

GAO

Report to the Chairman, Committee on  
Armed Services, House of  
Representatives

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April 2001

# DOD DISABILITY

## Overview of Compensation Program for Service Members Unfit for Duty



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United States General Accounting Office  
Washington, DC 20548

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April 27, 2001

The Honorable Bob Stump  
Chairman  
Committee on Armed Services  
House of Representatives

Dear Mr. Stump:

This report responds to your request for information about the Department of Defense's (DOD) disability severance program that provides a lump-sum payment for certain service members with a disability. You requested this work as a follow-up to our previous report on disabled veterans' interest in lump sum versus monthly disability payments.<sup>1</sup>

We agreed to examine (1) how DOD administers its disability severance pay for service members with less severe disabilities and the associated administrative costs and coordination issues and (2) the extent to which the military services provide financial counseling to service members receiving disability severance (lump-sum) payments. As agreed with your office, we interviewed DOD and service-level officials and examined pertinent DOD and service-level documents. We conducted our work from January through April 2001 in accordance with generally accepted government auditing standards.

On April 19, 2001, we briefed your office on the results of our work. (See app. I.) We requested oral comments from DOD on a draft of this report. DOD provided technical comments, which we have incorporated as appropriate.

In summary, we found that the administration of disability severance, like medical retirement pay, follows service-specific procedures using DOD guidance. The services assess members' fitness for duty along a scale ranging from 0 to 100 percent in gradations of 10. Members unfit for duty who have 20 or more years of military service with any disability rating or who are assigned a disability rating of 30 percent or higher receive medical

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<sup>1</sup>*Veterans' Benefits: Veterans Have Mixed Views on a Lump Sum Disability Payment Option (GAO-01-172).*

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retirement payment. In contrast, a lump-sum disability severance payment is made to members unfit for duty who have less than 20 years of military service and who are assigned a disability rating less than 30 percent. In fiscal year 2000, the number of assessments resulting in disability severance payment was more than double the number of assessments resulting in medical retirement. The services and DOD could not provide us with extant data on how much it costs to make disability decisions or issue payments or how long it takes. However, service-level officials had some concern about the long lead time that can elapse before a service member with an injury or illness formally enters the disability evaluation system.

DOD does not provide special financial counseling on the use of lump-sum payments for members separating with a disability severance payment. Rather, as part of transition assistance to civilian life, financial counseling is available to all members (including members retiring, separating, or otherwise leaving the service) at family service centers or within members' military units.

We are sending copies of this report to the Honorable Christopher H. Smith, Chairman, House Committee on Veterans' Affairs, and the Honorable Donald H. Rumsfeld, Secretary of Defense. We will also make copies available to others upon request.

If you or your staff have any questions about this report, please contact me on (202) 512-7101 or Shelia D. Drake, Assistant Director, Education, Workforce, and Income Security Issues, on (202) 512-7172. Brett S. Fallavollita and Michael J. Collins also made key contributions to this report.

Sincerely yours,



Cynthia A. Bascetta  
Director, Education, Workforce,  
and Income Security

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# Appendix I

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## Department of Defense Disability Compensation Program

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Briefing for the House Armed Services Committee and the  
House Committee on Veterans' Affairs

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## **Disability Compensation in the Department of Defense (DOD) and the Department of Veterans Affairs (VA)**

- DOD compensates military service members who are determined to be “unfit for duty”--unable to perform their military duties.
- VA compensates veterans who have a service-connected disability for an average reduction in earning capacity they are expected to experience.



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## **Types of DOD Disability Compensation**

- **Medical Retirement**
  - A monthly payment paid for life
  - members unfit for duty who have 20 or more years of military service with any disability rating or who are assigned a disability rating of 30 percent or higher per VA's Schedule for Rating Disabilities with any length of service
  
- **Disability Severance**
  - A one-time lump-sum payment
  - members unfit for duty who have less than 20 years of military service and who are assigned a disability rating of less than 30 percent



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### Calculation of Disability Compensation

- Medical Retirement
  - Higher of:
    - (1) Disability Rating x Retired Monthly Base Pay\*
    - or
    - (2) Years of Service x 2.5 x Retired Monthly Base Pay
  
- Severance Pay
  - Monthly Base Pay x 2 x Years of Service (up to a maximum of 12 years)

\*Retired base pay for those entering military service after September 7, 1980, is the average of the highest 36 months of basic pay.



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## Number of Disability Compensation Recipients (FY'00)

- Medical Retirement
  - 96,270 total retirees
  - 2,347 new retirees
  
- Disability Severance
  - 8,486 service members





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### Approximate Financial Outlays (FY'00)

- \$1.27 Billion in Medical Retirement Pay
    - The average retiree received \$13,060 for the year
      - the average officer retiree received \$24,260
      - the average enlisted retiree received \$8,380
  
