



The Veterans Unemployability Study

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Office of Enterprise Integration (formerly, Office of Policy and Planning)
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*The Veterans Unemployability Study is a joint research project of
the VBA/Compensation Service and the Office of Enterprise Integration.*

Study Leadership

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Overview of Presentation

Existing disability economics literature indicates that receipt of VA disability compensation is associated with labor force dropout by service-disabled veterans.

Documenting the Problem:

- a) Can we validate and extend these findings using better data, namely VA administrative describing the rating process and outcomes merged against survey and administrative data maintained at the U.S. Census Bureau?**
- b) How might administrative data describing health care received by service-disabled veterans improve the analysis?**

Designing Solutions: Given that we do find statistically significant labor force dropout among service disabled veterans, how might VA intervene to remedy this problem?

What is “The Veterans Unemployability Study?”

- **Initially referred to as the TDIU Study**

(TDIU: “Total Disability on the basis of Individual Unemployability”)

- **Study Scope Statement**

Signed by now retired Deputy Director of the Compensation Service,
Paul Black on December 10, 2015

Study formally began March 1, 2016

Respond to GAO Report 15-464 (June 2015) titled ...
“Veterans’ Disability Benefits: VA Can Better Ensure Unemployability
Decisions are Well Supported” with focal points on the **age**
distribution of TDIU beneficiaries and **unemployability determination**.

Two Directions of Causation (Two Types of Analyses)



- a) What are the predictors of TDIU status? ()

Describe the time (and age) path between separation from active duty and entry into both SC and TDIU status.

- b) How does TDIU status itself predict employment history? ()

Consider TDIU as a “random treatment effect” given the random assignment of cases to raters who determine unemployability (TDIU) status.

**ASIDE: Consider inter-rater reliability and extend
Maestas, *et al.* (2013)**

Research Project Objectives

- a) **Document the problem** of labor force dropout leading to -
- and caused by - - TDIU.

- b) **Describe possible interventions** that address the problem
of labor force dropout focussing on the two “GAO-high
lighted” constructs:
age and unemployability determination.

“Economically speaking, what is the problem?”

- a) **Income Effect:** VA disability compensation makes dropping out of the labor force more affordable. *(This is the only effect causing labor force dropout in the case of non-TDIU, service-connected/SC disability compensation.)*

- b) **Substitution (Wage Tax) Effect:** For a TDIU veteran wages are taxed in the sense that if wage income becomes too great, TDIU benefits are withdrawn by VA. *(Thus, TDIU veterans experience both an income and substitution effect - - and both motivate labor force dropout.)*

What do we now know about the problem of labor force dropout among service-disabled veterans?

Labor economists at MIT, Stanford, West Point, Wellesley, Yale, and Cornell (working cooperatively) have published impressive research papers over the last six years that document a **statistically significant relationship between increased growth in VA disability compensation rolls and greater labor force dropout.**

Their work, however, has relied on **limited (small sample) survey data (Current Population Survey) and limited ages (DOB between 1946 and 1951) accounted for in VBA administrative data.**

The Veterans Unemployability Study will expand these studies by ...

- a) **Using more complete VA (VBA, OPP) administrative data** documenting not only payments (CPMR) but claims processing (PA&I data); and ...
- b) **Merging VA administrative data with extensive Census Bureau survey (ACS) and administrative data (LEHD)** accounting for sources of and levels of income, labor force participation, functional health status, and employment status over time.

The Census Bureau may also be able to provide the Veterans Unemployability Study with access to both ...

- **SSA data on SSDI and SSI payments, and**
- **SSA-W2 and IRS income and earnings data.**

Ceteris Paribus, Difference-of-Differences, and Health Data

- a) **Economic factors** “cause” dropout
versus
“Sickness” (functional disability) “causes” dropout.
- b) Autor, *et al.* (2016) and Duggan, *et al.* (2010)
Difference-of-differences methodology only works as well as
the control group is “cleanly defined.”
- c) Health data from VHA and Medicare.
- d) Randomized Controlled Trial (defeats the “sickness”
explanation definitively).

Poll Question 1 (Verbose)

Why do we say that the TDIU program imposes a “wage tax” on the service disabled veteran where that is not a consideration for all non-TDIU service-disabled veterans?

- 1) VA disability compensation is tax exempt.**
- 2) The TDIU benefit is forfeited by the veteran if his labor market income is too high.**
- 3) The TDIU benefit raises compensation from 60-90% payment levels to the 100% payment level.**
- 4) The TDIU benefit often makes not working affordable.**
- 5) All of the above.**

Poll Question 1 (Terse)

Why do we say that the TDIU program imposes a “wage tax” on the service-disabled veteran?

- 1) VA disability compensation is tax exempt.**
- 2) The TDIU benefit is forfeited by the high wage veteran.**
- 3) The TDIU benefit raises compensation to the 100% level.**
- 4) The TDIU benefit often makes not working affordable.**
- 5) All of the above.**

Plan for remainder of briefing ...

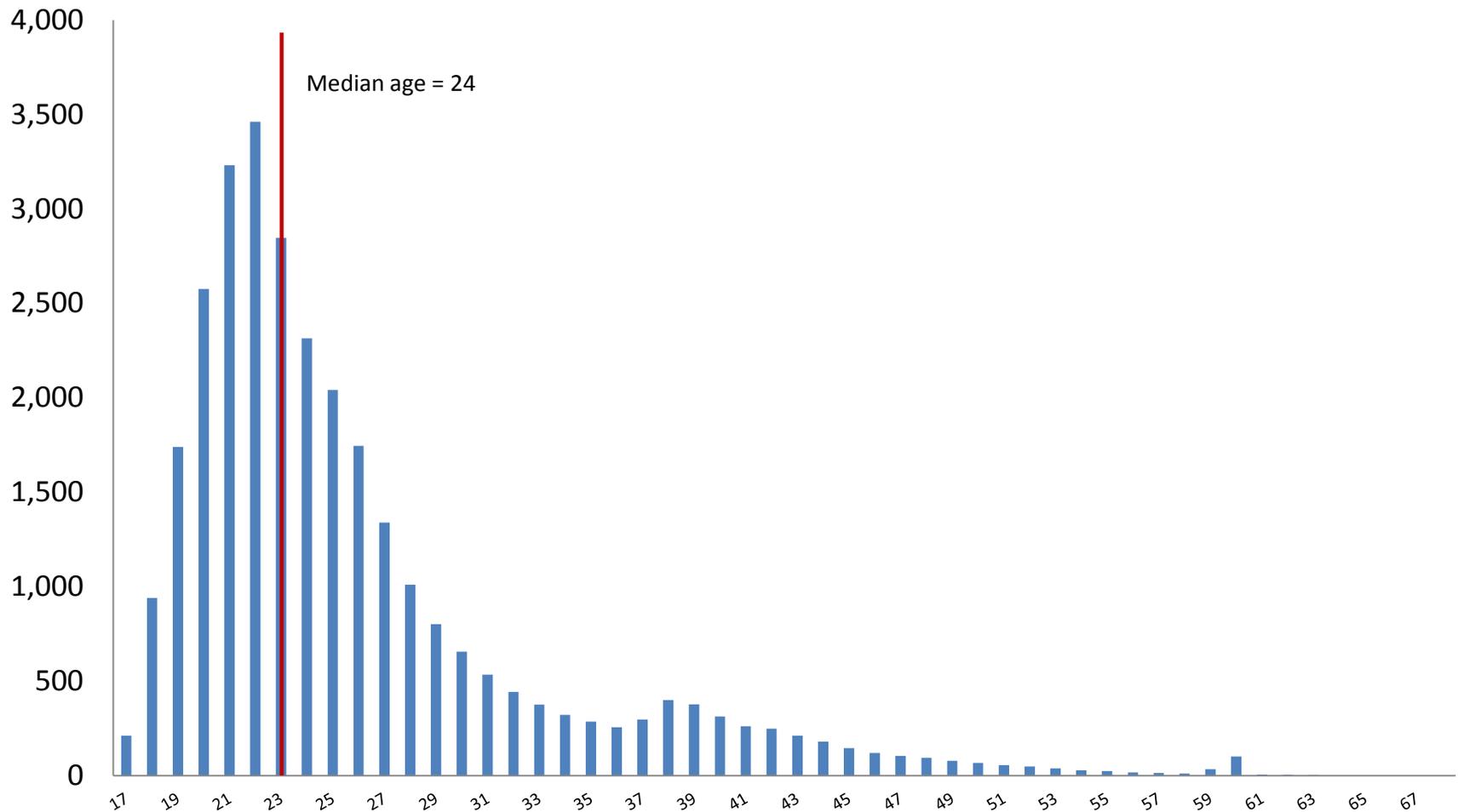
- a) Discuss analyses of **VA administrative data prior to merging with Census data** that begin to document “the path to TDIU” and ...
- b) Discuss direction of **intervention** studies:
 - **Age-specific TDIU entry restrictions** (age ≤ 60)
 - **No new entry into TDIU** (with grandfathering)
 - **Preventing labor force dropout among young (age < 35) service-disabled veterans through wage subsidies (performance bonus payments)**
- - as opposed to the TDIU wage tax.

