

THE VETERANS ADMINISTRATION PENSION SYSTEM

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The term "pension" as used by the Veterans Administration (VA) means a monthly payment made by the Administrator of Veterans Affairs to a war-time veteran because of service and nonservice--connected disability, or to certain survivors (spouses and children) because of the nonservice-connected death of the veteran. In 1979, the Congress mandated a new structure to this pension system which altered the constraints and qualifying factors for the awarding of pension benefits. This paper examines the quantitative effect that this structural change has caused to date and possible future ramifications.

The first section of the paper explains what the VA pension system is and why it exists. The next section describes the pension reform and the final section describes the impact of reform upon the pension system.

Why VA Pension?

The concept of veterans pension can be a confusing one. Many people mistakenly believe that all veterans are entitled to monthly payments based solely on service. Others confuse the pension program with the service connected disability compensation program and refer to any VA benefit as a pension. Workers in the private sector know that pensions are retirement programs into which they make financial contributions, but a VA pension is not a retirement benefit and entails no cash contributions. The following portion of a VA statement submitted earlier this year to the President's Commission on Pension Policy 1/ should clarify much of this:

"A brief history of the meaning and development of pension is helpful in understanding our pension program. It has been the traditional policy of the United States to provide wartime veterans with benefits above those given to the general civilian population and to treat veterans, especially wartime veterans, as special cases. The term "pension" means a monthly payment made by the Administrator to a veteran of any war because of age, service or disability not incurred or aggravated in line of duty in active service, or to a surviving spouse or child of such veteran whose death was not due to disability, or death resulting from active military service.

"Pension benefits are awarded not because of the needs arising directly from military ser-

vice, because the United States Government believes it owes a special obligation to those persons who performed active military service during a time of war and who are now in need.

"Pensions have been granted on the basis of some specified service plus other qualifications such as indigence, disability in some degree incurred after the termination of the war, the attainment of a certain age, or certain combinations of all of the above elements.

"Prior to the Korean conflict, pensions were neither provided nor promised at the time the war was being fought. In fact, before World War II, pension benefits were enacted years later when the veteran population was advanced in age and reduced in numbers.2/ The enactment of pension legislation has grown progressively shorter.

"Generally, the main concern of pension legislation has been to keep veterans and their survivors from want and degradation. We have been unwilling as a nation to permit the veteran, with honorable wartime service, to be reduced to the status pauper. Pensions were and continue to be provided to wartime veterans and their survivors in need, as an 'honorable' form of economic assistance."

Pension Reform

The restructuring of the VA pension system became a topic of prime concern for the Congress in the midseventies. Thirteen million World War II veterans were rapidly approaching the age of potential pension eligibility. Serious consideration had to be given to the effectiveness and viability of the pension system. Payment levels at that time were based upon veteran income with certain exemptions. Spouses earned income was exempt. This was also the period when the Congress began enacting annual cost of living increases to offset the effects of inflation. Congress directed the Administrator of Veterans Affairs to conduct a study to determine the adequacy of the pension program in operation at that time. The study was to specifically include the following 3/:

1. Income characteristics of veterans and survivors currently in receipt of nonservice-connected pension.

2. Actual and anticipated long term financial characteristics of pensioners including those veterans and survivors who may be potentially eligible for pension benefits during the next 25 years.

3. Identification and analysis of existing inequities, anomalies, and inconsistencies contained in the current pension program.

4. Current and proposed income exclusions.

5. Particular problems and needs of the catastrophically disabled pensioners.

6. Alternative proposals which - -

(a) assure a level of income for eligible veterans at or above the national minimum standard of need;

(b) treat similarly circumstanced pensions alike; and

(c) provide the greatest amount of assistance to those with the greatest amount of need.

Findings and recommendations were to be submitted in a report to Congress for its use in evaluating and, if necessary, modifying the then-current pension program.

One of the actions taken by the study group was to collect data on all forms of federally supplied income maintenance or in-kind support. They then examined programs of other agencies, such as the Department of Labor and the Health, Education and Welfare department, which had objectives similar to those of the VA pension program (i.e., to offset want and provide assistance to those in need). This is where the focus of restructuring the program was placed.

The pension program enacted by Public Law 95-588, entitled the "Veterans" and "Survivors Pension Improvement Act of 1978", is the current VA pension program. It is commonly referred to as improved pension and was effective January 1, 1979. It established an income standard designed to assure each eligible beneficiary a level of support meeting a predetermined national standard of need. Under this program, pensioners generally receive benefits equal to the difference between their annual income from all other sources and the appropriate income standard. There are higher income standards for those veterans and surviving spouses who have dependents.

These higher standards recognize the basic needs of the family unit, are clearly related to the cost of providing for dependents and reflect increased income needs inherent in such situations.

