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*LIFE AFTER SERVICE STUDIES (LASS) SECONDARY ANALYSIS  
(2011 SERIES - RELEASE 5)*

## **Income Adequacy: Comparing Pre- and Post-Military Incomes of Medical and Non-Medical Releases**

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## Research Questions (Request)

Policy on income replacement raises the questions of how much is enough and how much is too much. There are at least four main income adequacy concepts relevant to the discussion of income replacement policy: (1) continuity of income; (2) low income; (3) satisfaction with financial situation; and (4) lost earnings potential. To explore income adequacy, the following questions were asked:

- What impact does being medically released<sup>1</sup> have on post-release income?
- How satisfied are medically-released Veterans with their financial situation compared to non-medically released Veterans?
- Are medically-released Veterans more likely to experience low income than non-medically-released Veterans?

## Background

Medically-released Veterans have been receiving 75% of their pre-release earnings from Service Income Security Insurance Plan (SISIP) for a period of two years post-release and longer if declared totally disabled. VAC's Rehabilitation Program, which began in 2006, provides for the same level of income replacement.

The report entitled "Income Study: Regular Force Veteran Report", January 4, 2011<sup>2</sup>, found that compared to the year prior to release, income declined on average by 10% during the first three years post-release and that declines differed considerably between groups. Medically-released Veterans experienced a 29% decline in income, almost three times the average. The rate of low income experienced at least once post-release among medically-released Veterans (14%) was, however, slightly lower than the rate among all Veterans (15%).

The report entitled "Survey on Transition to Civilian Life: Report on Regular Force Veterans"<sup>3</sup> found that most (73%) Veterans were satisfied with their financial situation. While the rate of low income did not vary by client status, the rate of satisfaction with financial situation did. NVC clients, many of whom were medically-released Veterans, had much lower satisfaction rates (57%) than VAC disability pension clients (72%) and non-clients (76%). In comparison, the rates of low income for the working and non-working population were 4% and 13%, respectively, and did not differ significantly among the client status groups.

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1 Medical release is the result of an administrative decision to release an individual owing to medical employment limitations.

2 MacLean MB, Van Til L, Thompson JM, Poirier A, Sweet J, Adams J, Sudom K, Campbell C, Murphy B, Dionne C & Pedlar D. Income Study: Regular Force Veteran Report. Veterans Affairs Canada, Research Directorate and Department of National Defence, Director General Military Personnel Research and Analysis. January 4, 2011: 70p.

3 Thompson JM, MacLean MB, Van Til L, Sudom K, Sweet J, Poirier A, Adams J, Horton V, Campbell C, Pedlar D. Survey on Transition to Civilian Life: Report on Regular Force Veterans. Research Directorate, Veterans Affairs Canada, Charlottetown, and Director General Military Personnel Research and Analysis, Department of National Defence, Ottawa. 04 January 2011:103 p.

## Method

The analysis of pre- and post-military incomes relies on data from the Income Study and includes the Regular Force population released from 1998 to 2007 who did not re-enlist and were not serving as of November 2009. The tables produced by Statistics Canada for the Income Study compared pre- release income to the first three years post-release by service and demographic characteristic. For this paper, VAC requested additional tables comparing Veterans medically and non-medically released (includes involuntary, medical, voluntary, retirement age and service complete) for each year post-release for up to nine years post-release.

The analysis of satisfaction with financial situation and low income uses data from the Survey on Transition to Civilian Life which included the same population. The Survey was conducted during February and March 2010 and asked: *“How satisfied are you with your financial situation?”* with response options: *“very satisfied, satisfied, neither satisfied nor dissatisfied, dissatisfied, very dissatisfied.”*

The low income measure establishes a threshold below which persons are considered to be in low income. The threshold is based on the distribution of before-tax income, and is set at half the median income. That income is adjusted to allow comparison between families<sup>4</sup> of various sizes.