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Distribution of Age at Time of Separation from Military Service

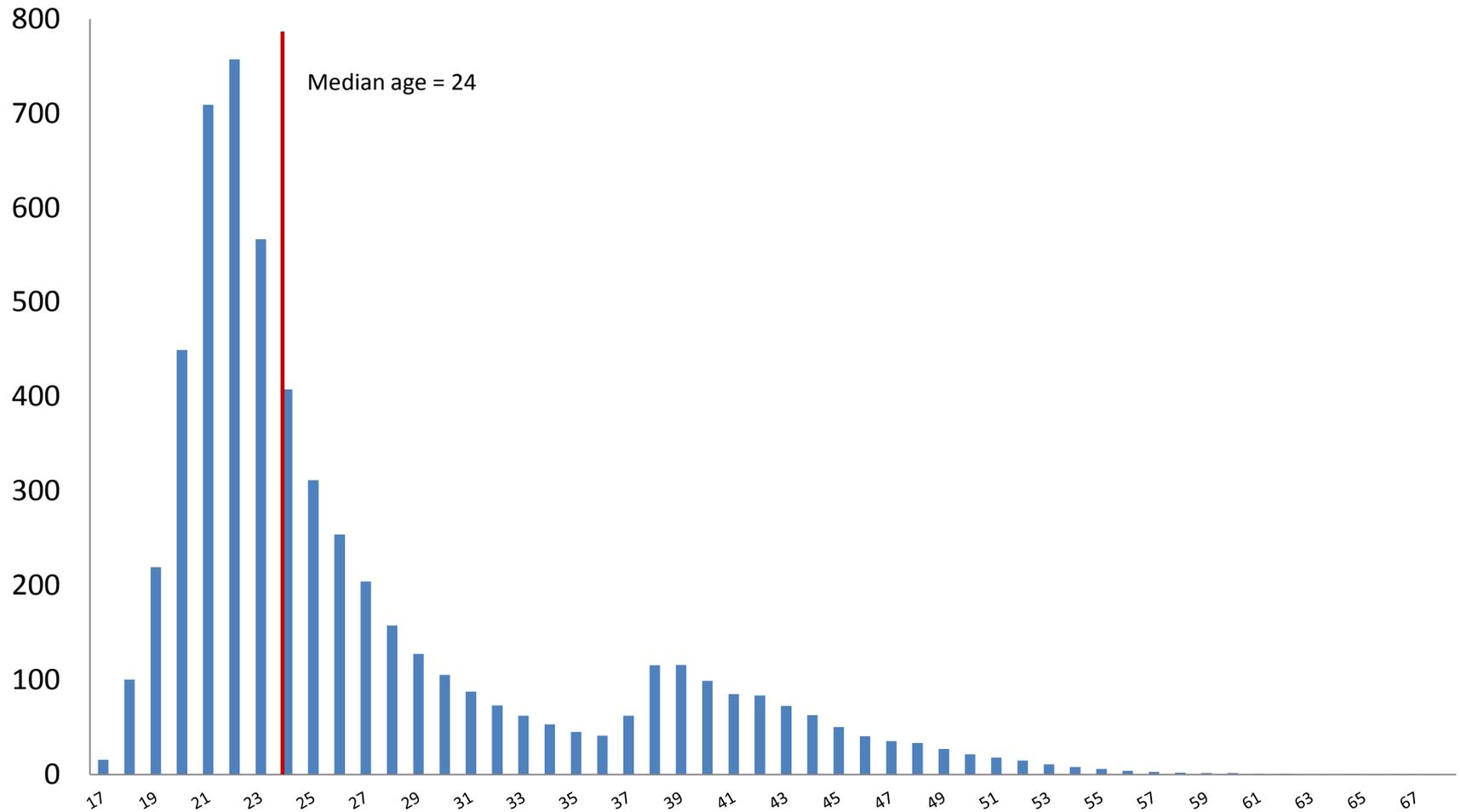
All Veterans: 1995-2015
(thousands)



Distribution of Age at Time of Separation from Military Service

All Service-Connected (SC) Veterans: 1995-2015

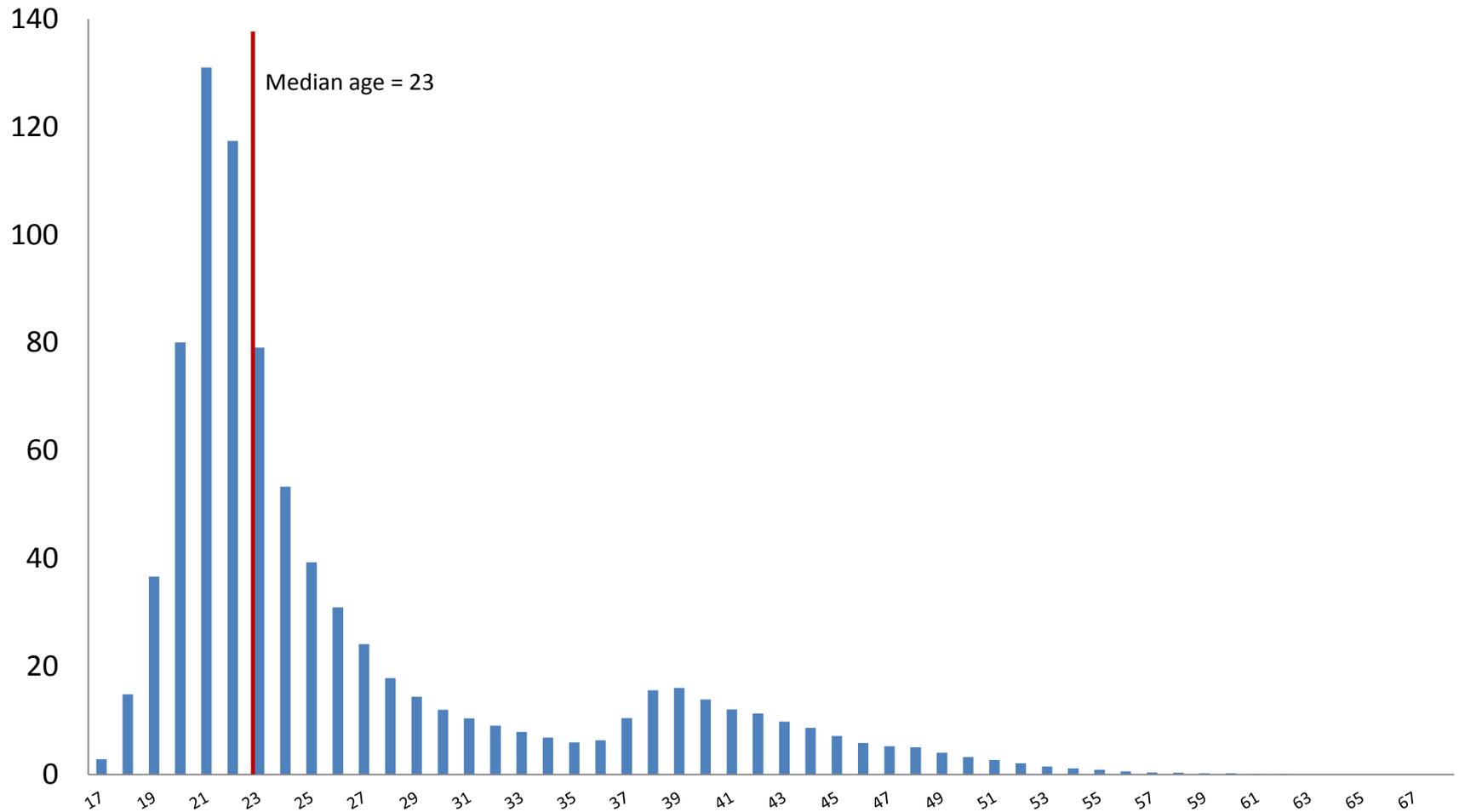
(thousands)



