	**$8,655**

Explanation

In the first year, outlays would be substantially higher under the lump sum configuration than under the current method because new entrants would receive substantially higher payments—$107,318 compared with the current annual benefit of $9,228.

Beginning in the second year, the disparity in outlays between the two payment methods would narrow because the number of beneficiaries increases each year under the current method.

Under the lump sum method, the number of beneficiaries remains at 12,000 each year, with outlays rising slightly each year only because of COLAs assumed to have been enacted by the Congress.

In the sixth year, however, outlays under the lump sum method would still be more than twice those under the current method.

In the fourteenth year, there would be so many more beneficiaries under the current method than the 12,000 under the lump sum method that annual outlays under the current method would begin to be higher.

This alternative would greatly increase the flexibility surviving spouses have in using the income they receive from the program. They would be able, for example, to invest the funds to earn current or future income or make large purchases, such as a home or car. Also, under this alternative

VA would have fewer benefit checks and other administrative matters, such as address changes, to process.

One potential drawback to this alternative is the increased responsibility surviving spouses would have for planning for their future financial security. If they mismanaged their lump sum payments—and several experts we spoke with suggested this could happen fairly frequently—they could face years of inadequate income. To the extent their incomes fell below federal poverty guidelines, they could become eligible for public assistance, thus increasing costs to the government and potentially making this alternative more costly than indicated in the figure.

The principal drawback to this alternative, however, is the negative impact it would have on the federal budget for the next several years. Substantially larger outlays would be required in the early years. Under PAYGO rules, these increased outlays would have to be balanced by spending reductions or revenue increases.

An Optional Reduced Lump Sum Would Lower Benefits With Uncertain Effects on Costs

We also examined the use of an optional, smaller lump sum payment. We selected a payment of $35,000, an amount equivalent to about one-third of the present value of average lifetime DIC benefits in 1994; other amounts could be used. Under this approach, surviving spouses would be offered the optional lump sum payment only once, at the time that they were determined to be eligible for the DIC program. Those not choosing the lump sum would continue to receive benefits under the current program structure.

Because we could find no similar program that had offered such a lump sum option, we had no historical basis for estimating the proportion of spouses that would choose to receive a payment of that size. We therefore analyzed the alternative using two assumptions regarding the proportion of surviving spouses that would choose this lump sum option.

Figure 3.3 shows the 15-year outlay streams and the present values of those outlays resulting from the use of a lump sum payment of $35,000 under each of the two participation rates we chose. The first column shows the total benefit outlays that would occur if a random cross section of 25 percent of eligible spouses chose the $35,000 lump sum form of payment each year. The second column shows the outlays that would result if a random cross section of 50 percent made that choice. These data show that the present value of the savings to the government over a

15-year period would be $1.175 billion if 25 percent of eligible spouses chose the lump sum payment, and $2.35 billion if 50 percent of spouses did so.

Figure 3.3: Reduced Lump Sum Payments Could Lower Federal Costs

Dollars in millions

	Choose lump sum		
Year	25 percent	50 percent	Current program
1994	$188	$265	$111
1995	275	323	227
1996	366	384	348
1997	462	448	476
1998	562	515	609
1999	667	584	749
2000	776	657	895
2001	891	734	1,048
2002	1,011	814	1,207
2003	1,136	897	1,374
2004	1,267	984	1,549
2005	1,403	1,075	1,731
2006	1,546	1,171	1,921
2007	1,695	1,270	2,120
2008	1,850	1,375	2,327
Present value	**$7,480**	**$6,305**	**$8,655**

Explanation

In the first year, the number of surviving spouses entering the program is the same under all three scenarios.

The outlays are higher under either lump sum participation rate than under the current method, however, because a portion (25 percent or 50 percent) of the new entrants are receiving substantially higher payments—$35,000 compared with the current annual benefit of $9,228.

Beginning in the second year, the number of surviving spouses in the current method is larger than under either lump sum scenario.

By the fourth year, the number under the current method is sufficiently larger to outweigh the payment differential and cause outlays under the current method to be higher.

The difference in outlays increases yearly because the number of additional surviving spouses under the current method is increasingly larger.

The most obvious potential advantage of the small lump sum configuration is that it could reduce federal outlays after the first several years. As with the larger lump sum, this alternative also would provide some surviving spouses more flexibility with their finances.

However, a reduction in outlays is not certain. The estimates presented assume that a random cross section of eligible surviving spouses would choose an optional lump sum payment, which may not be correct. Rather, older spouses might be more likely to take the lump sum payment than those who are younger because older spouses might anticipate not living long enough to receive a large number of monthly payments. Similarly, surviving spouses who contemplated remarriage might be more likely to choose the lump sum knowing that they will lose their monthly benefits upon remarriage. These kinds of selection patterns would reduce federal savings and, if extensive, could increase federal costs.

Additionally, the increased flexibility provided surviving spouses would be at the cost of dramatically reduced lifetime benefits. Also, potential savings might be reduced to the extent that surviving spouses (1) require federal assistance in later years because of a lack of income and (2) receive SBP benefits to compensate for the lower DIC payments.