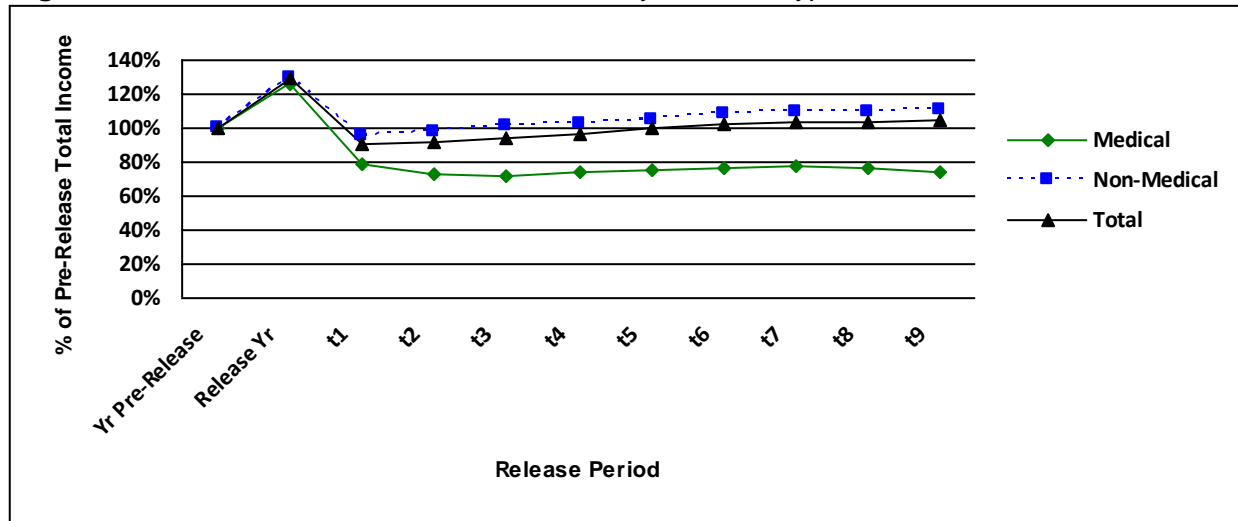
## Results

The average total income of medically-released Veterans in the year prior to release was \$67,000 compared to \$61,000 for the non-medically released Veterans. Over nine years post-release, medically-released Veterans did not recover their pre-release level of income. The incomes of medically-released Veterans fell below 80% of the pre-release level over the entire period. In contrast, the incomes of the non-medically released Veterans were close to 100% of the pre-release level initially and reached as high as approximately 110% (Figure 1).

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4 In the Income study, the low income measure is based on the adjusted census family income, whereas in the Survey on transition the LIM is based on the adjusted household income. For more information on the calculation of low income measures, see <http://www.statcan.gc.ca/pub/75f0002m/75f0002m2010004-eng.htm>.