Distribution of Age at Time of Separation from Military Service

SC Veterans Rated 100%: 1995-2015

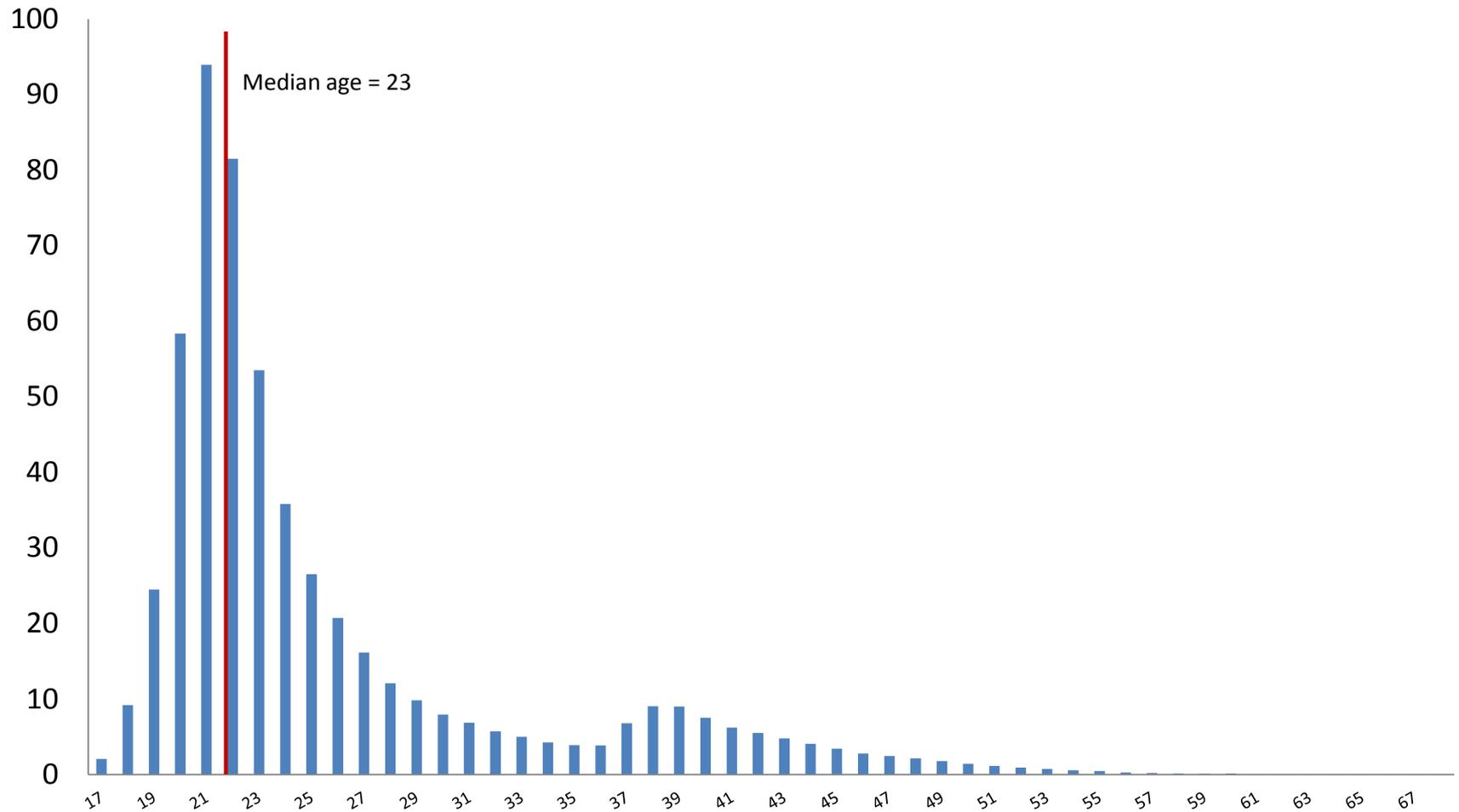
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Distribution of Age at Time of Separation from Military Service

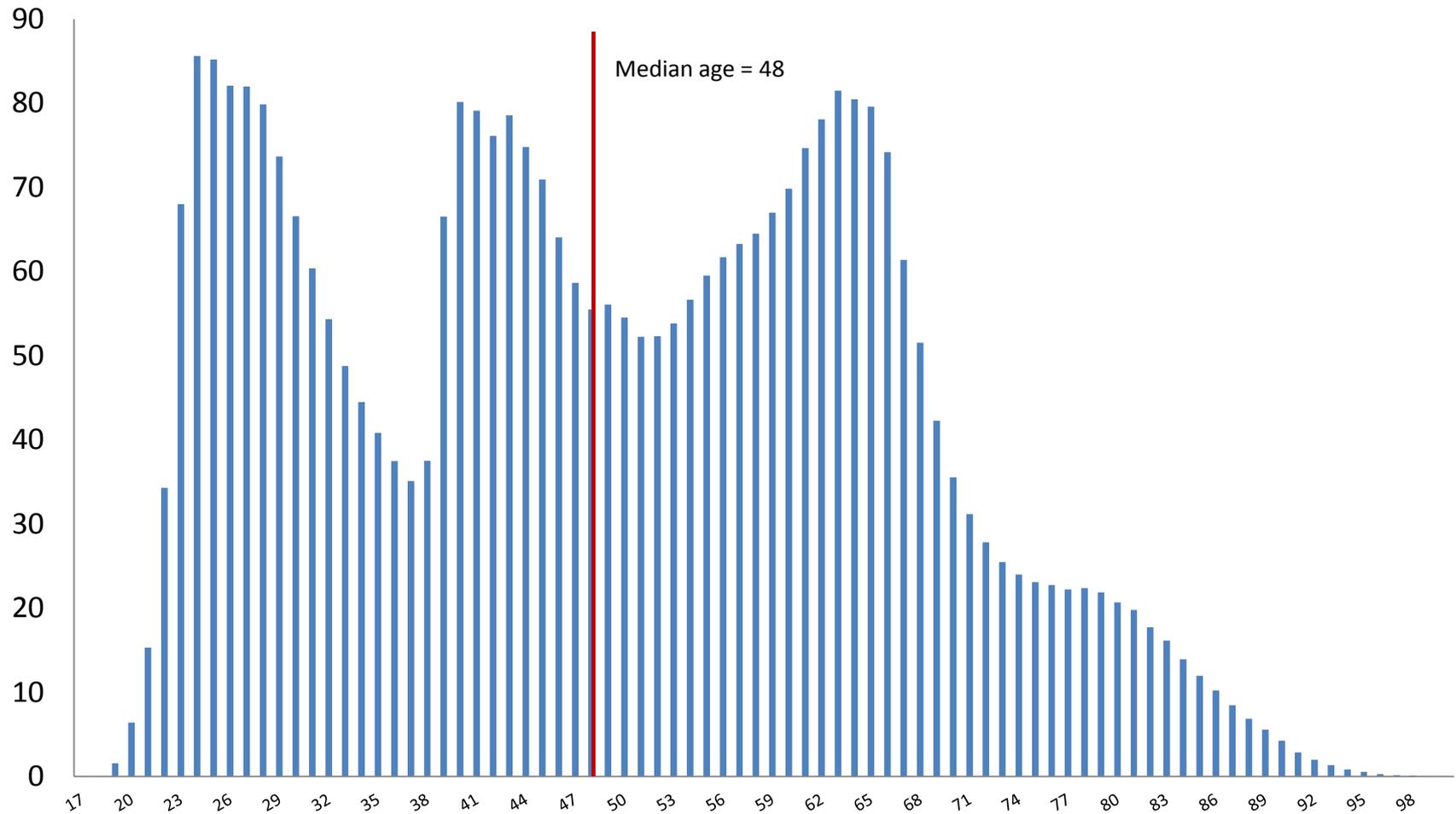
TDIU Veterans: 1995-2015

(thousands)