Significant Reductions in Veterans' Disability Compensation Would Be Required to Fund DIC Benefits

Under the third alternative, the monthly disability compensation benefits of veterans who are married, and thus likely to leave a surviving spouse, would be reduced to fund the DIC program. As a result, no new federal spending would be required to pay for future entrants. The government would save the total cost of these benefits because they would be funded with the premiums paid by reducing veterans' disability compensation.

Under this alternative, we assumed that the surviving spouses of all deceased disabled veterans would be eligible for DIC benefits. This is because it is not possible to predict with certainty which veterans will die from their service-connected disabilities and, therefore, which veterans should have their disability compensation benefits reduced.

This alternative would substantially reduce federal outlays by transferring the cost of benefits paid under the DIC program from the federal government to many of the nation's disabled veterans. It would also reduce VA's administrative costs by simplifying eligibility determinations. Whereas under the current program VA must determine whether a veteran's death was caused by a service-connected disability, under this

third alternative VA would need to determine only that the veteran had died and that the claimant was in fact the surviving spouse.

However, because veterans would be paying for the future DIC benefits for their survivors, offsetting DOD SBP benefits with DIC payments may be inappropriate. If the SBP offset were eliminated, federal savings would be reduced because of increased DOD SBP payments. Additionally, including in the program the surviving spouses of all disabled veterans would increase the number of surviving spouses who become eligible for the program each year by more than 28,000. In effect, the character of the program would change from one that provides financial support for the surviving spouses of veterans who lose their lives as a result of military service to the equivalent of a mandatory life insurance program for all married disabled veterans. We calculated that an 81-percent reduction in veterans' disability compensation benefits would be required to fully fund DIC benefits at current levels for surviving spouses of all disabled veterans and servicemembers who die while on active duty.

We also looked for other premium-based alternatives that had the possibility of saving the government money but that would result in a less drastic reduction in veterans' disability compensation. However, because this type of funding requires broadening the eligibility for benefits to surviving spouses of all disabled veterans, in each case either the veterans' compensation would still be drastically reduced or no savings would result.

For example, in one other configuration of this alternative, we assumed that DIC benefits would be available only to spouses of veterans rated 30-percent or more disabled and that compensation payments to those veterans would be reduced by 10 percent to partially fund their survivors' benefits. The reduction in compensation payments would fund about half of the DIC benefits, and over a 15-year period the net cost to the government on a present value basis would be about $1.26 billion less than the current program. During the period, however, costs under this alternative would begin to rise relative to the current program as greatly increased numbers of surviving spouses entered the program. Beginning in 2002, the annual cost of this alternative would become greater than the cost of the current program.

Conclusions

While each of the alternatives specified in the Veterans' Benefits Act of 1992 offers some advantages, each has substantial drawbacks. Although the optional small lump sum alternative offers some possibility of saving federal funds and providing flexibility to beneficiaries, there are important unknowns about how it would work in practice. The other alternatives would substantially increase federal outlays, either in the short run or overall, or could put some disabled veterans' or their survivors' economic well-being in jeopardy.

Basing DIC Benefits on Veterans' Disability Compensation Is a Viable Option to the Current Program

From the program's inception in 1957 until 1992, DIC benefits varied according to the servicemember's or veteran's pay grade. When it amended the program in 1992, the Congress no longer differentiated benefits according to this proxy for lost support. However, the cognizant committees reiterated that partially replacing support lost as a result of the veteran's death was a program goal. Consequently, we developed another alternative that would base benefit levels on a measure of lost support. Under this alternative, the measure of lost support would be the veterans' basic disability compensation payments. Thus, benefits would be related to the amount of support provided by VA and lost when the veterans die.

This alternative would make more proportional the change in VA support experienced by surviving spouses upon veterans' deaths. It would also increase benefits to spouses of the most severely disabled, consistent with the Congress' 1992 provision that provided a supplemental benefit for certain spouses of totally disabled veterans.

Basing DIC Benefits on Veterans' Compensation Payments Would Make Changes Proportional for All Survivors

Under this alternative, DIC payments to surviving spouses would be a fixed percentage of the disability compensation, without supplemental payments,[17] that had been paid to the veterans prior to their deaths. This percentage could be set at any level; we based our analysis on the percentage that could be paid while keeping DIC program costs approximately equal to those under the current flat rate benefit structure. Specifically, under such a program, surviving spouses who became eligible in 1994 would receive DIC benefits that would be equal to 61 percent of the disability compensation—before any supplemental payments for additional disabilities or aid and attendance—that had been received by the veterans prior to death (see table 4.1).[18] In the case of surviving spouses of servicemembers who died while on active duty, the payments would be 61 percent of the disability compensation amount that had been received by veterans who were 100-percent disabled.

[17]We did not include the supplemental payments to these veterans when calculating survivors' benefits because these benefits were intended to defray the expenses of caring for veterans and would not be needed for that purpose after the veterans die.

