Summary

The Total Disability based on Individual Unemployability (TDIU) veteran compensation program provides a single flat payment to veterans experiencing total disability connected with their service. We suggest modifying this compensation by connecting the veteran's MOS to the civilian equivalent to better reflect what disabled veterans could have earned in the civilian labor force.

The attached earnings matrix details median civilian earnings (including the earnings of working veterans) by 3 levels of education (high school, middle skills, and a bachelor's degree or higher) within 22 major occupational groups. This approach documents that in 30 of 66 possible cases, the current TDIU payment is less than the lost potential earnings in the civilian occupation.

We further extend this analysis to account for career advancement. By splitting the workforce into age groups, we demonstrate that in 40 of the 66 cases, the median earnings of older workers (ages 45–54) exceed the current TDIU payment. This finding suggests that earnings growth should be considered when contemplating modified compensation. We propose a simple adjustment to account for earnings growth, which is to increase the TDIU payment annually by 1 percent above the COLA. This approach would raise the monthly payment from $3,737 for a 25-year-old to $4,840 for a 50-year-old.

Additional considerations

The approach of linking the MOS to the equivalent civilian occupation is limited by the degree to which each MOS can be linked. We believe that additional research is needed to determine whether a disproportionate share of disabilities occur among veterans whose MOS cannot be linked to a civilian occupation. We also suggest that civilian legal cases can provide guidance on disability compensation. Finally, we hold that the current payment should be treated as a floor for compensation. The current monthly base payment amount of $3,737—equivalent to $56,000 pretax annual earnings—may be reasonable for an individual, but may not be adequate to support a veteran's household.

Discussion

Approach: We suggest adjusting compensation to account for lost earnings using the following approach: we assume that the service person, if not disabled, would have entered the civilian labor force and worked full-time full-year (FTFY) in an occupation aligned to their military occupational specialty (MOS). Had the veteran not been disabled, they would have garnered similar earnings to those observed for all 25-to-64-year-old FTFY workers in that occupation in the civilian labor force.[1] We assume that the MOS is mappable to the civilian occupation via efforts such as COOL, which the DOD uses to assist reentering veterans.

[1] For veterans who claim TDIU benefits after working in the civilian labor force, their prior civilian occupation and earnings can be used directly (with an earnings growth adjustment based on their age) instead of mapping their MOS.

To further explore this approach, we have created a matrix of monthly median earnings by 22 major occupations and by 3 education levels: high school diploma, middle skills (some college no degree, which implicitly includes certificates, and associate's degrees), and bachelor's degree or higher. This matrix (Table 1 of the attached) is populated by median earnings (66 medians); it is possible to be more granular, but we are not certain that more specificity will be informative as we believe that roughly 50 percent of the MOS categories will not meaningfully map to a civilian equivalent.

For the purposes of comparison, we adjust the current monthly TDIU payment of $3,737 upwards to $4,709 to reflect that it is tax exempt while the median monthly earnings for civilian occupations in the American Community Survey are subject to taxes. We assume an average tax rate of 26 percent to make this adjustment.[2] (We also suggest making further adjustments by local cost of living.)

We then compare the adjusted disability payment to the gross earnings in the matrix. This analysis demonstrates that prevailing earnings in 30 of the 66 education/occupation groups exceed the $3,737 payment (adjusted to $4,709) and could justify a higher compensation. These 30 education/occupation groups are distributed as follows: 5 groups at the high school level, 10 groups at the middle-skills level, and 15 groups at the bachelor's degree or higher level.

[2] We assume 15 percent federal taxes and 11.2 percent state and local taxes.

Adjusting for earnings growth: As a second step in this analysis, we further adjust for lost potential earnings from expected earnings growth. In this part of our analysis, we estimate earnings growth by education and occupation for comparison with the flat TDIU payments. We calculate this estimate by comparing the earnings of workers ages 25–34 to those of workers ages 45–54 (Table 2 of the attached). This analysis demonstrates that while median earnings exceed $4,709 for workers ages 25–34 in 15 education/occupation groups, that number rises to 40 education/occupation groups for working veterans ages 45–54.

The 40 (of 66) combinations for workers ages 45–54 in which earnings exceed $4,709 include 9 (of 22) education/occupation groups at the high school level, 13 (of 22) education/occupation groups at the middle-skills level, and 18 (of 22) education/occupation groups at the bachelor's degree or higher level. The 25 education/occupation groups in which the monthly median earnings of workers ages 45–54 exceed $4,709 and the median monthly earnings of workers ages 25–34 **do not** exceed $4,709 include 7 education/occupation groups at the high school level, 11 education/occupation groups at the middle-skills level, and 7 education/occupation groups at the bachelor's degree or higher level.

This earnings growth analysis (Table 3 of the attached) suggests 1 percent growth in inflation-adjusted earnings per year for most of the education/occupation groups, which is based on observed annual growth. If we were to adjust the TDIU payment by 1 percent per year, by age 50, a veteran disabled at age 25 would see the $3,737 payment grow to $4,840.

Further considerations: We want to be clear that this analysis relies on a simple counterfactual based on prevailing wages in specific occupations and does not make any complex adjustments for loss of livelihood. We suggest that further research is needed to understand what precedent exists in civilian injury cases, which is the most relevant parallel we can think of to address the question of how to adjust for disability. This investigation will be particularly important given our expectation that a significant share of disabilities occur in non-mappable occupations.

Lastly, we want to express concern that this matrix could be used to reduce payments for workers in 36 education/occupation groups if the career median is used and in 26 groups if the growth adjustment is used. CEW takes the position that $3,737 is an absolute minimum monthly payment for loss of economic potential and should, at the very least, be subject to COLA.