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Compensating for Permanent Losses: Totally and Permanently Incapacitated

In Support of the New Veterans Charter Review

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Executive Summary

Background

Since it was first introduced in 2006, the New Veterans Charter (NVC) disability and financial benefits have been under great scrutiny. In response to concerns about the adequacy of these benefits, enhancements to the NVC were enacted on October 3, 2011. These enhancements provided additional monthly support to seriously ill and injured Canadian Armed Forces personnel and Veterans.

As the number of Veterans deemed totally and permanently incapacitated (TPI) continues to grow there has been interest in examining how VAC compensates CAF personnel and Veterans for their losses.

This study examined trends in NVC expenditures and Veterans deemed TPI; the service and demographic characteristics as well as health, labour force participation, and incomes of TPI Veterans; and alternative approaches to compensating for permanent losses used by workers compensation in Canada as well as Veterans Affairs administrations in Australia and the United Kingdom.

Method

First, VAC administrative data and published statistics were examined to establish the trends in NVC expenditures and TPI Veterans. Explanations for the growth in TPI Veterans were explored through informal discussions with program managers, policy analysts and Statistics Directorate staff. Sample data from the 2010 Survey on Transition to Civilian Life (STCL) was matched to TPI Veterans as of September 13, 2013 to examine their demographic and service characteristics, health, labour force participation and incomes. Finally, the literature was examined as well as websites related to approaches to compensating for long-term economic losses used by workers compensation boards in Canada, as well as Veterans administrations in Australia and the United Kingdom (UK), who both modernized their compensation approaches prior to the NVC.

Key Findings

Trends

- As of March 2013, NVC re-establishment program costs were double the original projections. Such costs doubled since the NVC enhancements in 2011.
- One in five Veterans who have participated in the Rehabilitation program since 2006 have been deemed TPI. The majority (67%) of TPI Veterans were deemed over last two years and the numbers tripled over this period.
- Rising military earnings compared to what is available in the civilian workforce; rising levels of disability among Rehabilitation clients and TPI training and policy changes following a 2011 evaluation likely contributed to the growth in TPI Veterans throughout the entire period from 2006 to 2013. However, much of the growth in TPI Veterans occurred over the last two years when both the NVC enhancements and the removal of the pension offset came into effect.

Characteristics of TPI Veterans

- TPI Veterans were considerably worse off compared to other Veterans for all health and disability indicators.
- While the majority of TPI Veterans were either not in the labour force or reported being permanently unable to work, 27% were working in the year following release.
- Although the same proportion of TPI Veterans and other Veterans experienced low income, TPI Veterans were much more likely to be dissatisfied with their finances.

Alternative Approaches to Compensation

- Both the NVC Earnings Loss (EL) rate (75% of gross imputed income or minimum basic Corporate at the time of application) and the Supplementary Retirement Benefit (SRB) rate (2% of gross EL benefits payable) are not comparable to WCB rates (80% to 90% and 5% to 10% respectively) as the latter are applied to net earnings after individual earnings capacity has been deducted.
- NVC EL benefits differ in many respects from those of other jurisdictions:
 - The NVC TPI approach is dichotomous; i.e., either the Veteran is deemed totally incapacitated or not, while other jurisdictions use approaches that account for varying ability to work.
 - NVC EL benefits are not adjusted for age while the UK provides greater benefits for younger Veterans.
 - NVC EL benefits are taxable, WCB economic loss benefits are not.
 - The NVC EL minimum of \$42,000 is greater than those of WCBs.
 - NVC EL does not set a maximum; most WCBs do.
- NVC Earning Loss benefits end at age 65, as is the case for loss of earning capacity benefits in most jurisdictions.
- NVC non-economic loss compensation (Disability Awards) is impairment-based, similar to that of most other jurisdictions. However, the maximum lump-sum under the NVC is much higher than those of WCBs but lower than the maximum paid to Veterans in the UK. Since lump sum awards in Australia are adjusted for age, at younger ages the maximum award is higher than under the NVC but lower at older ages.

Conclusion

Both NVC re-establishment program costs and the number of clients deemed TPI have increased substantially since the NVC enhancements. While, those deemed TPI were worse off compared to other Veterans in terms of health and disability, more than one-quarter were working post-release and their rates of experiencing low income was not different from other Veterans. Due to different approaches, it is difficult to compare compensation across jurisdictions. However, unlike VAC Earnings Loss, other jurisdictions use approaches to compensate for earnings loss which recognize varying degrees of work capacity and are designed to encourage labour market engagement.

Sommaire

Contexte

Depuis leur entrée en vigueur en 2006, les prestations d'invalidité et les prestations financières de la Nouvelle Charte des Anciens Combattants (la Nouvelle Charte) font l'objet d'un examen minutieux. Pour donner suite à des préoccupations concernant le caractère adéquat de ces prestations, des modifications ont été apportées à la Nouvelle Charte le 3 octobre 2011. Ces modifications se sont traduites par des prestations mensuelles supplémentaires pour les membres et les vétérans des Forces armées canadiennes gravement malades ou blessés. Puisque le nombre de vétérans ayant une incapacité totale et permanente (ITP) continue d'augmenter, il y a lieu d'examiner de quelle façon ACC indemnise les membres et les vétérans des FAC pour leurs pertes.

Les auteurs de cette étude ont examiné des tendances dans les dépenses liées à la Nouvelle Charte et aux vétérans ayant une ITP; les caractéristiques pendant le service et les caractéristiques démographiques des vétérans ainsi que la santé, la participation au marché du travail et les revenus des vétérans ayant une ITP; ils ont également exploré les différentes façons d'indemniser les pertes permanentes utilisées par les commissions canadiennes d'indemnisation des accidentés du travail et par les administrations des vétérans en Australie et au Royaume-Uni.

Méthode

Premièrement, des données administratives d'ACC et des statistiques publiées ont été examinées pour dégager les tendances dans les dépenses liées à la Nouvelle Charte et aux vétérans ayant une ITP. Des discussions informelles avec des gestionnaires de programme, des analystes de politiques et des membres du personnel de la Direction de la statistique ont permis d'explorer les causes de l'augmentation du nombre de vétérans ayant une incapacité totale et permanente. Des données provenant de l'Enquête sur la transition à la vie civile de 2010 ont été jumelées aux statistiques sur les vétérans ayant une ITP au 13 septembre 2013 dans le but d'examiner leurs caractéristiques démographiques et les caractéristiques de leur service, leur santé, leur participation au marché du travail et leur revenu. Enfin, la documentation a été examinée, tout comme les sites Web liés aux méthodes utilisées pour indemniser les pertes économiques de longue durée par les commissions d'indemnisation des accidentés du travail du Canada et par les administrations de vétérans en Australie et au Royaume-Uni, qui ont toutes les deux modernisé leurs méthodes d'indemnisation avant la mise en œuvre de la Nouvelle Charte.

Principales constatations

Tendances

- En mars 2013, les coûts du programme de réinsertion de la Nouvelle Charte étaient deux fois plus élevés que les coûts prévus au départ. Ces coûts ont doublé depuis les modifications à la Nouvelle Charte en 2011.

- Un vétéran sur cinq qui a participé au programme de réadaptation depuis 2006 est considéré comme ayant une ITP. La majorité (67 %) des vétérans ayant une ITP ont été désignés ainsi au cours des deux dernières années, période pendant laquelle leur nombre a triplé.
- L'augmentation de la solde des militaires comparativement aux salaires au civil; l'augmentation des niveaux d'invalidité parmi les bénéficiaires du programme de réadaptation, la formation sur l'ITP et les modifications aux politiques qui ont suivi une évaluation menée en 2011 ont vraisemblablement contribué à la croissance du nombre de vétérans ayant une ITP de 2006 à 2013. Toutefois, une grande partie de la croissance du nombre de vétérans ayant une ITP a été observée au cours des deux dernières années, lorsque les modifications à la Nouvelle Charte et le retrait de la déduction de la pension sont entrés en vigueur.

Caractéristiques de vétérans ayant une ITP

- Les vétérans ayant une ITP étaient dans une situation considérablement plus difficile que les autres vétérans concernant tous les indicateurs de santé et d'invalidité.
- Bien que la majorité des vétérans ayant une ITP ne faisaient pas partie de la population active ou étaient considérés comme ayant une inaptitude permanente au travail, 27 % d'entre eux ont travaillé pendant l'année qui a suivi leur libération.
- Bien qu'une proportion égale de vétérans ayant une ITP et de vétérans aient vécu une situation de faible revenu, les vétérans ayant une ITP étaient beaucoup plus susceptibles d'être insatisfaits de leur situation financière.