Distribution of Age when Service-Connected Status is Granted

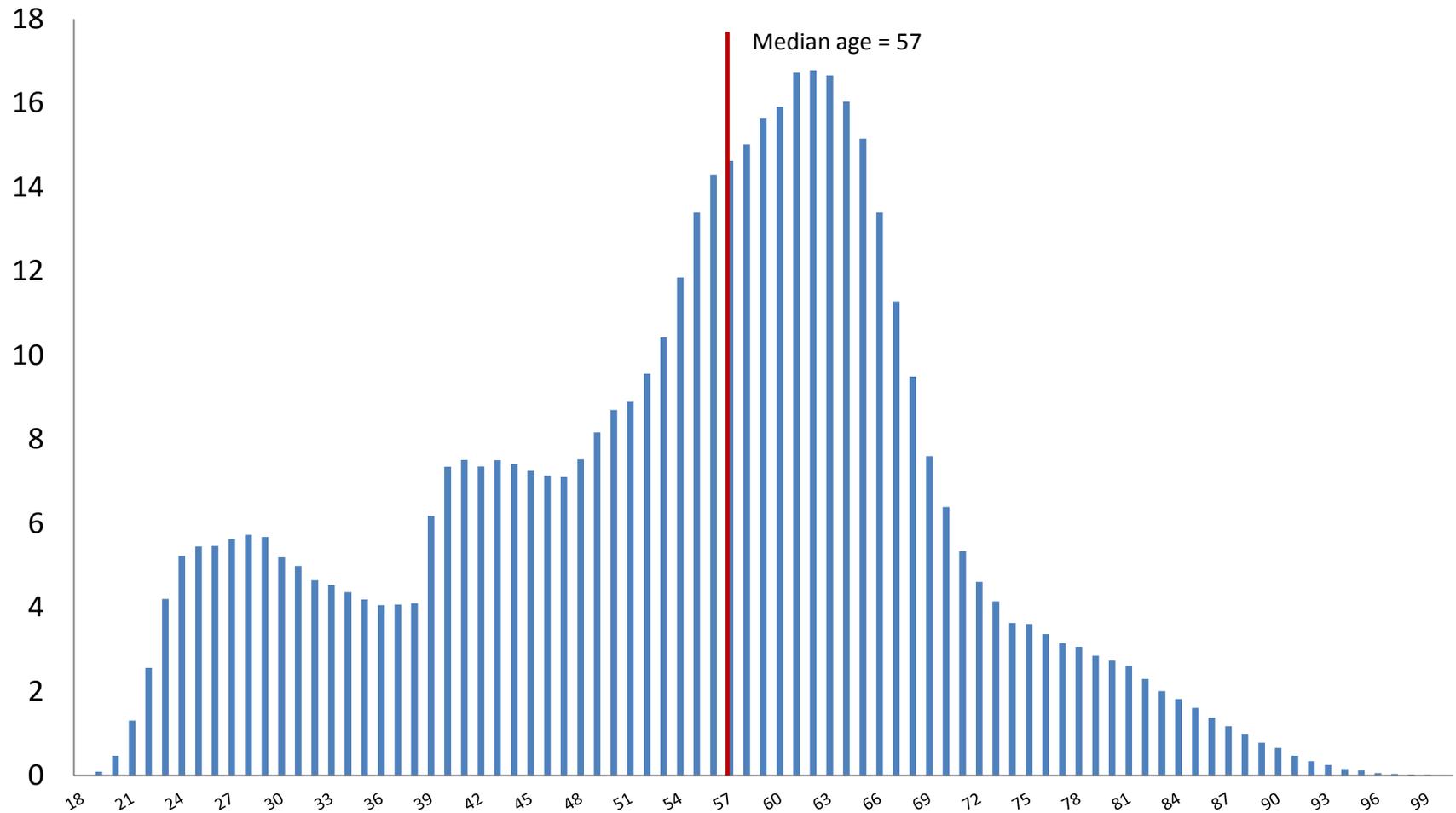
All SC Veterans: 1995-2015
(thousands)



Distribution of Age when Service-Connected Status is Granted

SC 100% Veterans: 1995-2015

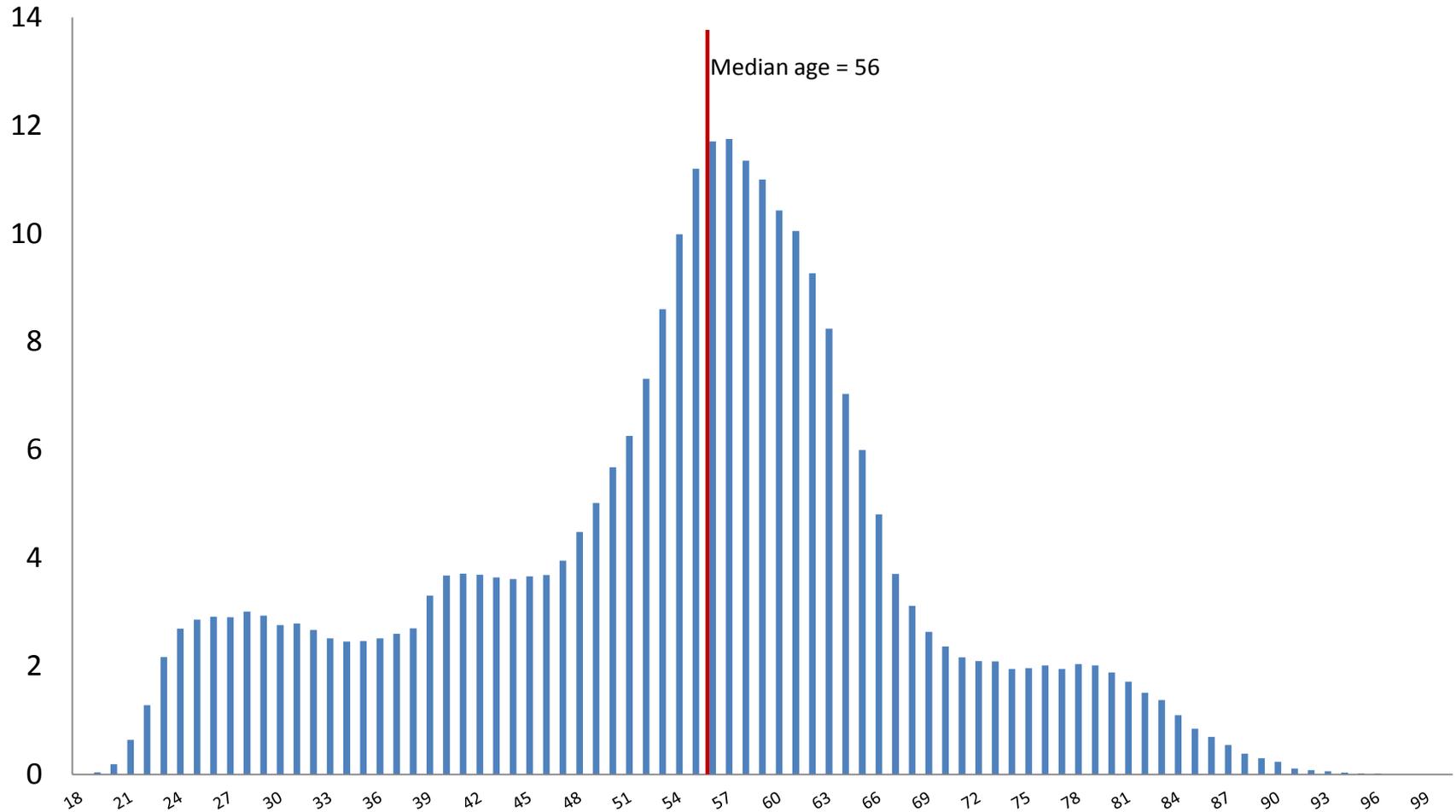
(thousands)