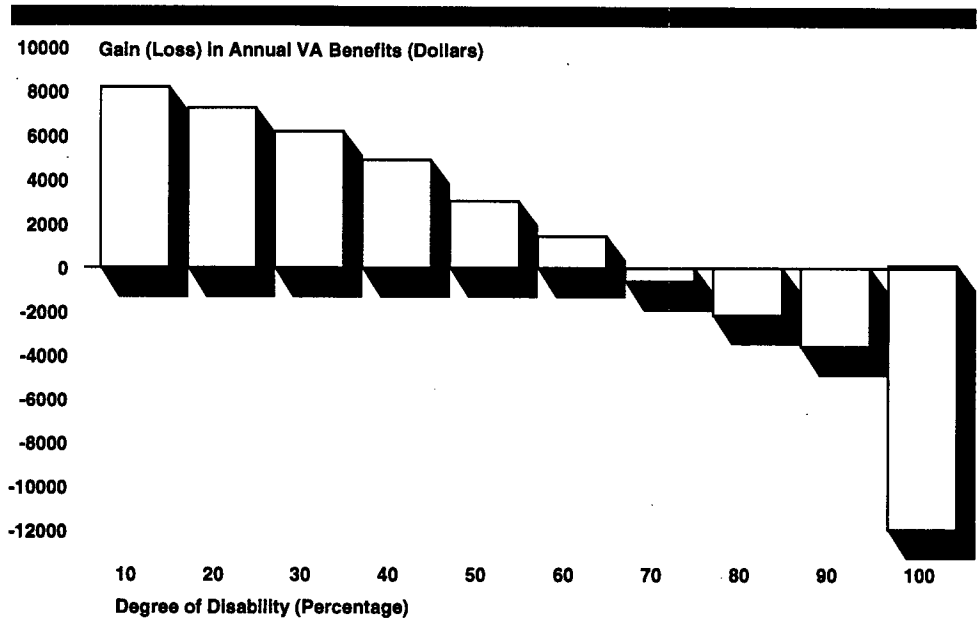
[18]Our calculation of 61 percent as a budget-neutral rate did not consider the effect of changes in SBP benefits under this alternative. It is possible that some DIC recipients would receive increased SBP payments and others would receive decreases. If the net effect of the alternative was to increase SBP payments, it would be necessary to lower the percentage to maintain federal budget neutrality.

Table 4.1: 1994 DIC Benefits if Based on Veterans' Disability Compensation

Percent disabled	Veterans' disability compensation	Survivors' new DIC payments
10	$1,044	$637
20	1,992	1,215
30	3,036	1,852
40	4,332	2,643
50	6,180	3,770
60	7,776	4,743
70	9,828	5,995
80	11,376	6,939
90	12,804	7,810
100 or unemployable	21,288	12,986

This alternative would make changes in the support provided by VA—that is, the difference between disability compensation and DIC benefits—more proportional among surviving spouses. Under the current flat rate system—as well as the prior rank-based system—there is a wide variation in the difference between the support, in terms of basic compensation, the veteran had been receiving and that provided to the surviving spouse. Figure 4.1 shows that while the survivors of totally disabled veterans experienced a decline in benefits of over 50 percent, those of 10-percent disabled veterans received DIC benefits almost nine times the amount the veteran had received.

Figure 4.1: Differences Between Veterans' Compensation and Spouses' Benefits Vary Dramatically Depending on Veterans' Disability Levels



By making the benefit levels proportional to the veterans' basic disability payments, this alternative would cause all spouses to experience a decrease in support after the veterans die. This is in contrast to the current program under which some spouses receive substantially increased benefits and others receive substantially less. Table 4.2 compares disability compensation paid to veterans with the survivor benefits received by spouses under the current DIC program and this alternative.

Table 4.2: Basing DIC Payments on Veterans' Disability Compensation Would Reduce Disparities Among Surviving Spouses

Percent disabled	Disability compensation	Current program		Alternative program	
		Payments	Difference	Payments	Difference
10	$1,044	$9,228	+$8,184	$637	–$407
20	1,992	9,228	+7,236	1,215	–777
30	3,036	9,228	+6,192	1,852	–1,184
40	4,332	9,228	+4,896	2,643	–1,689
50	6,180	9,228	+3,048	3,770	–2,410
60	7,776	9,228	+1,452	4,743	–3,033
70	9,828	9,228	–600	5,995	–3,833
80	11,376	9,228	–2,148	6,939	–4,437
90	12,804	9,228	–3,576	7,810	–4,994
100 or unemployable	21,288	9,228	–12,060	12,986	–8,302

Another result of this method of computing benefits is to increase benefits for survivors of the most severely disabled veterans. In 1994, this alternative would have increased DIC payments for the 69 percent of recently enrolled beneficiaries who were married to veterans who had been receiving compensation at the 100-percent level. The increases would have been $3,758 for the spouses of those who had been totally disabled for less than 8 years and $1,730 for the spouses of those who had been totally disabled for at least 8 years. In contrast, the alternative would decrease DIC benefits to the spouses of veterans rated less than 100-percent disabled by $1,418 to $8,591 annually. In total, this alternative would shift about $22 million annually from the surviving spouses of less disabled veterans to those of the more severely disabled. Table 4.3 compares this alternative DIC benefit structure with the current DIC benefit structure.