Autres méthodes d'indemnisation

- Le taux de l'allocation pour perte de revenus (75 % du revenu brut imputé ou de la solde minimum de caporal de base au moment de la demande) et le taux du Supplément de revenu garanti (SRG) (2 % du montant brut des allocations pour perte de revenus payables) ne se comparent pas aux taux des commissions d'indemnisation des accidentés du travail (de 80 % à 90 % et de 5 % à 10 % respectivement) puisque ces derniers taux sont appliqués sur la rémunération nette après déduction de la capacité de gain individuelle.
- L'allocation pour perte de revenus de la Nouvelle Charte est différente de nombreux égards des prestations offertes ailleurs :
 - L'approche de l'ITP en vertu de la Nouvelle Charte est binaire, c.-à-d. que le vétéran est considéré comme totalement invalide ou pas du tout, tandis que d'autres administrations utilisent des méthodes qui tiennent compte de différents degrés d'aptitude au travail.
 - Les allocations pour perte de revenus de la Nouvelle Charte ne sont pas ajustées en fonction de l'âge, tandis qu'au Royaume-Uni, les prestations sont plus élevées pour les jeunes vétérans.
 - Les allocations pour perte de revenus de la Nouvelle Charte sont imposables, tandis que les allocations pour perte de revenus des commissions d'indemnisation des accidentés du travail ne sont pas imposables.

- Le minimum des allocations pour perte de revenus de la Nouvelle Charte de 42 000 \$ est supérieur au minimum des prestations des commissions d'indemnisation des accidentés du travail.
- Il n'y a pas de maximum pour les allocations pour perte de revenus de la Nouvelle Charte; la plupart des commissions d'indemnisation des accidentés du travail imposent un maximum.
- Les allocations pour perte de revenus de la Nouvelle Charte prennent fin à 65 ans, comme la plupart des prestations pour perte d'aptitude au travail des autres administrations.
- L'indemnisation des pertes non économiques prévue dans la Nouvelle Charte (indemnité d'invalidité) est fondée sur la déficience, comme dans la plupart des autres administrations. Toutefois, le montant forfaitaire maximal prévu dans la Nouvelle Charte est beaucoup plus élevé que les montants versés par les commissions d'indemnisation des accidentés du travail, mais moins élevé que le montant maximal versé aux vétérans au Royaume-Uni. Puisque les indemnités versées en un montant forfaitaire en Australie sont ajustées en fonction de l'âge, le montant maximal versé aux vétérans plus jeunes est supérieur à l'indemnité prévue dans la Nouvelle Charte, mais moins élevée pour les vétérans plus âgés.

Conclusions

Les coûts du programme de réinsertion de la Nouvelle Charte et le nombre de clients ayant une ITP ont augmenté considérablement depuis les modifications à la Nouvelle Charte. Bien que les vétérans ayant une ITP soient dans une moins bonne situation que les autres vétérans en termes de santé et d'invalidité, plus du quart d'entre eux travaillaient après leur libération, et leur taux de faible revenu n'était pas différent de celui des autres vétérans. En raison des différentes méthodes utilisées, il est difficile de comparer les formes d'indemnisation entre les administrations. Toutefois, contrairement à l'allocation pour perte de revenus versée par ACC, les autres administrations utilisent des méthodes d'indemnisation des pertes de revenus qui tiennent compte de différents degrés d'aptitude au travail et qui sont conçues pour favoriser la participation au marché du travail.

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1. Introduction

Prior to the New Veterans Charter, financial liability of monthly disability pension benefits provided under the *Pension Act* was rising, pension participation rates and reassessments were rising, pensions were not adequate to meet the financial needs of seriously disabled clients (example: a single Veteran with a 80% disability received less than \$20,000 per year) and transition to civilian life outcomes were poor. The aim of the New Veterans Charter is to facilitate successful transition to civilian life and improve the well-being of Veterans as well as program cost-effectiveness through modernizing the management of disability, coordinating previously fragmented services and addressing unmet needs.

Since it was first introduced in 2006, the NVC disability and financial benefits programs have been under great scrutiny. The perception has often been that the NVC benefits are not adequate in comparison to the benefits provided under the *Pension Act*. This concern about adequacy of benefits has mainly been focused on severely disabled Veterans. In response to these concerns enhancements to the NVC were enacted on October 3, 2011. These enhancements provided additional monthly support to seriously ill and injured Canadian Armed Forces personnel and Veterans and also created flexible payment options for many Disability Award recipients. In terms of the additional monthly support, the eligibility criteria for Permanent Impairment Allowance (PIA) were expanded and a PIA Supplement of \$1,000 per month for those deemed TPI was added. Further, to ensure Veterans have a reasonable standard of living, the minimum earnings loss payment (75% of pre-release pay rates) was raised from Senior Private to Basic Corporal level; from about \$35,000 (75% of \$46,932 as of April 2010) to about \$40,000 (75% of \$53,712 as of April 2010) per year (see Appendix A for details).

A recent literature review (MacLean and Campbell, 2013) found that while income adequacy is a goal of many disability compensation schemes, the generosity of benefits can be a financial disincentive undermining workforce reintegration goals, ultimately impacting the effectiveness and affordability of the program as well as client well-being. The literature review found that a number of studies have shown a negative connection between benefit levels and workforce reintegration. In addition, while concerns regarding NVC income adequacy have focused on the most seriously disabled, both Veteran and non-Veteran studies have found earnings replacement rates (benefits plus labour market earnings) which exceed 100% for the most seriously disabled, much lower rates for others and much variation within impairment rating groups.

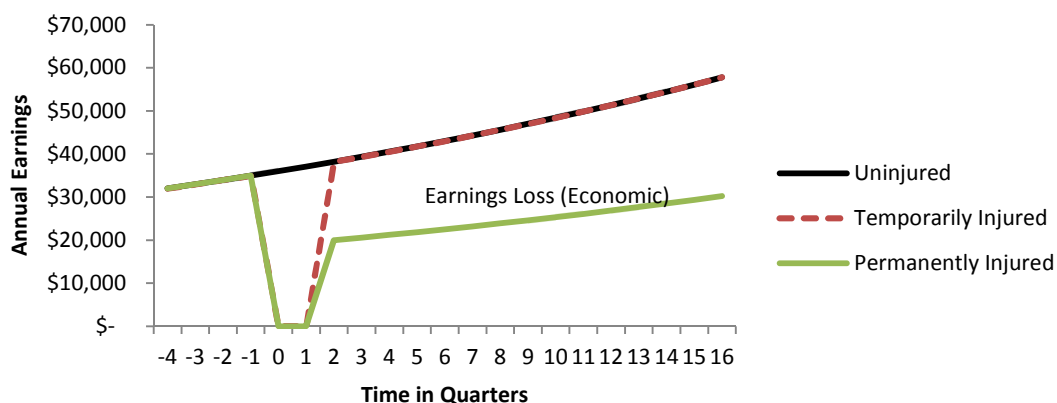
This study examines trends in NVC expenditures and TPI Veterans; the service and demographic characteristics as well as health, labour force participation, and incomes of TPI Veterans; and alternative approaches to compensating for permanent losses used by workers compensation boards in Canada as well as Veterans Affairs administrations in Australia and the United Kingdom. Both of these countries modernized their disability compensation systems for Veterans, in 2004 and 2005 respectively.

2.0 Background

2.1 Economic and Non-Economic Loss

Disability compensation strives to deal with economic and non-economic loss. Economic loss includes loss of earnings as well as non-wage compensation such as benefits, medical and rehabilitation costs, and non-work losses (e.g., housework, child care). Non-economic loss includes "pain and suffering" and loss of quality of life. In terms of economic loss, workers compensation benefits generally distinguish between temporary and permanent earnings losses (Barth, 2005 adapted from Reville, 1999). Figure 1 depicts the concept of temporary and permanent earnings losses. Under this scenario a worker earns \$35,000 at the time of injury and is unable to work for a period of time. When they return to work their earnings continue on the same path as if they had not been injured. If, instead, the worker was not able to return to their pre-injury earnings level they would have permanent earnings losses.