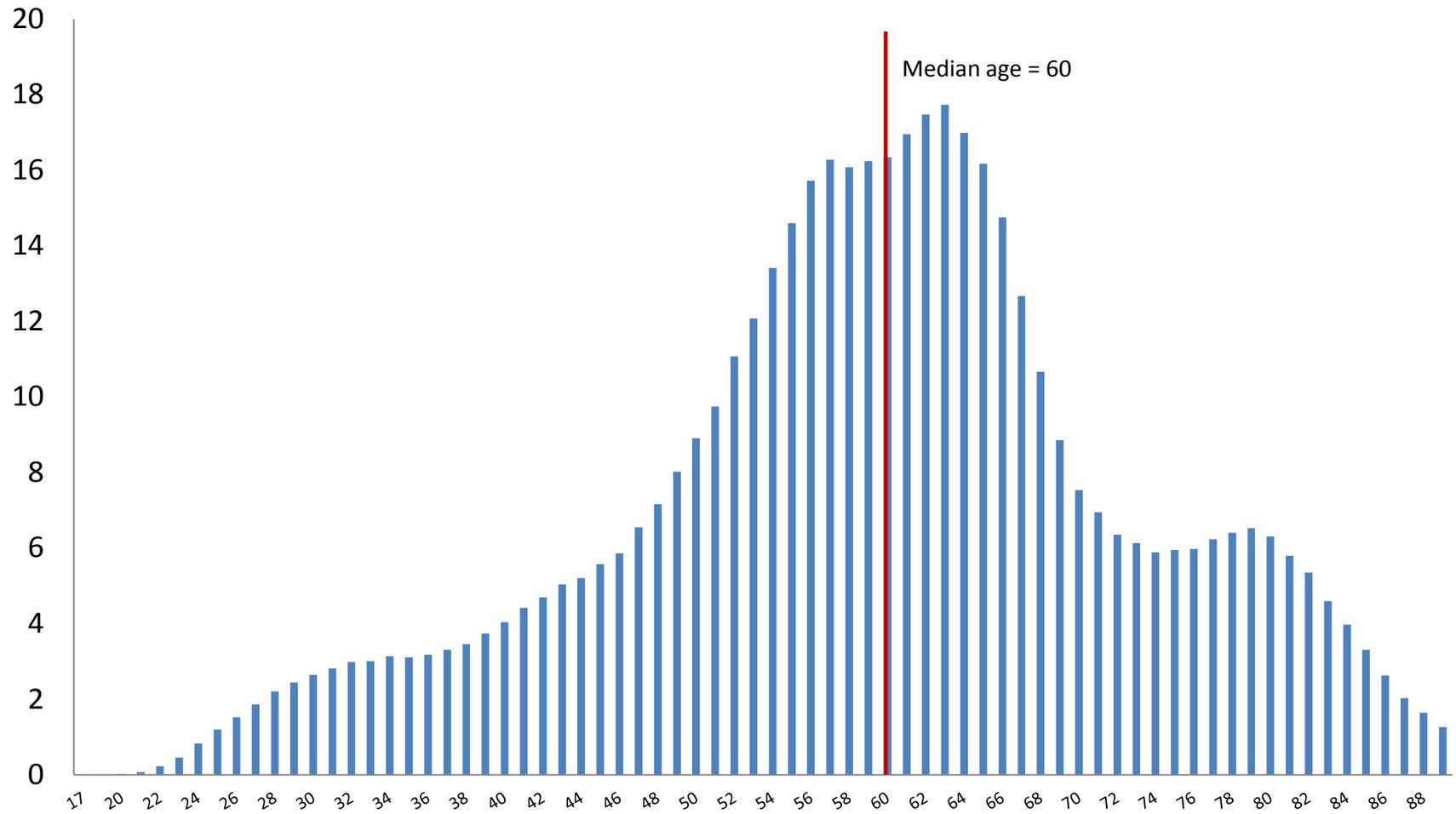
Distribution of Age when Service-Connected Status is Granted

TDIU Veterans: 1995-2015

(thousands)



Distribution of Age When TDIU Was Awarded 1995-2015 (thousands)



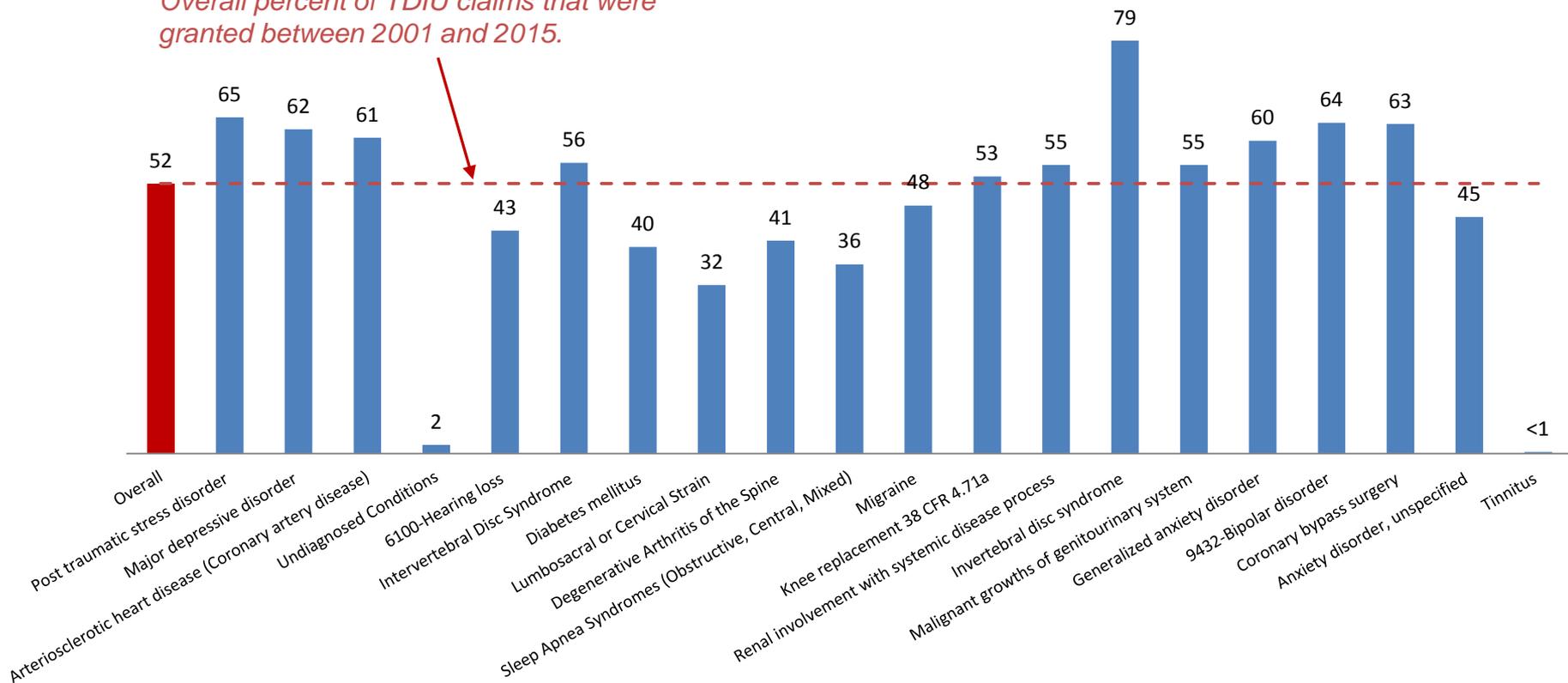
TDIU Grant Rate by Top 20 Primary Conditions

2001-2015

(N=749,895)

All Ages
(in percent)

Overall percent of TDIU claims that were granted between 2001 and 2015.