Table 4.3: Basing DIC Benefits on Veterans' Disability Compensation Would Increase Payments to Spouses of the Most Severely Disabled

		Payments		
Percent disabled	Percentage of recipients[a]	Current program	Alternative program	Increase/ decrease
10	4	$9,228	$637	–$8,591
20	2	9,228	1,215	–8,013
30	7	9,228	1,852	–7,376
40	4	9,228	2,643	–6,585
50	3	9,228	3,770	–5,458
60	6	9,228	4,743	–4,485
70	3	9,228	5,995	–3,233
80	2	9,228	6,939	–2,289
90	1	9,228	7,810	–1,418
100 or unemployable	69	9,228[b]	12,986	+3,758

[a]Column does not add to 100 because of rounding.

[b]Some recipients are spouses of veterans rated 100-percent disabled for at least 8 years. These spouses currently receive a supplemental annual payment of $2,028, which would no longer be paid under this alternative; the increase of $3,758 substantially exceeds the supplemental payment these spouses currently receive.

Support Can Be Measured in Many Different Ways

The DIC program has two objectives: (1) to partially compensate survivors for income (support) lost as a result of the deaths of servicemembers or veterans from service-connected disabilities and (2) to indemnify survivors for lives lost as a result of service to the nation. However, the amount of indemnification spouses should receive for the loss of servicemembers' or veterans' lives is not readily quantifiable and, over the years, discussions by the Congress and others who have studied the program have focused on the need to partially replace lost support.[19] There are many ways to measure support lost as a result of veterans' deaths, and the Congress has done so in a variety of ways since it began providing survivors' benefits.

When it established the DIC program in 1957, the Congress addressed the first program objective by establishing a DIC benefit amount that consisted of a fixed amount plus an added amount equal to 12 percent of the veteran's basic military pay adjusted for cost of living increases. Thus, benefits increased as the basic pay increased. In 1969, the Congress revised the DIC program, basing benefits on the rank, or pay grade, of the

[19]See, for example, Summary of Issues Pertaining to Redesign of the Veterans' Dependency and Indemnity Compensation Program, Congressional Research Service (Washington, D.C.: Sept. 6, 1991).

veteran while in the service. It set specific benefit levels for each rank; again, the higher the rank, the higher the survivors' benefits.

In 1992, the Congress again changed the DIC program, this time to the current flat-rate payment system. In doing so, the cognizant committees expressed the intent of establishing parity among all surviving spouses. This new benefit determination did not differentiate among spouses on the basis of the amount of support they lost, except to the extent that—recognizing the impact a long-term total disability may have on a veteran's ability to provide an estate for the family—it provided an additional amount to survivors of totally disabled veterans. Both the House and Senate reports on the legislation again referred to the program's purpose as partially replacing lost support.

Veterans' Disability Compensation Is a Meaningful Measure of Lost Support

Basing DIC benefits on veterans' compensation payments offers several advantages. First, it provides higher benefits to the survivors of those less likely to have been employed after leaving the service. That is, it recognizes that in many cases less disabled veterans had been able to obtain employment and that support lost as a result of their deaths would be partially replaced in other ways, such as through survivor benefits payable under pension plans or Social Security. The basic disability compensation VA pays to veterans with service-connected disabilities is intended to compensate veterans for the loss of earning capacity resulting from their disabilities. The presumption, then, is that those rated 100-percent disabled—or determined by VA to be unemployable—earned no income, while less disabled veterans would obtain employment and earn income to supplement their disability compensation. Survivors of these less disabled veterans may receive survivors' benefits generated from that employment.

Second, this alternative would differentiate among surviving spouses by directly relating DIC benefits to an identifiable portion of lost support, namely that portion of veterans' incomes provided by VA in the form of basic disability compensation. It would also provide each spouse with an equal proportion of that lost support; parity in this case would be achieved by providing each spouse with the same proportion of prior VA disability payments, rather than the same dollar amount as under the current program.

Finally, using the veterans' disability compensation as a basis for determining DIC benefit amounts would be more consistent with the way

other federal civilian, military, and Social Security survivor benefits are determined. For example, survivor benefits paid under the federal civilian and military retirement programs are equal to a fixed proportion of the benefits that had been paid to the deceased person under that program.

In our analysis, to arrive at our estimate of the percentage of veterans' basic disability compensation payments that could be paid, we used ratings at a single point in time that we assumed to be at or near the time of death. In practice, however, basing DIC benefits on veterans' disability compensation just prior to death could be inequitable in that survivors in similar circumstances may receive very different benefits. The following hypothetical example demonstrates this point.

Two veterans with 10-percent disabilities for high blood pressure have heart attacks, and their deaths are determined to have been due to their high blood pressure. One died immediately, still rated at 10 percent. The other lived for 1 month and in the interim had a claim approved to increase his service-connected disability to 100 percent. If DIC benefits were calculated based on compensation at the time of the veterans' deaths, the spouse of the former veteran would receive DIC benefits of $637, while the spouse of the latter would receive benefits of $12,986.