  - \$159 Million in Disability Severance Pay
    - The average member received \$18,725 as a lump-sum payment
      - the average officer received \$51,065
      - the average enlisted member received \$17,750
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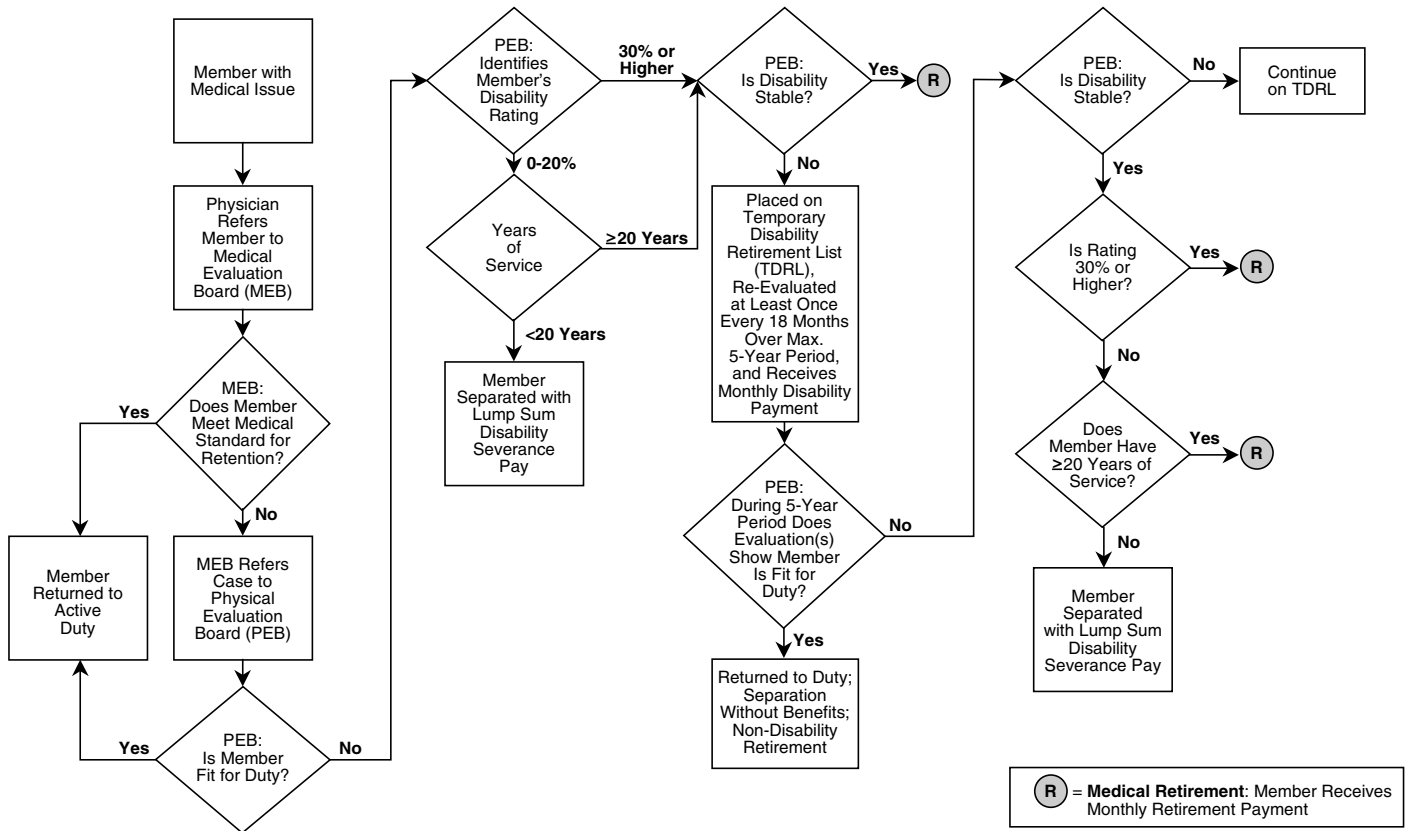
## Disability Evaluation System

- Commanding Officer or Physician: refers member to Medical Treatment Facility.
  - Medical Treatment Facility: treats member, seeking maximum medical benefit.
  - Medical Evaluation Board: physician-centered assessment of member's meeting retention standards.
  - Physical Evaluation Board: service-centered assessment of fitness for duty.
    - Informal: paper-based review
    - Formal: board review involving appearance by member/representative
  - Service Headquarters: finalize decision.
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Hill Briefing: DOD Disability Compensation

DOD Disability Evaluation System



**(R)** = Medical Retirement: Member Receives Monthly Retirement Payment

Source: GAO analysis of DOD documents.



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### **DOD Disability Caseload (FY'00)**

- About 22,780 cases evaluated by Physical Evaluation Boards.
- Army had the highest caseload (about 10,000).
- About 3 of every 4 cases were new cases, while remainder were cases from the Temporary Disability Retirement List.



### Disposition of Cases (FY'00)

- Return to Duty.....18%
- Separation with Severance Pay.....35%
- Medical Retirement.....14%
- Temporary Disability Retirement List.....24%
  - Medical Retirement-eligible and disability not stable
  - 5-year tenure maximum; periodic re-exams (18 months)
  - minimum 50% base pay
- Other .....9%
  - For example, separation without benefits because disability was not in line of duty or existed prior to service and not service aggravated



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## Administrative Costs

- DOD and services do not collect information on dollar costs or staff time to:
  - make a disability decision,
  - issue lump-sum severance payment, or
  - issue monthly disability retirement payment.



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### **Concerns Expressed by Some Military Service Representatives**

- Long lead time can elapse before member formally enters Disability Evaluation System.
  - Reported Impact: Service member undergoing disability evaluation counts against a unit's "end strength"...a lengthy evaluation process delays replacement of member.
- Information from Medical Evaluation Board to Physical Evaluation Board can be outdated or incomplete, causing case to be returned for more information.



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## DOD Financial Counseling

- Financial counseling on use of disability lump-sum payments is generally provided within context of counseling offered to any service member leaving the service.
  - DOD/services do not offer specific investment advice for disability lump-sum severance payment.
  - Members facing nondisability retirement options are offered financial counseling to help make decision (accept/decline Career Service Bonus lump-sum payment).
  - Little is known about members' use of disability lump-sum payments.
  - Based on DOD experiences, some DOD officials advise giving plenty of time and appropriate educational resources to help a person decide whether to take a lump-sum payment.





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