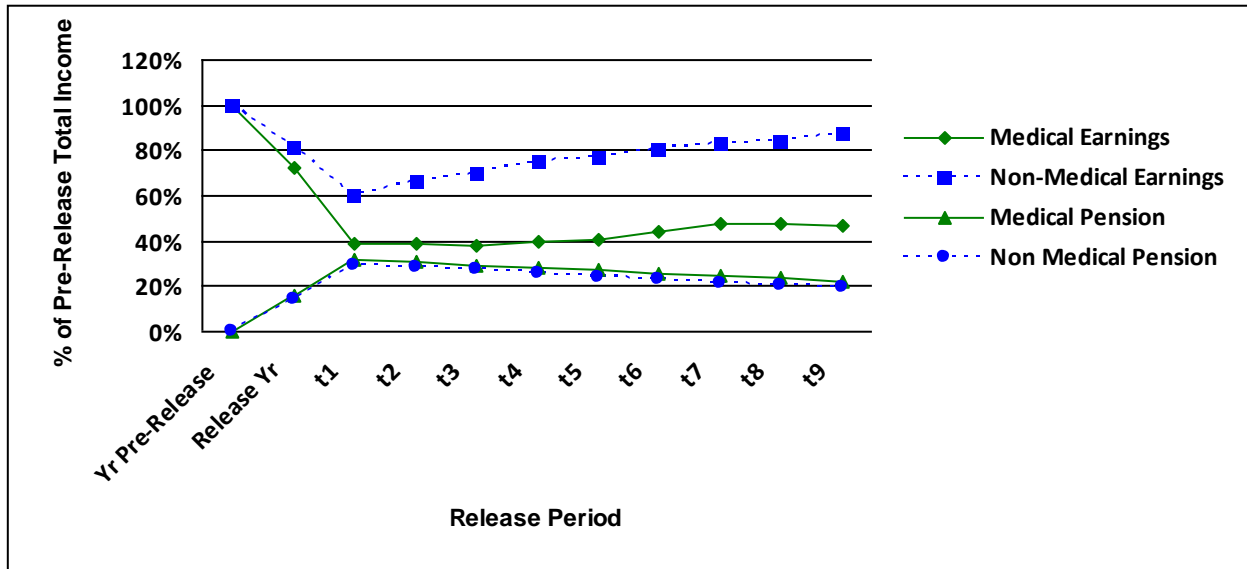
**Figure 1: Pre- and Post-Release Total Income by Release Type and Release Period**



Source: Income Study data for Regular Force Veterans not re-enlisted. This includes the same population as the Survey on Transition to Civilian Life.

Earnings and pension income (excluding VAC disability benefits) accounted for the largest percentage of pre-release total income for both the medically and non-medically-released Veterans. The earnings of medically-released Veterans were about 40% of pre-release total income during the first five years post-release and peaked at almost 50% in the seventh and eighth years post-release. Non-medically released Veterans also experienced a reduction in earnings as a share of total income but less than that of medically-released Veterans. However, their earnings consistently rose each year, eventually reaching almost 90% of pre-release total income. In contrast to earnings, pension income as a share of pre-release total income was quite similar for the medically and non-medically-released Veterans. In the first year post-release, pension income accounted for almost 30% of total pre-release income for both groups and eventually declined to about 20% of pre-release income as the earnings share rose (Figure 2).

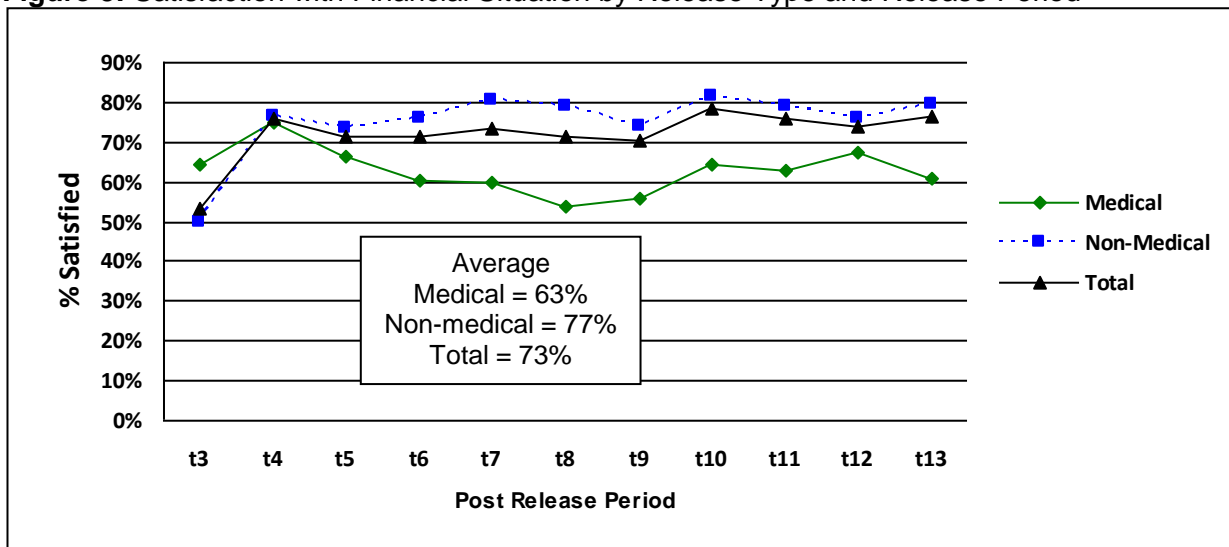
**Figure 2: Main Sources of Income as % of Pre-Release Total Income by Release Type and Release Period**