To minimize possible inequities in implementing this alternative, DIC benefits should be calculated as a fixed percentage of the average annual amount of basic disability compensation benefits received by the veteran over an extended period, such as 3 years.[20]

VA Raised Some Concerns About Basing Benefit Levels on Veterans' Disability Compensation

VA officials questioned the appropriateness of focusing on the support goal and of using veterans' compensation as a measure of lost support. They also raised concerns about the administrative difficulties of determining DIC benefits based on veterans' average disability compensation paid over several years.

VA officials said that because the disability compensation program does not attempt to indemnify veterans for factors such as shortened life span or reduced quality of life, basing DIC benefits on disability compensation may not sufficiently reflect the indemnification goal. However, historically in setting benefit levels, the Congress has not attempted to differentiate between the portion of benefits intended to replace lost support and that

[20]Three years would be consistent with federal civilian retirement benefits—upon which survivor benefits are based—which are determined on the basis of average salary over a 3-year period.

intended to indemnify. As noted above, the Congress has consistently reaffirmed the importance of the program goal of partially replacing lost support.

In addition, VA officials noted that calculating the disability compensation over time would increase VA's administrative burden because VA would have to maintain a record of all disability payments made to each veteran over some period of time. We agree with VA that this change would cause an administrative burden, but it would be temporary until VA changed its automated systems to accommodate this calculation, which could be done as part of its ongoing systems modernization effort.

Permitting Current Recipients to Elect This Alternative Would Substantially Increase Costs

We assumed that those currently receiving DIC benefits would continue to receive benefits under existing program rules and would not be eligible for any of the alternatives. In the past, when the Congress has changed the basis for paying survivor benefits, it has allowed recipients already on the rolls to choose the revised benefits if they are higher. Doing so avoids disparities in the level of payments to current recipients and new entrants.

We estimate that permitting current recipients to choose the higher benefits would increase program costs by an estimated $500 million in the first year alone. As discussed earlier, PAYGO rules require that such additional outlays be balanced by spending reductions or revenue increases. Moreover, the information needed to calculate the 3-year average disability compensation received by veterans of spouses currently on the rolls is not readily available. It would therefore be difficult, if not impossible, for VA to accurately compute new DIC payments for current recipients under this alternative.

Conclusions

Compared with the current DIC program and the other three alternatives we studied, basing DIC benefits on the extent of veterans' disability compensation offers several advantages. Chief among them are making more proportional the change in VA-provided income experienced by all spouses when veterans die and increasing the benefits paid to survivors of the most severely disabled veterans. On the other hand, the minimum benefit for survivors of less disabled veterans would be reduced, significantly so in some cases. Additionally, disparities would exist between recipients under the current benefit structure and those to whom the new structure would apply. Although the Congress has in the past permitted existing DIC recipients to choose benefits under new programs if

they are higher, doing so in this case would be costly and, in all likelihood, administratively impractical.

Changing the DIC payment structure will require a policy decision by the Congress. If it believes that ensuring that all DIC recipients experience more proportional changes in VA support is more important than ensuring that all spouses receive the same benefit, the Congress should pay survivor benefits as a percentage of the disability compensation veterans received prior to their deaths.

Agency Comments and Our Evaluation

In a letter dated January 27, 1995, the Assistant Secretary of Defense, Force Management Policy, generally concurred with our draft report. In addition, he reemphasized the points we made in the report that (1) including current DIC recipients, not just future enrollees, in a new program that based benefits on the veteran's disability compensation would be costly, and (2) SBP costs would rise if the net effect of the alternative is to decrease DIC payments to surviving spouses eligible for SBP. The Secretary made other technical comments and suggestions that we have incorporated where appropriate. (See app. II.)

In a letter dated January 30, 1995, the Secretary of Veterans Affairs commented that our report was a credible and competent treatment of the impact of the DIC reform of 1992. However, the Secretary also said policy changes should not be considered at this time and that the full effects of the 1992 changes should be evaluated at a future date. While VA may be reluctant to have the DIC program reconsidered so soon after the 1992 program reforms, we do not believe the recency of change should prohibit reconsideration. Indeed, by asking for this study, the Congress indicated a willingness to do so, and our report will help clarify the many issues and choices the Congress should consider.

The Secretary also said that he believes the alternative that would base DIC survivor benefits on veteran disability compensation fails to recognize that the Congress envisioned partial replacement of other sources of support besides disability compensation. We disagree and believe the alternative is consistent with congressional intent. In this regard, we could find no evidence that the Congress has ever linked survivor benefits to the individual veteran's total earnings. In fact, the current flat rate system makes no attempt to vary benefits based on the amount of lost support. It is important to recognize that basing benefit amounts on the amount of a veteran's disability compensation will reduce the minimum benefit for

survivors of less disabled veterans and, therefore, will reduce the proportion of total lost support replaced for most of those beneficiaries. However, it will increase the amount of benefits, and therefore the proportion of total lost support replaced, for most beneficiaries.