Figure 1: Temporary and Permanent Earnings Loss



Compensating for economic loss requires measuring the impact of injury on work roles. For this measurement, a distinction between impairment and disability is necessary. Impairment is an injury, illness, or congenital condition that causes or is likely to cause a loss or difference of physiological or psychological function. Disability, however, is the loss or limitation of opportunities to take part in society on an equal level with others due to social and environmental barriers. Disability compensation systems strive to minimize economic loss associated with impairments through disability management approaches aimed at improving employment outcomes.

2.2 NVC Compensation

NVC programs compensate Veterans for economic and non-economic loss associated with service-related conditions and medical release. NVC programs that address economic loss include financial benefits (Earnings Loss, Permanent Impairment Allowance (PIA) and PIA Supplement, Canadian Force Income Support and the Supplementary Retirement Benefit), Rehabilitation and related treatment, and Veterans Independence Program benefits. The purpose of Disability Awards is to compensate for

non-economic loss for service-related conditions. The Rehabilitation program could also be considered compensation for non-economic loss as one of its goals is to improve the quality of life of Veterans.

In the case of permanent economic losses, where earnings are not likely to recover, the Rehabilitation program provides for a designation of “Totally and Permanently Incapacitated” (TPI). TPI means that the Veteran is incapacitated by a permanent physical and/or mental health problem that prevents them from performing any occupation that would be considered “suitable gainful employment.” “Suitable gainful employment” is defined as employment for which the Veteran is reasonably qualified by reason of education, training or experience and that provides a monthly rate of pay equal to at least 66 and 2/3% of the gross pre-release military salary adjusted to today’s dollars or of minimum basic corporal salary at the time of application, whichever is greater. Many of those deemed TPI are also in receipt of PIA which is paid in recognition for lost earnings potential among those with severe impairments. The criteria for deeming TPI and for PIA eligibility differ but only those with a TPI designation are eligible for the PIA Supplement. Those deemed TPI are eligible for earnings loss until age 65 while PIA and the PIA Supplement continue for life.

According to policy, a decision of whether a Canadian Armed Forces (CAF) Veteran is TPI may be made during any phase of the Rehabilitation program and should occur when it is determined that the Veteran will not likely be able to return to any occupation that will provide suitable and gainful employment or all reasonable rehabilitation efforts have been used. Three criteria are considered in a TPI decision: (1) the prognosis of the health problem(s); (2) the functional capacity of the Veteran; and (3) the employability of the Veteran. The TPI status must be reviewed two years¹ following the initial decision but can also be reviewed if: (1) the Veteran shows potential for improvement; (2) the Veteran requests a review and/or is interested in re-engaging in vocational rehabilitation; or (3) annual statements of employment earnings indicate that the Veteran is gainfully employed.

3.0 Method

Expenditure and client statistics published by the VAC Statistics Directorate were examined. Two data extracts were provided by the Statistics Directorate. One extract included clients deemed Totally and Permanently Incapacitated, and the other all clients in receipt of benefits as of March 31, 2013. These datasets were used to examine the numbers of TPI Veterans also in receipt of PIA and the PIA supplement as well as to compare disability assessments levels among these clients and Rehabilitation clients.

Possible reasons for the growth in TPI Veterans were identified through informal discussions with program managers, policy analysts and the Statistics Directorate. The timing of identified factors was examined against the trends in these areas to determine the likely contribution of each factor in explaining the growth.

¹ The policy of reviewing TPI designation two years after initial determination came into effect on May 18, 2012. Previously annual contact of TPI Veterans was expected.

The post-release patterns of labour force participation and income of TPI Veterans were examined by matching TPI Veterans as of September 13, 2013 to the sample from the Survey on Transition to Civilian Life (2010). The survey included 3,154 respondents representative of a population of 32,015 Regular Force Veterans released from 1998 to 2007. The matching of this sample to the 1,907 clients deemed TPI as of September 13, 2013 found 143 TPI Veterans in the survey sample. The labour market participation and income responses in the survey as well as other VAC administrative data and case notes related to this sample of 143 were analyzed.

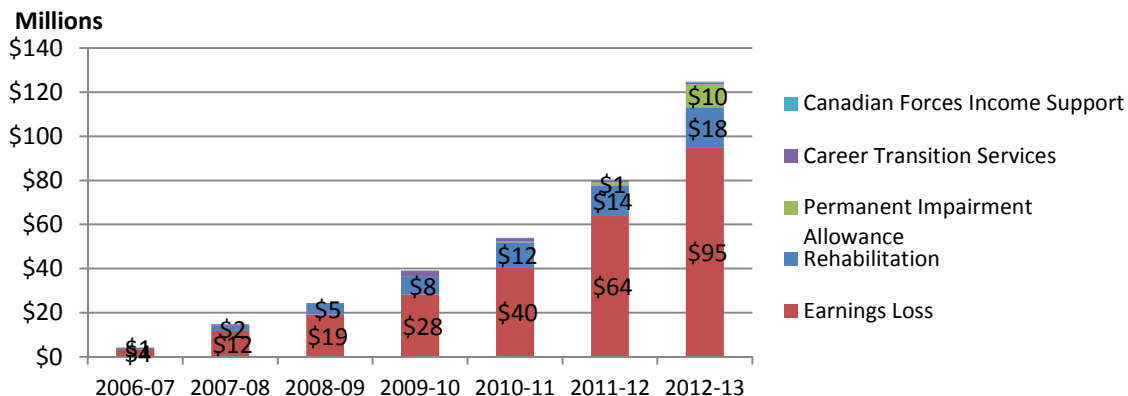
The study examined literature on approaches to compensating for long-term economic losses used by workers compensation boards in Canada and Veterans administrations in Australia and the UK. Details on the specific elements of long-term work disability compensation in each province were gathered from the website of the Association of Workers' Compensation Boards of Canada and the individual websites of each provincial board. Consultations with key contacts in the Veterans administrations confirmed economic and non-economic loss details found on their websites.

4.0 Results

4.1 Trends in NVC Expenditures and Clients Deemed TPI

NVC program expenditures are now double the original projections² with no signs of levelling off (Figure 2). The majority (76%) of NVC re-establishment expenditures are related to Earnings Loss which is also the area that contributed the most to the recent increases in expenditures. Over the last two years NVC re-establishment program costs more than doubled from \$54 million to \$125 million. Most (77%) of this increase was related to Earnings Loss expenditures, 14% to Permanent Impairment Allowance expenditures and 9% to Rehabilitation expenditures.

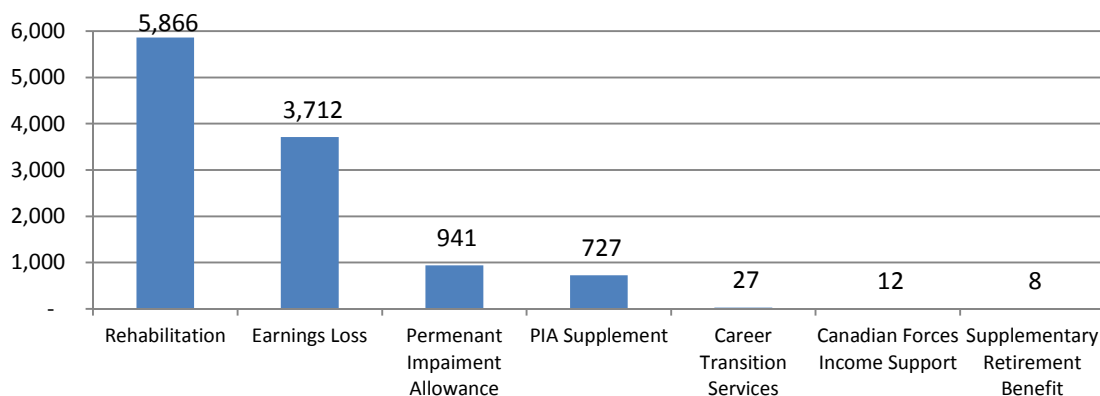
Figure 2: NVC Re-establishment Programs Expenditures



2 2012-13 projections for re-establishment programs (excludes Disability Awards) were \$45 million.