Source: Special tabulation by Statistics Canada of the Income Study data, representing income from 1998 to 2007 for Regular Force Veterans released from 1998 to 2007.

The majority (73%, Confidence Interval or CI (71.5, 74.9)) of the survey population reported being satisfied with their financial situation. However, post-release medically-released Veterans were much less likely to be satisfied (63%, CI (59.8, 66.0)) than non-medically released Veterans (77%, CI (74.4, 78.5)). While medically-released Veterans were more likely than non-medically released Veterans to be satisfied in the third year and were just as likely to be satisfied in the fourth year after release, in subsequent years they were less satisfied (Figure 3).

**Figure 3: Satisfaction with Financial Situation by Release Type and Release Period**



Source: Survey on Transition to Civilian Life, 2010

Overall, 6.3% of the population had a family income below the LIM. There was no significant difference in the low income rates among medical and non-medical releases overall and for the working and non-working populations (Table 1).

**Table 1:** Low Income Measure (LIM) Rates for Workers and Non-Workers, 2009

Below Low Income Measure	Medical	Non-Medical	Total
Workers	4.1%	4.4%	4.3%
95% Confidence Interval	(2.5, 6.4)	(3.3, 5.9)	(3.4, 5.6)
Non-Workers	10.6%	13.7%	12.5%
95% Confidence Interval	(7.9, 14.1)	(10.0, 18.5)	(9.9, 15.5)
Total	6.6%	6.1%	6.3%
95% Confidence Interval	(5.2, 8.5)	(5.0, 7.6)	(5.3, 7.4)

Source: Survey on Transition to Civilian Life, 2010.

## Discussion/ Further Study

While the post-release incomes of non-medically released Veterans eventually exceeded their pre-release level, even after nine years post-release the incomes of medically-released Veterans fell well below their pre-release level. The income difference could represent the lost earnings potential for medically-released Veterans; i.e., if they had not been medically-released Veterans their incomes would have been similar to that of non-medically released Veterans. This lost earnings potential may explain some of the much lower satisfaction with financial situation among medically-released Veterans.

The incomes of medically-released Veterans fell below 80% of pre-release total income compared to a peak of around 110% for non-medically released Veterans. However, the majority of medically-released Veterans also receive VAC disability benefits (including disability pensions and awards) which are not included in the income data analysed for this study as disability benefits are non-taxable. While there is some debate as to whether disability benefits should be considered as income, their inclusion would likely somewhat close the gap in post-release incomes between the medically and non-medically-released Veterans. The average disability pension in 2007-08 was around \$11,000 per year<sup>5</sup> while the income loss experienced by medically-released Veterans was around \$17,000. However, the gap in satisfaction with financial situation would remain.

This study found no difference in the incidence of low income between the medically and non-medically-released Veterans. However, one would expect higher incidence of low income among medically released Veterans many of whom are living with the impacts of disability on civilian employment and who experienced larger reductions in income post-release. This suggests that earnings loss and Rehabilitation support may have prevented some from experiencing low income.

<sup>5</sup> MacLean MB, Van Til L, Thompson JM, Poirier A, Sweet J, Adams J, Sudom K, Campbell C, Murphy B, Dionne C & Pedlar D. Income Study: Regular Force Veteran Report. Veterans Affairs Canada, Research Directorate and Department of National Defence, Director General Military Personnel Research and Analysis. January 4, 2011: 70p.