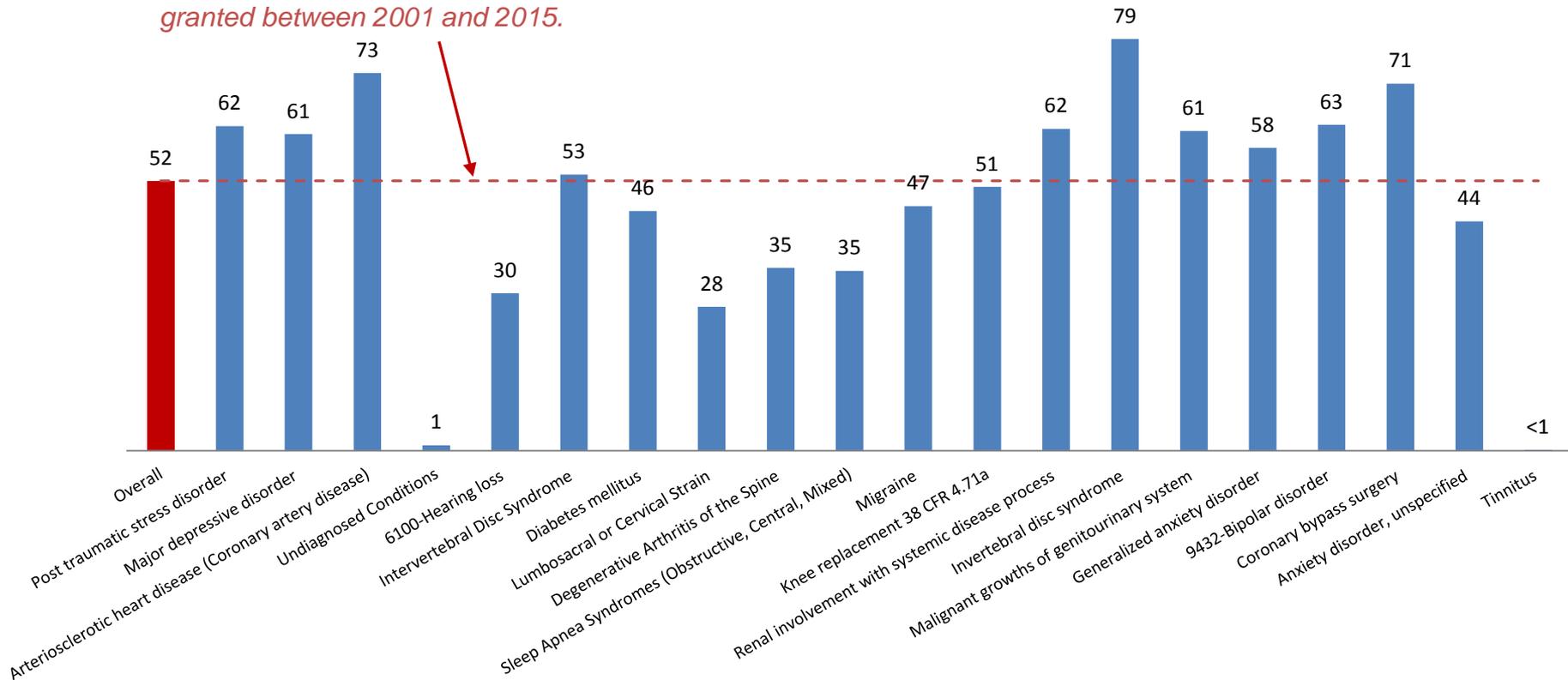
TDIU Grant Rate by Top 20 Primary Conditions

2001-2015

(N=383,145)

Age at Rating: 17-59
(in percent)

Overall percent of TDIU claims that were granted between 2001 and 2015.

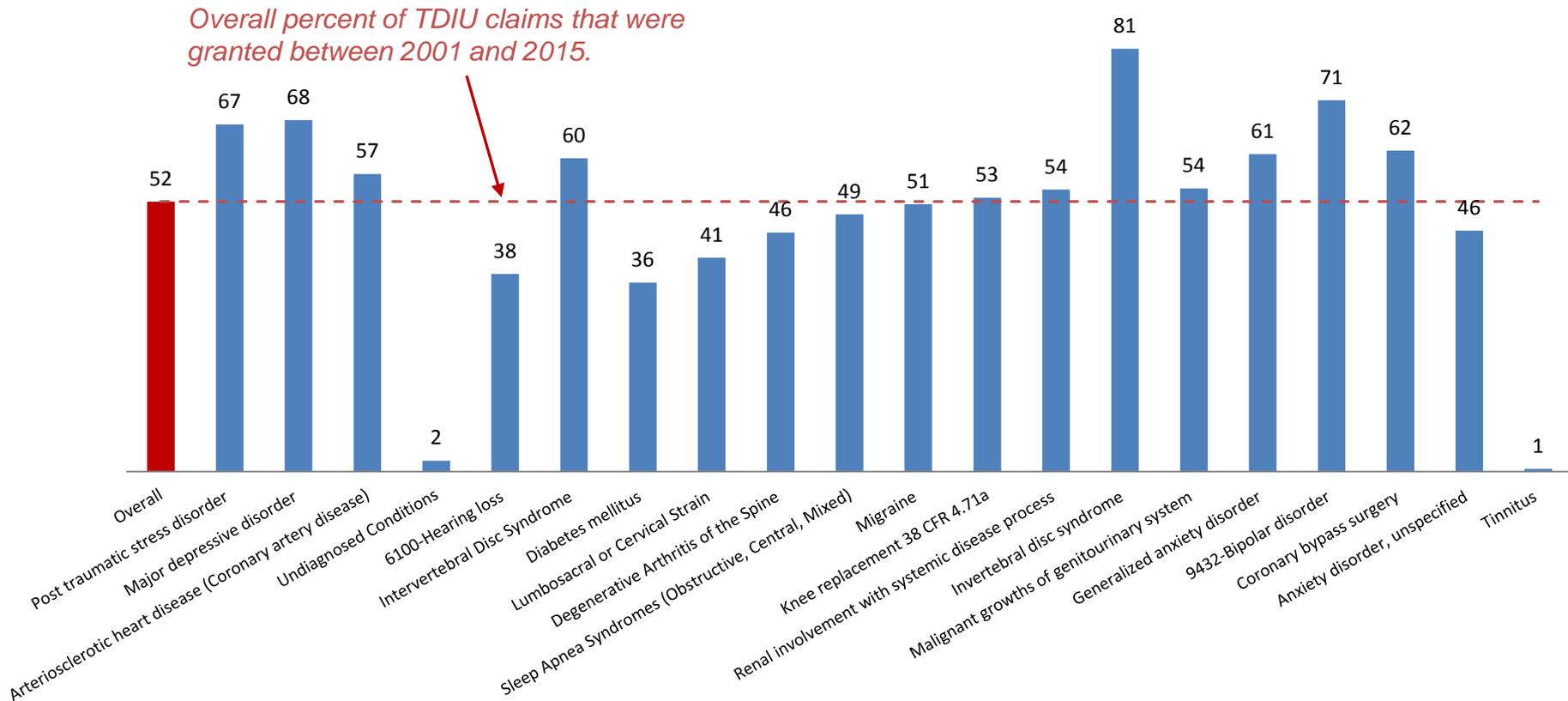


TDIU Grant Rate by Top 20 Primary Conditions

2001-2015

(N=253,137)

Age at Rating: 60-69
(in percent)



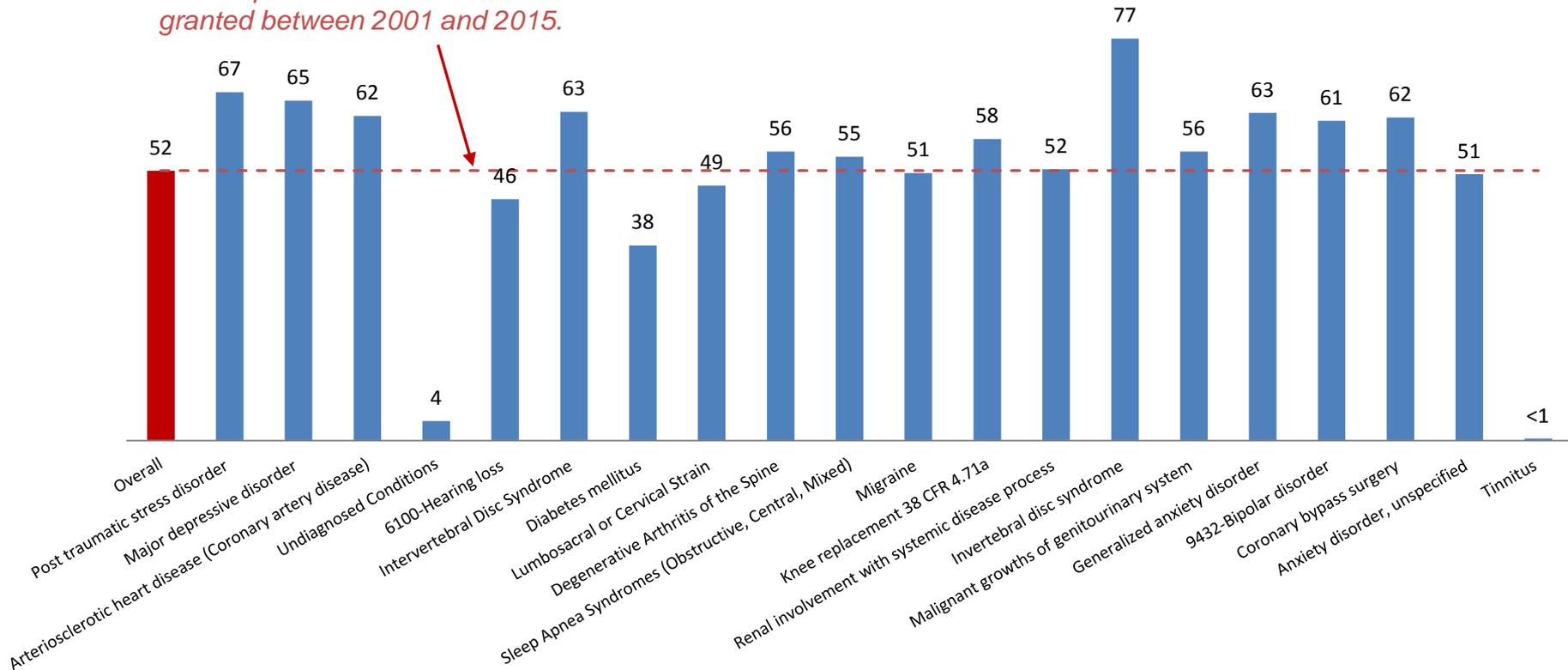
TDIU Grant Rate by Top 20 Primary Conditions