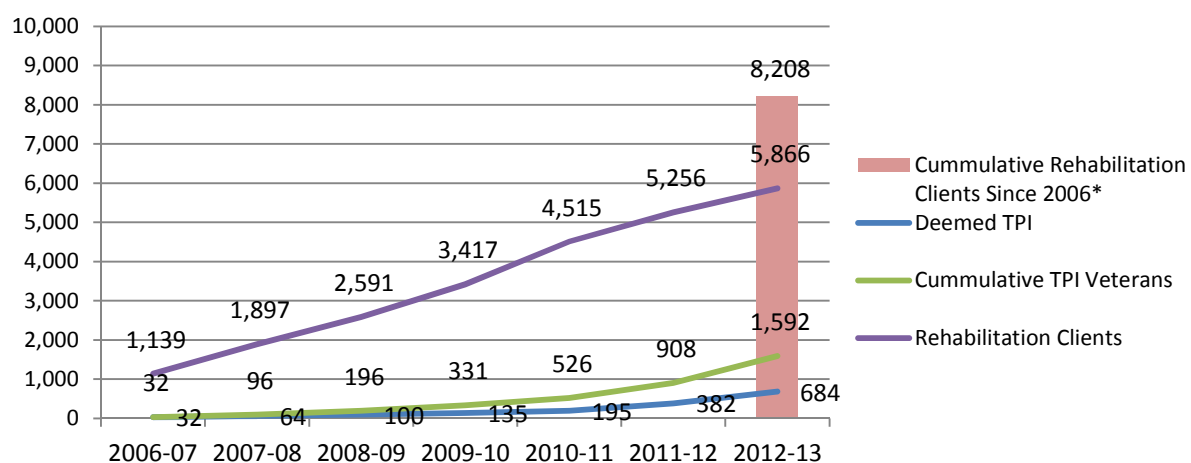
As of March 2013, 5,866 clients were participating in the Rehabilitation program, 3,712 clients were in receipt of Earning Loss, 941 were in receipt of PIA (of which 727 were also in receipt of the PIA supplement), 27 received Career Transition Services³ and 12 were in receipt of Canadian Forces Income Support and eight clients received the Supplementary Retirement Benefit during 2012-13 (Figure 3).

Figure 3: NVC Re-establishment Programs Clients, March 2013



Since 2006, 20% of Rehabilitation clients have been deemed TPI. As of March 2013, there were 1,592 Veterans deemed TPI and 8,208 (5,866 eligible and 2,342 completed including 29% deemed TPI) have participated in the Rehabilitation program (Figure 4). Over half (57%) of those deemed TPI were still in the Rehabilitation program. Both the numbers being deemed TPI each year and the cumulative number of TPI Veterans have more than tripled over the last two years (Figure 4). The total on TPI status has been cumulative since only 21 Veterans have come off TPI status since 2006.

Figure 4: Trends in Clients Deemed TPI



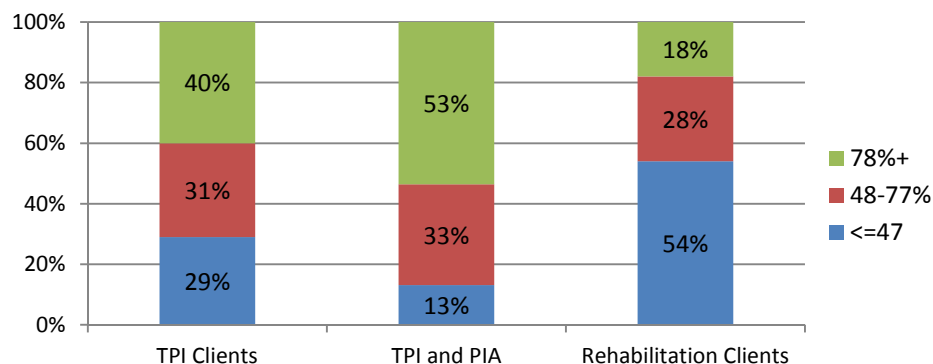
Source: Statistics Directorate, Quarterly Fact Sheet for Rehabilitation Clients and adhoc request for deemed TPI and TPI clients.

3 Changes in the program in January 2013 resulted in a decline from 581 eligible clients in March 2012.

Of the 1,532 living TPI Veterans (1,592 less 39 deceased less 21 no longer TPI) as of March 31, 2013, more than three-quarters (79%) were aged 40 to 59 and the majority (85%) were male. Many (42% or 643) clients deemed TPI were also in receipt of PIA. While receipt of the PIA supplement requires also being deemed TPI, many deemed TPI, do not meet the criteria for PIA. That is, many who are found not to be able to earn 66 2/3 of their pre-release earnings (TPI) do not have the high level of impairment required for PIA eligibility. Almost all (93% or 599)⁴ of those in receipt of PIA were also in receipt of the PIA supplement.

Most (60%) Veterans deemed TPI had a disability assessment of less than 78% (Figure 5). However, Veterans deemed TPI were more likely than Rehabilitation clients overall to have a disability assessment of 78% or greater, 40% compared to 18%. TPI Veterans who were also in receipt of PIA had the greatest proportion in the highest impairment group, 53% compared to 40% of all TPI Veterans. This is not surprising given that eligibility for PIA requires severe levels of impairment.

Figure 5: Disability Percentage of TPI and Rehabilitation Clients, March 2013



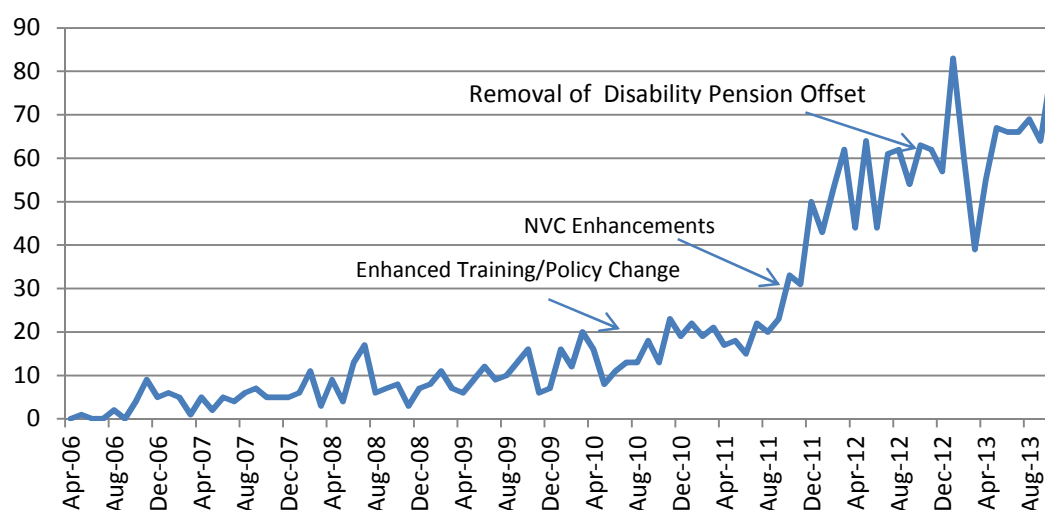
4.2 Factors Contributing to Growth in Veterans Deemed TPI

Five factors that possibly contributed to the rise in TPI Veterans since 2006 were identified: 1. rising military earnings compared to what is available in the civilian workforce; 2. rising level of disability among Rehabilitation clients 3. training and policy changes related to deeming of TPI following a 2011 evaluation; 4. NVC enhancement in October 2011; and 5. removal of the Disability Pensions offset from Earnings Loss benefits in October 2012.

Military earnings and growing disability levels likely contributed to the growth in TPI Veterans throughout the entire period from 2006 to 2013, with training/policy changes also playing a role. However, the majority (67%) of TPI Veterans were deemed TPI over last two years and the numbers tripled over this period. Both the NVC enhancements and the removal of the pension offset came into effect during this two-year period (see Figure 6). Each of these contributing factors is explained below.

⁴ The lower number of PIA clients receiving the supplement is likely due to timing, i.e., PIA clients that have not applied or have not yet been approved for the supplement.

Figure 6: Numbers Deemed TPI Monthly, April 2006 to October 2013



4.2.1 Military Earnings

Park (2008) found that from 1999 to 2006, CAF personnel earned more on average than both civilians and other public sector employees. The earnings of civilian workers remained relatively constant during this period while CAF personnel experienced steady increases. By 2006, the average earnings of Regular Force members were more than \$60,000 compared to about \$40,000 for civilians. Park suggested that the steady increase in earnings may be due to rising levels of education as it coincided with a large increase in the proportion of CAF members with post-secondary education.