However, VAC and SISIP earnings loss policies are not aimed specifically at reducing low income. Low income thresholds in Canada such as Low Income Cut-offs (LICOs) and the Low-Income Measure (LIMs) are based on household income and take into account family size. Current earnings loss policy considers only the Veteran's pre-release earnings. The recent proposal under Bill C-55 (Enhanced New Veterans Charter Act) to address income adequacy by setting a minimum earnings loss base amount of \$40,000 may reduce the prevalence of low income among Veterans but would over-compensate many Veterans, in particular those living in families with dual incomes and smaller family sizes and under-compensate others mainly Veterans living in larger families with one income<sup>6</sup>. Similarly, a policy of increasing the earning loss amount from 75% of pre-release earnings to 85% or 100% would likely reduce the prevalence of low income but would have the same result of over-compensating some while under-compensating others.

Satisfaction with financial situation is also an important consideration in a discussion of income adequacy. However, while satisfaction with finances does predict overall quality of life, other areas have been found to be more important. For example, Pépin (2006)<sup>7</sup> found that among Regular Force personnel, satisfaction with oneself was the most important domain predicting overall quality of life for both married and unmarried Regular Force members. Satisfaction with finances actually ranked eight out of nine domains. Other more important domains included satisfaction with housing/residence, work environment, marriage/partnership, health, career, and leisure time. It is unknown whether these same findings hold for a Veteran population. Further study could examine which domains predict overall quality of life for Veterans as quality of life domains were measured in the Survey on Transition to Civilian Life.

The much lower satisfaction with financial situation among medically-released Veterans compared to non-medically released Veterans may be related to areas of discontentment, including the SISIP offset of disability pensions and disability awards replacing disability pensions. There have also been concerns raised surrounding income adequacy related to administrative retirement ages (60 for the Canada Pension Plan, 65 for SISIP and VAC earnings loss, and 65 for Old Age Security Pension). As the population examined for this study was fairly recently released and few were aged 60 and older, the longer-term implications of these policies is unknown. Repeating the income study and the Survey on Transition to Civilian Life in a few years would allow for an examination of income adequacy for an older age group.

## **Conclusion**

This paper set out to examine income adequacy related to earnings loss policy and rehabilitation effectiveness by answering the following questions: (1) What impact does being medically released have on post-release income? (2) How satisfied are

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6 At \$40,000 a family of 5 has income below the before-tax LIM for 2007 of \$41,260. See MacLean et al, Income Study: Regular Force Veteran Report 2011.

7 Pépin K, Sudum K & Dunn J. "Your Say": Quality of Life 2005 Findings. Centre for Operational Research and Analysis, Department of National Defence. December 2006.

medically-released Veterans with their financial situation compared to non-medically released Veterans? (3) Are medically-released Veterans more likely to experience low income than non-medically released Veterans?

Medically-released Veterans did not recover their pre-release level of income while the incomes of non-medically released Veterans eventually exceeded their pre-release incomes. Medically-released Veterans were just as likely to experience low income as non-medically released Veterans but were less satisfied with their financial situation. This suggests that satisfaction with financial situation may be more related to loss of continuity of income and/or lost earnings potential than being in a low-income situation.

Various measures of income adequacy (satisfaction with financial situation, low income and continuity of income and earnings potential) were examined for this study. However, examining the effectiveness of current policies and programs requires that the Department clarify the goals related to income adequacy.

### **Interpretation Guidance**

- The results cannot be generalized to all Veterans as the findings represent only a sub-component of the Veteran population (Regular Force Veterans released from 1998 to 2007).
- Disability Benefits paid by VAC are not taxable income and are therefore not reported in the Income Study data which is based on the T1 general family file income tax form.

### **Requestor(s)/Acknowledgement**

Danny Gallant from Program Policy has been examining VAC's earnings loss policy; discussions with him on income adequacy led to this paper. Len Malone, also from Program Policy, reviewed and provided comments on this paper.

The authors would like to acknowledge the contributions of Claude Dion of Statistics Canada who prepared the original tables for the Income Study and the additional tables for this study and provided comments on this paper.