2001-2015

(N=113,613)

Age at Rating: 70+
(in percent)

Overall percent of TDIU claims that were granted between 2001 and 2015.

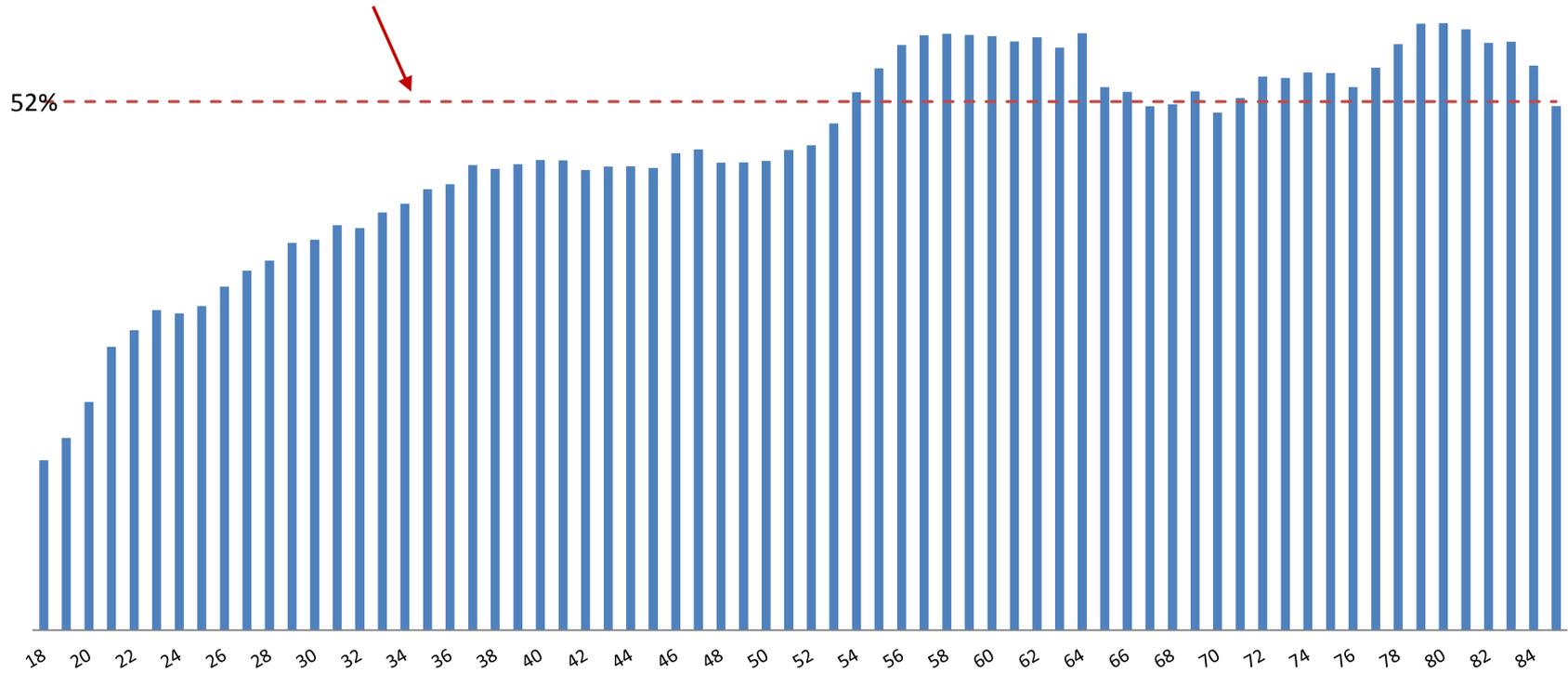


TDIU Grant Rate by Age When TDIU Was First Granted

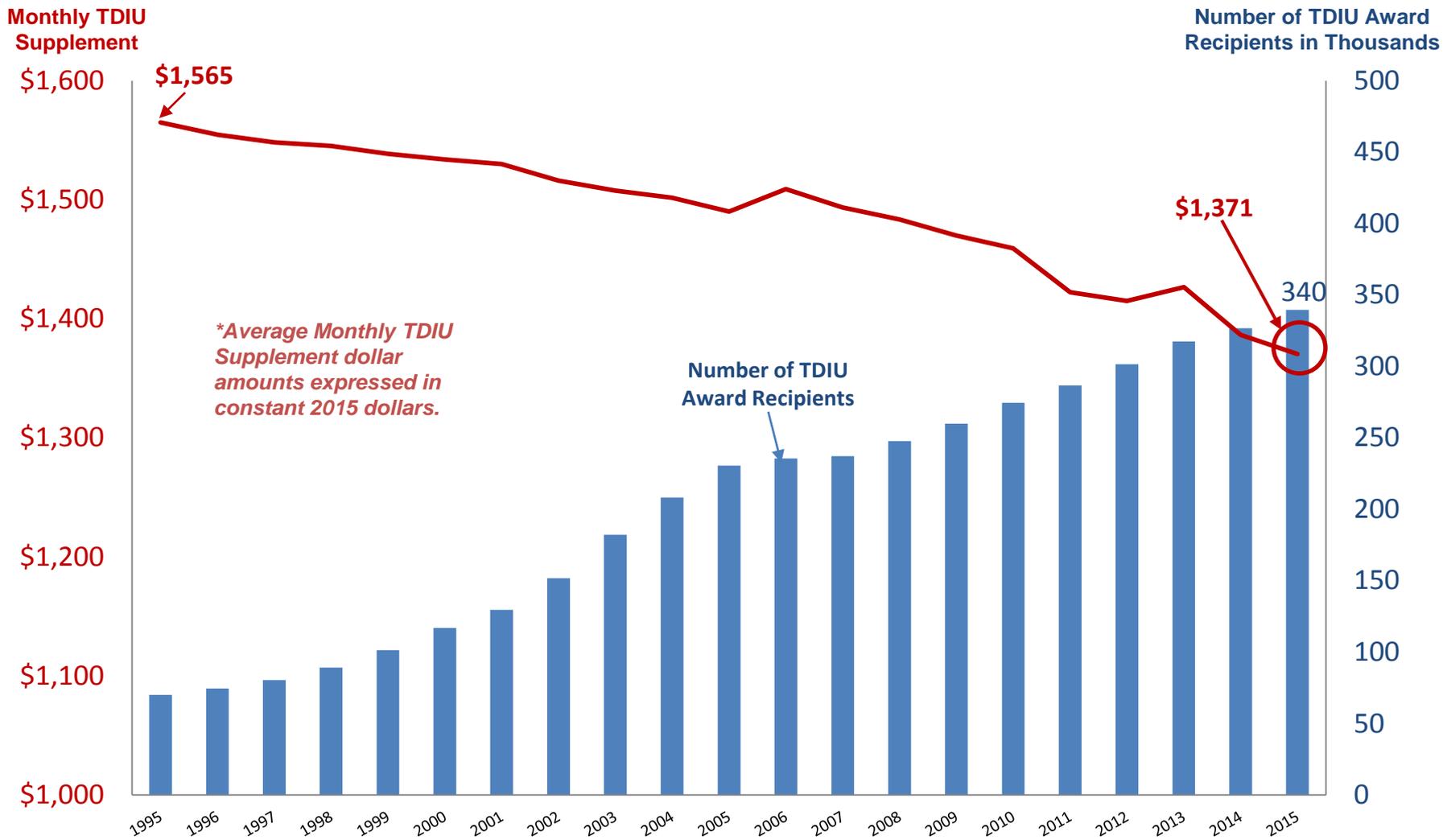
2001-2015

(N=749,895)