The 2010 Income Study also found pre-release earnings rose among releasing CAF personnel around 1999. The average earnings in the pre-release year for Regular Force Veterans released in 2000 was \$58,000 in 2007 dollars which was 12% higher than for those released in 1999 (\$51,900 in 2007 dollars). Pre-release earnings rose fairly steadily among those released from 2001 to 2005, however, another large increase in earnings occurred in 2006. Those released in 2006 earned, on average, \$71,500 in the year prior to release, an increase of 9% over those released in 2005 (\$65,300). A higher proportion of those participating in the Rehabilitation program in the early years were released prior to 2000 when the earnings gap started to rise. Among Veterans deemed TPI from 2006-07 to 2011-12, the proportion who released after 2000 was about 61% which increased to 68% among those deemed TPI in 2012-13.

4.2.2 Disability Level

The second possible factor related to the growth in TPI Veterans is the rise in disability assessments among Rehabilitation clients. The majority (90%) of Rehabilitation clients receive disability benefits (Disability Pensions or Awards). Among Rehabilitation clients receiving benefits, 14% had a disability assessment of 78% or greater as of March 2009. This prevalence grew to 18% of clients as of December 2012.

4.2.3 Training and Policy Change

A 2011 NVC evaluation (Veterans Affairs, 2011) suggested that many who were not deemed TPI appeared to meet the criteria. This finding resulted from a file review (Franz, 2010) of a stratified random sample of 350 active Rehabilitation cases from April 1, 2006 to October 31, 2009. The review found that 9% were deemed TPI. While overall the review found that decisions to deem TPI were appropriate, many (68 of 220 in receipt of Rehabilitation at the time) appeared to meet the criteria yet were not deemed TPI. The Phase III evaluation report stated that “staff indicated they were reluctant to designate a Veteran as TPI as this designation has negative connotations and may impair the relationship between the Veteran and the Case Manager.” Enhanced training and a policy change both followed this evaluation. At the time of the evaluation, the TPI policy had two requirements: that the Veteran was assessed to not be able to perform any occupation that would be considered suitable gainful employment over the next year and an annual assessment. The policy was changed in the fall of 2011 to reflect an assessment of permanency.

4.2.4 NVC Enhancements

The enhancements may have impacted the growth in TPI Veterans through both the introduction of the minimum Earnings Loss benefit and the requirement that Veterans must be deemed TPI to receive the PIA Supplement. TPI is based on a person's capacity for suitable gainful employment, which is defined as providing a monthly rate of pay which is equal to at least 66 2/3rds percent of the Veteran's monthly imputed income. Under the enhancements the minimum monthly imputed income was raised to the basic Corporal level making it more likely that clients will not reach 66 2/3rds percent; i.e., \$56,568⁵. The timing of the enhancements certainly appears to coincide with growth in clients being deemed TPI. During the nine months prior to the implementation of the enhancements (January to September 2011), there was an average of 20 new clients deemed TPI per month. During the nine months immediately following the implementation of the enhancements (October 2011 to June 2012), the average more than doubled to 47 new TPI Veterans per month. Growth in PIA clients was almost immediate after the enhancements came into effect and continues to increase; further, most (77% as of March 13, 2013) PIA clients are also in receipt of the supplement.

4.2.5 Removal of Disability Pension Offset

The final possible factor is related to the decision to no longer offset. In October 2012, VAC stopped deducting the Disability Pension from the Earnings Loss Benefit. Prior to the removal of this offset, clients whose income was in excess of Earnings Loss payable due to their Disability Pension would not receive Earnings Loss benefits and therefore would have no financial incentive to apply for TPI. With the removal of the Disability Pension as an offset, the client's income is now lowered and therefore Earnings Loss is more likely to be payable. The proportion of Veterans who were deemed TPI at the completion of the Rehabilitation program increased from an average of 16% during the four quarters prior to the elimination of the offset (August 2011 to September 2012) to

5 Monthly rate of \$4,714 as of March 2013 multiplied by 12.

24% in two quarters following the elimination of the offset (October 2012 to March 2013)⁶.

4.3 Health, Labour Force Participation and Incomes of TPI Veterans

TPI Veterans were captured on the 2010 Survey on Transition to Civilian Life (STCL) which included 3,154 Regular Force Veterans released from 1998 to 2007 who responded to the survey representing 32,015 Veterans. A match of TPI Veterans as of September 13, 2013, to the STCL sample identified 146 TPI Veterans who responded to the survey (weighted population of 675). These TPI Veterans differed in a few demographic and service characteristics. For example, a greater proportion of TPI Veterans were aged 40 to 49 at the time of the survey, served between 10 to 19 years, were released medically, were non commissioned members and served in the Army.

TPI Veterans were considerably worse off compared to other Veterans in all health and disability indicators. Compared to a minority of other Veterans, the majority of TPI Veterans reported a difficult adjustment to civilian life (81%), fair or poor health (84%) and mental health (78%) and having been diagnosed by a health professional as having a mental health condition (88%). While the majority of other Veterans reported participation and activity limitation (55%) and having been diagnosed with a chronic physical health condition (81%), all TPI Veterans reported these problems.

The majority of TPI Veterans were either not in the labour force or reported being permanently unable to work, yet 20% were still attached to the labour market (employed or looking for work). At the time of the survey, most (57%) TPI Veterans were not in the labour force, about one-quarter (24%) reported being permanently unable to work, 14% were employed and 6% were unemployed or not working and looking for work. Compared to TPI Veterans, a much lower proportion of other Veterans were not in the labour force (17%) or unable to work (2%), while a much higher proportion were employed (75%).

The labour force participation of TPI Veterans declined post-release while the majority of other Veterans were employed and their participation increased. The main activity during the 12 months following release was “working” for over one-quarter (27%) of TPI Veterans. This proportion declined to 17% during the 12 months prior to the survey. In contrast the main activity after release was “working” for more than half (57%) of other Veterans and for three-quarters during the 12 months prior to the survey. While about the same proportion of TPI Veterans and other Veterans experienced low income (8% and 6%), TPI Veterans were much more likely to be dissatisfied with their finances (40% compared to 15%).

6 Rehabilitation and Vocational Assistance Program Performance Snapshot and Client Profile Fiscal Years 2011/12 and 2012/13, prepared by Program Performance, Strategic and Enabling Initiative.

Table 1: TPI Veterans as of September 13, 2013: Survey on Transition to Civilian Life
Sample Characteristics (n=3,154 and N=32,015)

	TPI Veterans n=146 N=675	Other Veterans n=3,008 N=31,340
Demographic and Service Characteristics		
Age at time of survey		
20-29	1.3%	16.1%
30-39	14.3%	18.5%
40-49	56.5%	33.2%
50-59	26.9%	24.1%
60-69	1%	8.1%
% male	86.4%	88.2%
% married/common law	69.3%	75.7%
% one or more deployments of 30 days or more	89.3%	64.5%
Length of service		
< 2 years	2.4%	17.8%
2 to 9 years	9.9%	16.7%
10 to 19 years	37.7%	12.6%
≥ 20 years	50.0%	52.8%
% medical release	82.5%	23.2%
% non commissioned member rank§	93.5%	83.9%
% army	57.1%	48.6%
Health and Determinants of Health		
% difficult adjustment to civilian life	81.2%	24.1%
Health		
% fair or poor health	84.1%	16.1%
% fair or poor mental health	78.2%	12.8%
% participation and activity limitation (sometime, often)	100.0%	55.2%
% with a mental health condition**	88.1%	22.2%
% with PTSD	65.5%	9.8%
% with a physical health condition†	100.0%	80.7%
Labour Force Participation		
% employed 12 month after release	26.6%	57.2%
% employed 12 month prior to survey	16.6%	76.7%
Status at time of survey		
Employed	13.8%	75.2%
Unemployed	5.4%	6.1%
Not in the labour force	57.0%	16.7%
Unable to work	23.8%	2.0%
Income		
% below Low Income Measure (LIM)**	8.9%	6.2%
% dissatisfied with finances	40.5%	14.7%
Household income 2009		
Less than \$50,000	35.4%	16.8%
\$50,000 to \$100,000	49.1%	39.9%
\$100,000 to \$150,000	12.0% ^c	25.8%
\$150,000 +	3.5% ^c	17.5%

* Source: Survey on Transition to Civilian Life 2010 record linked to CFPTO data for Afghanistan operations as of September, 2009. See MacLean and Poirier, 2012 for details.