The Secretary was also concerned that the alternative we highlighted would cause other inequities in the benefits paid to certain survivors. He pointed to the hypothetical example of two veterans, one with a disability of 40 percent and the other with a disability of 100 percent, who die (as a result of those disabilities) within 2 years of separation from the service. The spouse of the 100-percent-disabled veteran would receive DIC payments at a rate of more than double that of the other spouse. He also cited the hypothetical example of the survivor of a veteran with a 0-percent disability rating for hypertension that worsens quickly and proves fatal before the veteran's rating is increased—the spouse would receive no DIC benefits.

We agree that inequities can occur under this alternative. However, some inequities will occur under any program that does not base benefits on the amount of each individual's total lost support. Under the current program, for example, many may perceive as inequitable the fact that survivors in very different situations receive similar benefits. For example, the survivor of a 100-percent-disabled veteran who had never been employed and needed substantial care for many years before his death receives the same benefit as the survivor of a veteran who had been 10-percent disabled, employed for many years, and lived for 40 years before his disability suddenly worsened and he died.

Although situations such as the Secretary cites will occur under the alternative that bases benefits on disability compensation, we believe inequities would occur infrequently. For example, currently less than 1 percent of veterans with service-connected disabilities have 0-percent ratings. Nonetheless, benefits would be significantly reduced (and in a few cases eliminated) for about 30 percent of future beneficiaries—those survivors of less disabled veterans. Many may see this as inequitable. On the other hand, benefits would be increased for 70 percent of future beneficiaries—the survivors of the most severely disabled. These beneficiaries experience the greatest decline in VA benefits at the time of the veterans' deaths and, we believe, are least likely to have other means of support. In considering this alternative, the Congress has the choice of increasing benefits to those most likely to have the greatest need for them, but in doing so might eliminate or severely reduce benefits to some

survivors of veterans who, though presumably able to work, did not provide for survivor benefits.

The Secretary also stated that the report did not include a basis for determining the benefits to be paid to survivors of those who die on active duty. However, in the draft report we did discuss the basis for determining benefits for survivors of active duty personnel. We suggested that these spouses could be paid at the same rate as survivors of 100-percent-disabled veterans. (See app. III.)

Data Sources and Assumptions

This appendix presents details on the major data sources used in our estimates of income received by DIC beneficiaries and the major assumptions used in our analyses of the cost and budgetary implications of alternative approaches to the payment of DIC benefits.

Data Sources for Income Estimates

To estimate the total income of surviving spouses who receive DIC benefits, we used the Bureau of the Census' Current Population Survey (CPS). CPS is a nationwide interview survey of about 60,000 households that is conducted four times each year. The specific CPS results that we used are those of a survey conducted in March 1994, the most current available when we did our work. Our income estimates are based on 1993 individual income reported in the survey for persons we identified as DIC beneficiaries.

CPS did not specifically ask whether any household member receives DIC benefits. Therefore, to identify DIC beneficiaries among the survey respondents, we examined responses to several survey questions. We considered persons to be DIC beneficiaries if they were widowed females who had received VA survivor benefits in 1993 but had not been required to complete VA's annual income questionnaire. The questionnaire must be completed by beneficiaries of VA programs for which low income is an eligibility requirement but not by surviving spouses eligible for DIC benefits.

Although this method of identifying DIC beneficiaries is imperfect—it would not, for example, include males who received DIC benefits—it provides a good basis for our income estimates. Using our criteria, we estimated that—at the 95-percent confidence level—there were about 211,000, plus or minus about 62,000, surviving spouses receiving DIC benefits nationwide. According to VA files, there were actually about 275,000 DIC recipients in April 1994. Thus, it appears that the method we used to identify DIC recipients among the households sampled in CPS resulted in a small undercount. We believe, however, that our analysis of the CPS data accounts for the great majority of DIC beneficiaries and, thus, has produced a credible estimate of the total amount of income, on average, received by a DIC recipient. Because of the likelihood that there was underreporting of income in the survey, however, our estimate probably understates to some extent the average income of DIC recipients.

In calculating the confidence intervals around the CPS-based estimates cited in this report, we used the formulas contained in Census Bureau

documentation for CPS and consulted with Bureau personnel when necessary.

We determined the Social Security numbers of DIC beneficiaries and their monthly DIC benefits from VA's March 1993 Compensation and Pension File. We multiplied the monthly amount by 12 to arrive at an estimate of total benefits received in 1993.

To determine the amount of Social Security benefits received by DIC beneficiaries, we used SSA's file of Master Beneficiary Records. At our request, SSA compared the DIC beneficiaries' Social Security numbers with the Master Beneficiary Records. For each DIC beneficiary whose Social Security number matched—indicating that the person was a Social Security recipient—SSA provided us with the amount of monthly Social Security benefits received in December 1993. We then multiplied that amount by 12 to estimate total Social Security benefits received by that DIC beneficiary in 1993.

To determine the amount of benefits from DOD's Survivor Benefit Plan (SBP) received by DIC recipients, we used DOD's November 1993 Survivor Benefits Master File. At our request, DOD furnished us an extract from that file that contained the names of those SBP beneficiaries who were receiving both SBP and DIC benefits at that time as well as the amount of monthly SBP benefits being received by each of those beneficiaries. We multiplied that amount by 12 to estimate total SBP benefits received by each DIC beneficiary in 1993.