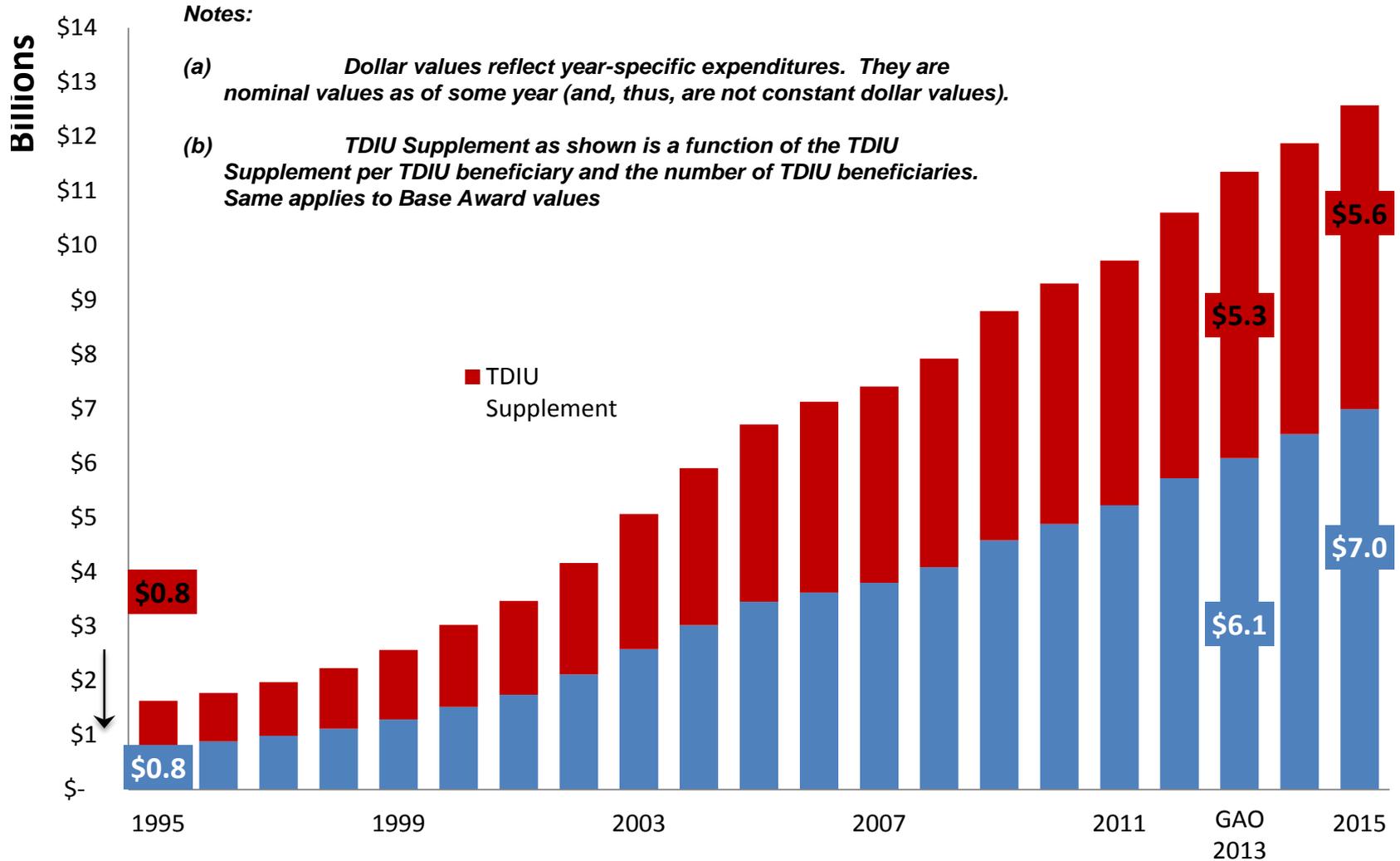
Overall percent of TDIU claims that were granted between 2001 and 2015.



Average Monthly TDIU Supplement* and Number of TDIU Recipients 1995-2015



Annual Award Amounts for TDIU Recipients 1995-2015



Poll Question 2 (Verbose)

What makes you suspect that the TDIU benefit may reward “unemployability” that is chosen by the veteran (e.g., retirement) rather than imposed on him for reasons that are beyond his control?

- a) There is no reason to be suspicious in this way.**
- b) Typically, we see entry into SC status at young ages close to the separation date, but we see entry into TDIU status at older ages.**
- c) We often see entry into both SC and TDIU status close to typical retirement ages.**
- d) None of the above.**

Poll Question 2 (Terse)

What makes you suspect that the TDIU benefit is essentially a retirement benefit?

- a) There is no reason to be suspicious in this way.**
- b) Typically, we see young SC entry and old TDIU entry.**
- c) We often see both old SC and TDIU entry.**
- d) None of the above.**

Plan for remainder of briefing ...

- a) Discuss analyses of VA administrative data prior to merging with Census data that begin to document “the path to TDIU” and ...
- b) Discuss direction of **intervention** studies:
- **Age-specific TDIU entry restrictions (age ≤ 60)**
 - **No new entry into TDIU (with grandfathering)**
-
- **Preventing labor force dropout among young (age < 35) service-disabled veterans through wage subsidies (performance bonus payments) - - as opposed to the TDIU wage tax.**

Consider Work-Rewarding Interventions

- Preventing labor force dropout among young (age < 35) service-disabled veterans through wage subsidies (performance bonus payments) as opposed to the TDIU wage tax.
- Why target young service-disabled veterans (when TDIU is about old service-disabled veterans)?

What might be looking for?

1) Employment (including job creation) is motivated by wage subsidies.

- high price/wage to seller (veteran)
- low price/wage to buyer (employer).

Performance bonuses paid hourly are equivalent to wage subsidies

2) Risk-bearing is “normal” and must be compensated.
 $PV(\text{compensation, risk}) > PV(\text{compensation, no risk})$

3) Closure (for veteran and VA)

VA Disability Compensation: Reliability and Incentive Issues

- 1) “Indemnification” (to make whole)
- 2) Measuring what isn’t there, and then ...
pricing what you didn’t find.

Result? Measurement and reliability problems

- 3) Incentive Problems

(VHA’s rehabilitation goal vs. VBA’s compensation goal)

The two sides of the VA house (rehabilitating vs. compensating disability) are at war with each other.

Randomized Controlled Trial (RCT)

- a) **Random Assignment**: Study volunteers are randomly assigned to treatment and control groups.
- b) **Self-Selection Bias**: Analysis of “difference of differences” will show an effect of ability compensation independent of “eager beaver” (self-selection) bias.
- c) **Generalizability**: Findings cannot be generalized to all young service-disabled veterans; just “eager beavers;” and that’s OK.
- d) **Documenting the Problem**:

If, compared to controls, treatment group veterans are motivated to seek and secure employment due to newly introduced financial incentives (e.g., wage subsidies), then “unemployability” can no longer be considered “a given” - - or something that VA can determine.

Randomized Controlled Trial (RCT), continued

- **Consider the model of Welfare Reform, 1996.**
- **In contrast, today when it comes to understanding our options with respect to alternative VA disability compensation designs, the cupboard is bare.**
- **So, the next step is RCT-designed research (“taking a look under the hood of the car rather than disregarding very expensive sounds coming from the engine.”)**