** Mental health conditions: mood disorder, depression/anxiety, anxiety disorder, PTSD.

† Physical health conditions: hearing problem, arthritis, back problems, high blood pressure, heart disease, stroke, bowel disorder, ulcers, cancer, diabetes, asthma, COPD.

++ If the household income is below 50% of the medium income for the household size then considered to be below LIM.

^c Caution less than sample size of 30.

4.4 Alternative Approaches to Compensating For Permanent Losses

The NVC compensates for economic and non-economic loss separately similar to workers compensation boards in Canada and modernized compensation systems for Veterans in Australia and the UK (Table 2).

4.4.1 Economic Loss

Economic loss compensation for longer-term or permanent partial disability can be categorized into four approaches (Barth, 2013):

- *Loss-of-Earnings-Capacity Approach:* Benefits are based on the workers' ability to earn or to compete in the labour market. It involves a forecasting of the economic impact that the impairment will have on the worker.
- *Impairment-based Approach:* Benefits are based on the degree of impairment. Any future earnings losses of the worker are not considered.
- *Bifurcated Approach:* Benefits are based on the workers' employment status at the time of assessment after the condition has stabilized. Benefits are based on either degree of impairment or the degree of lost earnings capacity.
- *Wage-Loss Approach:* Can simply be the extension of temporary disability benefits after maximum medical recovery if it is determined that there is a permanent disability.

The NVC uses both a wage-loss (earnings loss) and an impairment-based (PIA) approach to compensate for economic loss. Its economic loss benefits include Earnings Loss, Permanent Impairment Allowance (PIA), the PIA Supplement, Canadian Forces Income Support and the Supplementary Retirement Benefit. Earnings Loss, which uses a wage-loss based approach, is taxable and paid at a rate of 75% of pre-release gross earnings. While PIA may be considered an impairment-based approach, as eligibility is based on having an assessed impairment, the rates payable under PIA are not based on the impairment rating (disability %). The PIA rates are based on three grade levels. The PIA Supplement is a fixed rate, regardless of impairment rating, paid to those in receipt of PIA who have been deemed TPI.

Australian Veterans Affairs uses a bifurcated approach (choice of loss-of-earnings capacity or impairment-based) and the UK uses a combination of severity of injury (level of pain and suffering) and wage-loss approach with an adjustment for age. Workers compensation programs in Canada generally distinguish between temporary and permanent economic loss. This assessment can take place after a prescribed period of time or at maximum medical or vocational recovery and recipients are subject to reassessments thereafter. All workers compensation boards across Canada use a loss-of-earnings capacity approach to compensate for permanent economic loss. Loss-of-earnings capacity is generally calculated as the difference between pre-injury earnings and post-injury earnings capacity (the higher of actual earnings and assessed earnings capacity). Replacement rates range from 80% to 90% of the net earnings loss. Loss-of-earnings is generally provided until there is no longer a loss of earnings or until age 65.

Under the loss-of-earnings capacity approach, if actual earnings are less than the assessed earnings capacity, benefits are not increased. If actual earnings are above the assessed earnings capacity then benefits are adjusted downward to reflect actual loss of earnings. One exception is in New Brunswick which has adopted a Return to Work Incentive program designed to encourage injured workers to improve their earnings. The program allows injured workers who earn more than their assessed earnings capacity to keep the excess earnings for 12 months. This situation is reviewed annually and injured workers can qualify for this program more than once.

As of March 2013, the minimum NVC Earnings Loss payment is \$42,426; there is no maximum. Seven of the 11 provinces and territories examined also have a minimum earnings loss payment. The minimums range from about \$16,000 in Quebec to about \$24,000 in Saskatchewan, much lower than the NVC minimum. Presumably minimums are set for social adequacy goals. In fact, the Yukon board states “Compensation benefits are tax free, and the 25 per cent taken off the gross earnings acknowledges the tax free status of benefits. However, workers at the lower end of the wage scale often pay little tax, and losing 25 per cent of their wages can cause extreme hardship. To avoid this, [the board] established a minimum threshold at or below which a worker will receive 100 per cent (100%) of his or her gross salary.” All provincial compensation boards but Manitoba have set maximum earnings on which benefits are based ranging from about \$50,000 to almost \$93,000, while the NVC earning loss benefit does not have a maximum.

NVC Earning Loss benefits stop at age 65, however, the PIA and PIA Supplement continue for life. This approach is similar to Australia and British Columbia, in which earnings loss benefits are paid to age 65 and impairment-based economic loss benefits continue for life. In the UK, earnings loss benefits continue for life. Workers compensation earnings loss benefits that are based on loss of earnings capacity all end at age 65 or upon eligibility for Old Age Security which is the case for the Yukon. Under the NVC, the Supplementary Retirement Benefit (SRB), paid at age 65, is designed to compensate for the lower pension benefits that may be payable to a Veteran who has been unable to engage in suitable gainful employment due to being totally and permanently incapacitated. The SRB is a taxable lump sum payment. The amount of SRB is equal to 2% of the sum total of all the Earnings Loss (EL) benefits payable to an eligible Veteran or survivor before deductions. Under workers compensation most provinces provide a similar retirement benefit in the range of 5 to 10% of net earnings loss benefits paid. Since all use a loss-of-earnings capacity approach, benefits paid would be based on the difference between pre-injury earnings and assessed earnings capacity and, therefore, is not comparable to the 2% rate for SRB. Alberta and PEI do not use the typical 5 or 10% of net benefits paid to compensate for lost retirement savings. Instead, PEI assumes the injured worker would have worked to age 65 and workers can submit evidence of lost Canada Pension Plan and employer-sponsored pension plan contributions. Alberta uses the average of the last five years of benefits paid times 2% times the number of years of compensation paid.

4.4.2 Non-economic Loss

The NVC compensates for non-economic loss through the Disability Award. A lump sum non-taxable benefit, this award is paid in recognition of non-economic loss (loss of quality of life, impact of impairment and pain and suffering) to Canadian Armed Forces members or Veterans for an injury or illness resulting from military service. The amount of the award, to a maximum of \$301,275 (as of January 2014) is impairment-based and depends on the degree to which the disability is related to service (entitlement), and the extent of disability or impairment (assessment, quality of life adjusted). Australia pays a lump sum non-economic award which is also impairment-based. Lump sum awards in Australia, however, take into account age and gender. The maximum for males up to age 31 at 100% impairment is \$419,140 AUD which would be about \$430,140 in Canadian dollars (based on Bank of Canada exchange rate as of April 15, 2014) is higher than the NVC maximum. However, the maximum for a male aged 90 or older is \$66,880 (AUD) or \$68,666 in Canadian dollars is lower than the NVC maximum. Since the NVC maximum does not vary by age whether Australia's maximum is higher or lower depends on the age at the time of the award. The UK's non-economic award is based on the severity of the injury or the level of pain and suffering. The maximum of £570,000, in place since 2008, would be about \$1,046,349 in Canadian dollars (based on exchange rate as of April 15, 2014) or more than three times the NVC maximum. All provincial workers compensation boards, except BC, provide a lump sum award based on level of impairment with maximum awards ranging from \$50,000 to \$93,000. Similar to the NVC Disability Award, workers compensation impairment assessments range from 0 to 100%, are based on American Medical Association (AMA) guidelines and are generally assessed once maximum medical recovery has been reached. Two differences are that the NVC provides for adjustments for lost quality of life and the maximum disability award (\$301,275 as of January 2014) is much higher than those paid by workers' compensation (typically between \$50,000 and \$93,000).