Assumptions Used in Cost Estimates

In estimating outlays for DIC benefits in 1995 and beyond, we inflated the benefit amount in each year to reflect the likely enactment of cost-of-living increases by the Congress. The cost-of-living increase that we assumed each year was 3.5 percent. The basis for this figure was the intermediate assumption used to project trust fund balances in the 1994 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds. In estimating the number of beneficiaries for each year, we assumed that there would be attrition from the DIC beneficiary rolls of 2.1 percent annually as a result of deaths and remarriages. This attrition rate was based on the mortality table, 1971 Group Annuity Table for Females, and records for a 3-month period of actual DIC terminations due to remarriage. In our calculations of the present value of the stream of benefit outlays under the current and alternative payment methods, we used a discount rate of 7 percent—the

rate used by the Office of Personnel Management in its September 1993 valuation of the Civil Service Retirement and Disability Fund. In discounting future years' benefit payments, we did so as if all payments were to be made at mid-year.

For our analysis of the alternative that would finance the DIC program, in whole or in part, through reductions in disability compensation payments to disabled veterans, as well as the alternative that would vary DIC benefit payments according to the degree of disability of the veteran, it was necessary to make an assumption regarding the degree of disability of the veterans whose surviving spouses would enter the program in future years. The distribution that we assumed for purposes of these analyses is the distribution of disability levels for those veterans who died in 1991 and 1992, and whose surviving spouses had entered the DIC program by March 1993. Because VA's Compensation and Pension File does not show the veteran's disability level for each DIC beneficiary, we determined the distribution of disability levels by (1) identifying, from VA's March 1993 Compensation and Pension File, every DIC beneficiary whose spouse (veteran) had died in 1991 or 1992, and the VA claim number for that veteran; (2) tracing the claim number to the March 1990 Compensation and Pension File to determine, from the veteran's disability compensation record in that file, the degree of disability for which the veteran was being compensated in 1990; and (3) counting the number of veterans at each disability level.

For this analysis, we considered the "unemployable" category to be equivalent to the category of 100-percent disabled. We did so because regardless of their degree of disability, disabled veterans considered unemployable receive the same basic monthly disability compensation amount as those who are 100-percent disabled.

We used these counts to establish our assumed distribution of degrees of disability for the veterans whose surviving spouses would enter the DIC program in the future. To test the reasonableness of our assumed distribution, we repeated these steps, using 1991 and 1992 Compensation and Pension Files, and found that the distribution among the additional cases we were able to identify was quite similar to our assumed distribution.

Comments From the Department of Defense

FORCE MANAGEMENT POLICY

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JAN 27

Mr. David P. Baine
Director, Federal Health Care
Delivery Issues
Health, Education and
Human Services Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Baine:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "VETERANS' BENEFITS: Options for Determining Survivors' Benefits" dated December 19, 1994 (GAO code 105731/OSD Case 9834). The DoD generally concurs with the report.

Given the historical application to existing recipients when changes are made in benefit programs, the Department suggests that the final report note that the cost of alternatives examined exclude existing recipients. It would help readers to know the costs of including current recipients. In addition, because the impact on the Uniformed Services Survivor Benefit Plan (SBP) has not been fully explored, some cautions should be raised with respect to discusssing the potential impact on the SBP and the total cost of the options examined. In particular, regarding the option to pay a percentage of disability compensation, it should be noted that savings could be reduced for those cases where the Dependency and Indemnity Compensation (DIC) is less because the SBP offset of the DIC payment will be less. Finally, although the report states that the DIC makes up about 33 percent of the income of recipients, the average DIC payment and average income are shown as $9,846 and $16,495 respectively, which reflects an average DIC payment that is 60 percent of income. A clear derivation of the 33 percent value would give readers a better grasp on the income relationships.

Several technical and clarifying corrections have been provided separately. The Department appreciates the opportunity to comment on the draft report.

Sincerely,

F. Pang

Comments From the Department of Veterans Affairs

THE SECRETARY OF VETERANS AFFAIRS
WASHINGTON

JAN 30 1995

Mr. David P. Baine
Director, Federal Health Care
Delivery Issues
U. S. General Accounting Office
441 G Street, Northwest
Washington, DC 20548

Dear Mr. Baine:

This is in response to your draft report, ***VETERANS' BENEFITS: Options for Determining Survivors' Benefits*** (GAO/HEHS-95-30). In my opinion, your report addresses in detail the impact of the Dependency and Indemnity Compensation (DIC) reform of 1992 in a credible and competent manner. It also discusses the impact of several alternative proposals that the Congress raised when considering DIC reform.

Your report does not present any recommendations warranting additional policy changes by either the Congress or the Executive Branch, nor, in our view, does it raise issues for which additional proposals would be appropriate given the recent program reforms enacted in 1992. I believe policy change in the area of survivors' benefits should not and probably will not be on the agenda in the near future and that the full effect of the Veterans' Benefits Act of 1992 should be evaluated at a future date.