The income standards under improved pension are derived from various federal poverty level benchmarks. The VA is not involved in establishing these benchmarks. Income standards under the improved pension program are indexed according to the Consumer Price Index, so that benefit rates will be increased annually by the same percentage and at the same time that the social security cost-of-living increase occurs. In determining eligibility and the amount of benefits, all outside income (including that of dependents) is considered, with exclusions provided for certain unusual one time payments or expenditures. Thus, those in greatest need receive the largest benefits; benefits are standardized according to financial circumstances; and the elderly and disabled, and their families, are provided the financial security they need to live.

Current & Anticipated Impact

The two most significant changes brought about by the improved pension are the inclusion of all income and the family-need concept. In the past program, many forms of income and estate were exempt from the income figure used to determine eligibility for pension. The spouse's earned income was exempt, as well as other income above \$1,200. In that case, it was beneficial to the recipient to have as much income and assets as possible in the name of the spouse.

The family concept eliminated this by including all income and assets of family members. With the implementation of improved pension, it became evident that some families had sufficient resources to meet the standard of need on their own. Veteran disability pension caseload, which had remained steady between 1.02 and 1.04 million from December 1974 to December 1978, fell to 0.97 million by December 1979; 0.91 million, by December 1980; and 0.88 million, by June 1981 (see Table 1). This occurred while the population of potential eligible recipients was increasing.

At the same time, the average payment per veteran was increasing, from \$148 per month under the previous pension program in 1978 to \$336 per month under improved pension in 1980.

TABLE 1
VA Pension Cases in Millions

	<u>Disability</u>	<u>Death</u>	<u>Total</u>
June 1974	1.03	1.26	2.29
1975	1.01	1.26	2.27
1976	1.00	1.26	2.26
1977	1.02	1.27	2.29
1978	1.02	1.27	2.29
1979*	.98	1.19	2.17
1980	.92	1.11	2.03
1981	.88	1.06	1.94

* Improved pension implemented 1/79

Needy is an adequate term for those currently receiving improved pension. Twenty-five percent do not receive any social security payments. By the end of 1980, over fifty percent of the disability and seventy percent of death pensions under improved pension were based on no income whatsoever. This is the population for whom government assistance is targeted.

The 1979 Survey of Veterans 4/ data show that over two-thirds of all veterans contributed to FICA and were eligible for social security payments. In addition, one-half said that they were covered by private employer retirement plans. This suggests that the population of potential eligibles will be reduced, preventing sudden influxes to the pension rolls. Combined with the limiting effects of improved pension, the size of the future pension population will be stable (see Table 2), the program will continue to be focused on the truly needy.

Table 2 lists the projected veteran caseload and associated costs. The costs are difficult to estimate since they are tied to the annual cost of living increase for other government social programs. These were based on an average annual increase of about eight percent and take into account changes in caseload. The eight percent figure may seem optimistic, given current rates of inflation (last year's COL raise was 14.3%), but it does not affect the relative costs, which will be increased less by changes in caseload than by inflation.

The enactment of improved pension has had the desired effect of redirecting pension program to the neediest of the veteran population. It has

TABLE 2
VA Pension Caseload & Cost Projections

	<u>Veteran Cases (Thousands)</u>	<u>Veteran Cost (Billions)</u>	<u>Total Veteran Survivor Cost (Billions)</u>
1980	941	2.2	3.6
1981	907	2.5	3.9
1982	878	2.8	4.1
1983	863	3.1	4.4
1984	851	3.3	4.7
1985	846	3.6	4.9
1986	843	3.8	5.2
1987	840	4.0	5.4
1988	839	4.2	5.7
1989	841	4.4	5.9
1990	844	4.6	6.1
1991	849	4.8	6.4
1992	868	5.0	6.6
1993	886	5.2	6.9

lent the stability to the pension caseload and prevented rolls from swelling with marginally qualified individuals. Furthermore, it operates in concert with other social programs without duplication of benefits. Thus, improved pension, in conjunction with the advent of the post-Depression social welfare programs and the increasing participation in business retirement plans has helped today's veteran approach retirement better prepared and more self-sufficient than his predecessor.

Notes and References

Any opinions expressed in this paper are those of the authors and do not necessarily represent official opinion or policy of the Veterans Administration or the U.S. Government.

1/ Statement to the President's Commission on Pension Policy, R. Henke & J. Peckarsky, Veterans Administration, (Washington, DC 1981).

2/ Actually, benefits were enacted in 1944, for World War II veterans, but these were not in affect prior to the war, as an inducement for enlistment.

3/ Analysis & Evaluation of the Non-Service Connected Pension Program. Senate Committee Print #13, Committee on Veterans Affairs, Washington, DC, 1978.

4/ 1979 National Survey of Veterans, Research Monograph #14, Veterans Administration, Washington, DC, 1981.