Table 2: Compensation for Permanent Economic and Non-Economic Losses

Program	Earnings loss benefits (economic)	Time period for earnings loss benefits (economic)	Lump sum award (non-economic)
Veterans			
Canada – 2006 NVC	Wage-loss approach (75% of gross pre-release earnings, min \$42,426 per yr (\$56,568 x 75%) and no maximum, taxable) Impairment-based (\$6,936 to \$20,508 depending on grade and supplement of \$12,576)	Until earnings capacity exceeds 66 2/3, or age 65 then 2% of gross earnings loss payable	Impairment-based (adjusted for quality of life, 1% (\$845), 5% (\$15,064) and 100% (max \$301,275)

Program	Earnings loss benefits (economic)	Time period for earnings loss benefits (economic)	Lump sum award (non-economic)
Australia - 2004 MRCA¹	Bifurcated – Choice of Impairment-based payment Special Rate Disability Pension (maximum \$33,000 per yr if impairment rating >50 points & unable to work more than 10 hrs per week) or Loss-of-earnings capacity (75% -100% of gross pre-release earnings depending on difference in hours worked)	Impairment-based: for life and non-taxable Loss-of-earnings capacity: until no loss of earnings capacity or age 65	Impairment-based (Permanent Impairment Payment, max lump sum up to age 31 (males and females) \$419,140 (AUD) and for males aged 90 plus \$66,880 (AUD), amounts are age adjusted with conversion factor declining with age. Non taxable.)
United Kingdom –2005 AFCS²	Combination severity of injury and wage-loss approach based on age and salary at the time of release and projected lifelong loss of earnings called Guaranteed Income Payment (GIP) (100% of gross pre-release age adjusted earnings for severity level 1 to 4, 5-6: 75%, 7-8: 50%, 9-11:30%, 12-15: not payable)	For life	Severity of injury-based: level of pain and suffering (max £570,000)
Workers Compensation*			
Newfoundland & Labrador	Loss-of-earnings capacity ³ (80% of net ⁴ , no min ⁴ to \$54,155 ⁵)	Until age 65 ³	Impairment-based (\$1,000 to \$54,155) ⁶
Prince Edward Island	Loss-of-earnings capacity ³ (85% of net ⁴ , no min ⁴ to \$50,000 ⁵)	Until no loss-of-earnings capacity, or age 65, then estimated loss of CPP and employer pension plan benefits ³	Impairment-based (\$500 to \$50,000) ⁶
Nova Scotia	Loss-of-earnings capacity if greater than impairment based approach ³ (85% of net ⁴ , no min ⁴ to \$54,400 ⁵)	Until age 65 then 5% of benefits received ³	Impairment-based, if rating 30% or less and no loss of earnings capacity paid as lump sum, otherwise paid monthly for life ³
New Brunswick	Loss-of-earnings capacity ³ (85% of net ⁴ , no min ⁴ to \$59,500 ⁵)	Until no loss-of-earnings capacity, or age 65 then 5% of benefits received ³	Impairment-based (min \$500 to \$59,500) ⁶
Quebec	Loss-of-earnings capacity ⁷ (90% of net with adjustments for family situation ⁴ , min \$15,787 ⁴ to \$67,500 ⁵)	Reduced by 25% at age 65, then 50% at age 66 and 75% at age 67 ⁷	Impairment-based (adjustment for age, max at permanent 100% disability at age 18 \$101,052 and at age 65 \$50,528, min \$1,010) ⁶
Ontario	Loss-of-earnings capacity ³ (85% of net ⁴ , min \$21,730 ⁴ to \$83,200 ⁵)	Until no loss-of-earnings capacity, or age 65 then 10% of benefits received ³	Impairment-based (adjustment for age, \$57,641 plus \$1,281 for each year under age 45 to \$83,259 minus \$1,281 for each year over age 45, paid as a lump sum if amount is less than \$12,809) ⁶

Program	Earnings loss benefits (economic)	Time period for earnings loss benefits (economic)	Lump sum award (non-economic)
Manitoba	Loss-of-earnings capacity ³ (90% of net ⁴ , min \$20,004 ⁴ to no maximum ⁵)	Until no loss-of-earnings capacity, retire before age 65 or age 65 then 10% of benefits received ³	Impairment-based (adjustment for age, \$1,250 for each full percentage less than 30% and \$37,500 plus \$1,500 for each full percentage over 30%) ⁶
Saskatchewan	Loss-of-earnings capacity ³ (90% of net ⁴ , min \$23,792 ⁴ to \$55,000 ⁵)	Until no loss-of-earnings capacity, or age 65 then 10% of benefits ³	Impairment-based (\$2,200 to \$45,200) ⁶
Alberta	Loss-of-earnings capacity ³ (90% of net ⁴ , min \$16,644 ⁴ to \$92,600 ⁵)	Until no loss-of-earnings capacity, or age 65 then 2% times ave last 5 years compensation times yrs of compensation paid ³	Impairment-based (\$1,713 to \$85,630) ⁶
British Columbia	Bifurcated -higher of loss-of-earnings capacity ³ (90% of net ⁴ , min \$19,706 ⁴ to \$75,700 ⁵) or impairment based	Loss-of-earnings: to age 65 Impairment based: for life At age 65, 5% of payments received ³	No ³
Yukon	Loss-of-earnings capacity (75% of gross ⁴ , min \$18,525 ⁴ to \$82,105 ⁵)	Until eligible for Old Age Security ³	Impairment-based (adjustment for age, \$926 to \$92,625) ⁴

* NVC economic loss benefits are taxable and non-economic loss benefits are non-taxable while both types of workers compensation benefits are non-taxable.

1. DVA Factsheets Military Rehabilitation and Compensation Act (MRCA) MRC01, MRC07, MRC08, MRC09 and MRC 29. Max weekly for age 31 or younger as of March 2014 of \$316.07 x conversion factor of 1326.1 for both males and females is \$419,140 and for age 90 and above for males \$316.07 x 211.6 is \$66,880 (see MRC 29 for conversion factors).

2. Ministry of Defence, Armed Forces Compensation Scheme: Statement of Policy, UK, July 2012.

3. Provincial Workers Compensation Board web sites. The maximums reflect gross earnings on which benefits are based.

4. Association of Workers' Compensation Boards of Canada – 2013, "Weekly Benefits for Temporary Disability – Summary – 2013". Minimum weekly amounts in the table were converted by VAC to annual by amounts by multiplying by 52. The minimums are amounts paid i.e., net after tax with replacement rate applied.

5. Association of Workers' Compensation Boards of Canada – 2013, "Maximum Earnings Covered and Methods of Adjustment – Summary – 2013".

6. Association of Workers' Compensation Boards of Canada – 2013, "Permanent Disability Awards and Escalation Benefits – Summary – 2013".

7. Direct e-mail correspondence with a Board employee.

5.0 Discussion and Conclusion

This study found a significant increase in clients being deemed TPI. While TPI Veterans were found to be worse off than other Veterans in terms of health and disability; disability levels and other factors only partially explained the growth in TPI Veterans. Much of the growth in TPI clients occurred over the last two years when both the NVC enhancements and the removal of the pension offset came into effect. These findings raise questions about whether the enhancements mainly aimed at increasing financial benefits, have created disincentives to active participation in the Rehabilitation program and labour market engagement. A recent literature review (MacLean and Campbell, 2014) found increased financial benefits can lead to reduced participation in rehabilitation and employment and many countries have tightened access to benefits while improving labour-market engagement programs. This focus on labour-market engagement has been bolstered by research on the association between work and well-being. For example, the Ontario's workers' compensation board has adopted a set of evidence-based case management principles called "Better at Work" which recognizes the health benefits of work (Ontario Workplace Safety and Insurance Board, 2013).

The method by which workers are compensated for injury can have an impact on labour-market outcomes. In 1998, Ontario reduced the wage replacement benefit rate from 90% to 85%, put more responsibility on the employer and worker for return to work, outsourced the management of their labour market engagement program and changed from structured to intermittent reassessments⁷. A recent study by the Institute for Work and Health (Tomba, 2013) found that the cohort impacted by these 1998 legislation changes had higher probability of better earnings recovery than those under the previous two long-term disability compensation models. This result suggests that policy and practices can have a significant impact on claims duration.

Workers compensation programs in Canada and the Austrian Military Rehabilitation and Compensation Act use either loss-of-earnings capacity or impairment-based approaches to compensate for permanent partial disability. Both the loss-of-earnings and the impairment-based approaches recognize varying degrees of work capacity and are designed to encourage labour market engagement. In contrast, under the TPI approach a client is essentially determined to be either employable or not. Those assessed and deemed to not be able to reach 66 and 2/3rds percent of their pre-released earnings are paid full Earnings Loss benefits regardless of any earning capacity up to this threshold. Studies have found that loss-of-earnings and impairment based approaches on average provide adequate earnings replacement rates when compared to non-injured controls. However, both Veteran and non-Veteran studies have found earnings replacement rates (benefits plus labour market earnings) exceeding 100% for the most seriously disabled, much lower rates for others and much variation within impairment rating groups (MacLean and Campbell, 2013).