I have enclosed some additional observations vis-à-vis the alternatives you assessed. Thank you for the opportunity to comment on your draft report.

Sincerely yours,

Jesse Brown

Jesse Brown

Enclosure
JB/vz

Enclosure

DEPARTMENT OF VETERANS AFFAIRS COMMENTS TO
GAO DRAFT REPORT, ***VETERANS' BENEFITS: Options for Determining Survivors' Benefits***
(GAO/HEHS-95-30)

Under the Dependency and Indemnity Compensation reform of 1992, for all service-connected deaths occurring on or after January 1, 1993, surviving spouses are eligible for the same basic rate of monthly payments without regard to the service rank achieved by the veteran. There are "add ons" for veterans with a service-connected total disability for 8 or more years preceding death, and additional amounts for a surviving spouse in need of aid and attendance or housebound.

These reforms represent an effort at compromise between two differing compensation models. The uniform base rate recognizes that the Nation's obligation is essentially the same to all spouses in cases of service-connected deaths, i.e., the loss suffered by survivors is in many respects the same regardless of whether death results from a heart attack suffered by a veteran whose service-connected coronary-artery disease was rated 30-percent or 100-percent. However, the "add ons" recognize that the needs for compensation may be greater among survivors whose spouses may have been unable to work, or required extensive personal care, for a significant period before death, or if the survivors themselves have serious health problems that result in extra expenses and inability to work.

The report puts forward one option as having several advantages: changing the DIC payment structure so that DIC benefits would be a percentage of the deceased veterans' disability compensation. We see a number of problems with this suggestion.

(a) The GAO suggestion is premised on the idea that the major rationale for DIC is partly to replace the "lost support" that the survivors experience when the veteran dies. However, GAO focuses exclusively on only one form of support, VA disability compensation. GAO's approach does not recognize other sources of support that were available during the veteran's life, such as the veteran's earnings, which Congress clearly always envisioned partially replacing.

Enclosure

That Congress contemplated other sources of support is demonstrated by the fact that the basic rate enacted in 1992 exceeded the level of compensation paid to veterans rated 10-percent to 60-percent disabled. If Congress had considered DIC to be a partial replacement for only compensation, it certainly would have placed a limit on DIC benefits so that they would never exceed the compensation that the veteran had been receiving. (Such a limitation was missing in past enactments of DIC also.)

(b) On a closely related note, the reduced levels of DIC that GAO recommends be paid to the survivors of veterans with lower-rated--but nonetheless fatal--disabilities would fail to replace any part of the deceased veteran's earnings and would be unconscionably low.

For example, a veteran with a service-connected disability in remission, such as hypertension, may have a 0-percent rating, but the disability may worsen quickly and prove fatal before the veteran's rating is increased. Paying that veteran's surviving spouse no DIC at all would be very unfair.

The disability compensation rating schedule is based on compensating veterans for their average impairment of earnings. Veterans with lower-rated disabilities are presumed, on average, to have greater residual earning power than those with higher-rated disabilities. GAO recognized this but, instead of recognizing the government's obligation to replace part of the earnings loss as part of the total lost support caused by the service-connected death, GAO took the position that whatever employment the veteran had could be assumed to provide an adequate source of security for the surviving spouse. Such a shifting of responsibility for the survivor's loss of support from DIC to other sources--especially in the absence of any certainty that the veteran's employment provides substantial long-term benefits for survivors--would be an unfounded abdication of government responsibility.

(c) The GAO proposal lacks a basis for determining the DIC rates that should be paid to the survivors of those who die on active duty.

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Enclosure

(d) GAO suggests that the revised system should be applied prospectively only so as to make the new benefits payable only to those who become eligible for DIC after its proposal is enacted. That would be the only practical alternative in light of the extremely high cost--$500 million for the first year--and the enormous administrative burden that retroactivity would impose on the Veterans Benefits Administration. However, prospective application would mean that the survivors of totally disabled veterans who die in the future would receive substantially greater benefits than the survivors of those who died in the past. This would be terribly inequitable. The families of those who died from injuries or diseases incurred in World War II, Vietnam, and other past conflicts would have great difficulty understanding why a much greater benefit would be provided only to certain survivors of a category of veterans that includes many who are likely to have incurred their disabilities in peacetime service.

(e) There would be other gross inequities in the benefits paid to various groups of survivors under the proposed system. Consider the case of two veterans who die within about 2 years after being discharged or retired. One dies of a disability rated at 100-percent and the other dies of a disability rated at 40-percent. The surviving spouse of the first veteran would be paid DIC for the rest of his/her life at a rate more than double that paid to the spouse of the second veteran. The resulting disparity--which could total hundreds of thousands of dollars over the survivors' lifetimes--would not be justified by the difference in the level of hardship the two survivors experienced.

Likewise, paying a widow who for 15 years cared for a veteran with a 90-percent rating substantially less--$5,176 per year less--than would be paid to the survivor of a veteran who had a 100-percent rating for a much shorter period seems very inequitable.

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