Both the NVC and workers' compensation earnings loss compensation models are based on pre-release or pre-injury earnings. These models are reasonable for temporary or short-term earnings losses but are more problematic for injuries with long-term impacts, given the typical trajectory of earnings over a life-time. Young people can expect their earnings to rise substantially over the first decade in the labour force while the earnings of older workers level off (Hunt, 2005). The NVC Permanent Impairment Allowance and Supplement are payable for life and therefore may indirectly compensate for greater loss of earnings over the life-time experienced by those whose injuries occur earlier in their working life. The UK, however, directly adjusts earning loss benefits for age resulting in greater compensation for younger Veterans.

For Veterans who earned below basic Corporal salary, the benefit replacement rate was more than 100% of pre-release earnings. The intent of raising the minimum Earnings Loss payment was to ensure that Veterans had a reasonable standard of living. Earnings replacement is the dominant model in workers' compensation, however, the concept of social adequacy is not completely ignored (Hunt, 2005). In fact, this study found that most provincial workers' compensation boards have a minimum earnings standard as part of their earnings replacement policy. However, neither the NVC nor most workers compensation policies account for family size or household income which are typically used in the calculation of low income indicators such as the low income measure (LIM) and low income cut-off (LICO) used by Statistics Canada.

⁷ The policy changed from 2 reassessments over six years until lock-in to age 65 to intermittent reassessment for six years until lock-in to age 65.

Similar to the NVC, all provincial workers' compensation boards, with the exception of BC, provide non-economic lump sum awards based on level of impairment in addition to earnings loss. While the measure of impairment is similar - i.e., based on AMA guidelines - the maximums are generally much lower among provincial workers' compensation (typically between \$50,000 and \$93,000, compared to about \$300,000 under the NVC) and NVC disability assessments are adjusted for impact on quality of life. While the maximum lump sum award paid to Veterans in the UK is higher than that under the NVC, whether the maximum paid to Veterans in Australia is higher or lower than that paid under the NVC depends on the age of the Veteran at the time of award. This adjustment for age in Australia takes into account the impact of impairment on quality of life over the life course. Awards in the UK and under the NVC are the same at each impairment level regardless of age.

In conclusion, both NVC re-establishment program costs and the number of clients deemed TPI and have increased substantially since the NVC enhancements. While those deemed TPI were worse off compared to other Veterans in terms of health and disability, over one-quarter were working post-release and their rates of experiencing low income was not different from other Veterans. Due to different approaches, it is difficult to compare compensation across jurisdictions. However, one main difference is that other jurisdictions use approaches to compensate for earnings loss which recognize varying degrees of work capacity and are designed to encourage labour market engagement.

6.0 References

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Appendix A: NVC Programs and Enhancements

Rehabilitation

Purpose: The VAC Rehabilitation Program oversees the provision of rehabilitation and vocational assistance services to eligible clients in order to assist their re-establishment. VAC Case Managers help the client cope with and resolve any mental or physical problems resulting primarily from service or their medical release as the Veteran transitions to civilian life through the Rehabilitation Program. The goal of rehabilitation and related health care benefits is to compensate for both economic and non-economic loss.

Economic Benefits

Financial Benefits

The Financial Benefits Program is designed to recognize and to compensate for the loss of earnings caused by a career ending or service related disability. There are four types of benefits under the financial benefits program: 1. Earnings loss; 2. Permanent Impairment Allowance; 3. Canadian Forces Income Support and 4. The Supplementary Retirement Benefit.

1. Earnings Loss (EL)

Purpose: The Earnings Loss (EL) benefit is one of four benefits available through the Financial Benefits Program. The EL benefit is payable in recognition of the economic impact a military career ending or service related disability may have on the Veteran's ability to earn income following release from the Canadian Forces (CF). EL benefits are provide income replacement during participation in rehabilitation (Temporary Earnings Loss); or until age 65, if following approval of a rehabilitation plan, the Veteran is determined to be totally and permanently incapacitated (Extended Earnings Loss).

Enhancement: Following the introduction of the NVC in 2006, significant concerns were raised that the EL benefit was too low to provide a reasonable standard of living given the set minimum salary of a Senior Private for regular force Veterans and the deemed amount of \$2,000 per month for part-time reservists. In 2011 the minimum salary was raised to that of the basic corporal for Regular Force and Reservists Class C & B Long-Term (greater than 180 days); and Reservists Class A & B Short-Term (180 days or less) was increased to \$2,700. As of March 2013, the basic Corporal salary was \$4,714 per month or \$56,568 per year.

2. Permanent Impairment Allowance (PIA)

Purpose: PIA was developed to recognize that severe permanent impairment may lead to economic loss with respect to employment potential and career advancement opportunities, and to compensate Canadian Forces (CF) Veterans for these losses. PIA is a taxable, monthly allowances payable for life or until such time as the Veteran no longer meets the eligibility requirements for payment. The amount of PIA payable is based on the extent of the Veteran's permanent and severe impairment (grade I – \$1,709, grade II – \$1,140, grade III – \$570 in 2013).

Enhancement: Eligibility for PIA was expanded as part of the NVC enhancements. Canadian Forces Veterans can now qualify for PIA if they have been approved for VAC's rehabilitation program for a permanent and severe impairment that has been compensated with either a disability pension or a disability award. Prior to this amendment individuals had to have been in receipt of a disability award, those with the disability pension would not have qualified. The taxable PIA Supplemental payment was introduced to provide life-long additional financial support to PIA eligible Veterans who are TPI as a result of their severe and permanent impairment. It was provided in recognition of the additional economic losses related to employment limitations and is paid in addition to PIA. This supplemental payment is indexed yearly for inflation. As of January 2013, the supplement was \$1,048 per month.

3. Canadian Forces Income Support(CFIS)

A tax-free payment payable to Veterans who have completed the Rehabilitation Program and are able to work but have not been able to find a job or have a low-paying job. CFIS is available to Veterans whose household income is not enough to meet your basic needs.

4. Supplementary Retirement Benefit (SRB)

One potential consequence of a loss in earnings is a reduction in the amount of retirement benefits that may be available due to the Veteran's inability to work and therefore contribute to a pension plan because of the career ending or service related disability. The SRB is designed to compensate for the lower pension benefits that may be payable to a Veteran who has been unable to engage in suitable gainful employment due to being totally and permanently incapacitated. The SRB is a taxable lump sum payment. The amount of SRB is equal to 2% of the sum total of all the Earnings Loss (EL) benefits payable to an eligible Veteran or survivor before deductions.

Non-Economic

Disability Award (DA)

The Disability Award provides injured Canadian Forces members or Veterans with a tax-free cash award for an injury or illness resulting from military service. The amount of the award depends on: the degree to which the disability is related to your service (entitlement); and the extent of disability (assessment). The award is non-economic as it has no connection to loss of earnings.

Enhancement: Following its introduction in 2006, significant concerns regarding the lump sum were raised by stakeholders. A VAC review of clients in receipt of a DA in 2010 revealed that although concerns around the mismanagement of the lump sum were not widespread, the risk remained for those without the capacity to responsibly manage a large lump sum. As such, in 2011 enhancements were made which offered members and Veterans the choice between accepting their DA payment as a lump sum, a periodic payment, or as a periodic payment plus an initial payout. Rates for 2013 were as follows: 1% (\$837), 5% (\$14,929) and 100% (\$298,588). As of March 2013, 39,856 clients were in

receipt of a disability award and the total cost for 2012-13 was \$428 million.

Exceptional Incapacity Allowance (EIA): Non-Economic and Not an NVC benefit

Enhancement: Exceptional incapacity allowance is a non-taxable benefit paid under the Pension Act and not an NVC benefits. Before the NVC enhancements to qualify for the Exceptional Incapacity Allowance (EIA), individuals had to have a disability pension assessment of 98% or greater and suffer from an exceptional incapacity, as defined in VAC's Table of Disabilities. The eligibility criteria did not allow individuals to combine their disability pension and disability award assessment percentages to achieve the required 98% threshold. Therefore, Veterans suffering an exceptional incapacity with a combined disability assessment of 98% did not qualify for EIA. Amendments were made so that Veterans can qualify for EIA if in receipt of any combination of disability pension and disability award assessed at 98% or above and suffering from an exceptional incapacity. Monthly rates for 2013 were as follows: grade 1 (\$1,373), grade 2 (\$1,144), grade 3 (\$915), grade 4 (\$686) and grade 5 (\$458).