

*Supporting Canadian  
Veterans with Disabilities*

*Supporting Canadian  
Veterans with Disabilities:  
A Comparison of  
Financial Benefits*

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# *The Claxton Papers*

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This series of studies, reports, and opinions on defence management in Canada is named for Brooke Claxton, Minister of National Defence from 1946 to 1954. Brooke Claxton was the first post-Second World War defence minister and was largely responsible for founding the structure, procedures, and strategies that built Canada’s modern armed forces. As defence minister, Claxton unified the separate service ministries into the Department of National Defence; revamped the *National Defence Act*; established the office of Chairman, Chiefs of Staff Committee—the first step toward a single Chief of Defence Staff; the Defence Research Board; and led defence policy through the great defence rebuilding program of the 1950s, the Korean War, the formation of NATO, and the deployment of forces overseas in peacetime. Claxton was unique in Canadian defence politics: he was active, inventive, competent, and wise.

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## *Abstract*

The provision of benefits and services to veterans to ensure they receive the health care and compensation they need to lead a good quality of life after military service has always been a challenge for governments around the world. In Canada, over 4,000 Canadian Forces members are released each year, and many leave with physical injuries as well as operational stress injuries such as post-traumatic stress disorder. There has been a push in the past two decades to modernize veterans' programs to ensure that veterans receive adequate physical rehabilitation, mental health care, and vocational retraining to reintegrate smoothly into Canadian society.

In 2006, Veterans Affairs Canada (VAC) made broad, sweeping changes to the way veterans receive services and benefits by introducing the New Veterans Charter (NVC). The Pension Act, which was the 50-year-old policy that previously determined veterans' services and benefits, mostly provided veterans with life-long pensions based on disability. The NVC provides a range of financial programs and services for veterans released after April 2006.

Within the past five years, a number of reports have examined the effectiveness of the NVC, highlighting gaps and providing recommendations. As of the time of publication of this report, few changes have been made. Therefore, this report does not aim to provide recommendations specific to the improvement of the NVC. Instead, it compares the financial benefits offered under the NVC to those offered under the Pension Act. This comparison specifically looks at how financial benefits offered under the two policies differ for veterans with the most severe disabilities. Financial benefits are important for veterans with severe disabilities because they are more likely to have difficulty finding work, and they face higher health-care costs than veterans with less severe or no disabilities.

The report is organized as follows. Chapter 1 provides background information on the NVC, the Pension Act, and the history of veterans' benefits in Canada. It also summarizes reports written thus far on the success of the NVC and defines the term "veteran with severe disabilities." Chapter 2 describes the method of comparison of the financial benefits from the two policies used for the study, and Chapter 3 summarizes the results of the comparison. Chapter 4 discusses the results and also highlights some of the limitations of the study and areas of future work. Finally, Chapter 5 provides some recommendations for consideration regarding the NVC.

## CHAPTER 1

### *Background*

Until 2006, the Pension Act (PA) (R.S., 1985, c.P-6) determined financial benefit eligibility of veterans with disabilities. The benefits consisted of a number of monthly pensions and allowances. The amount was dependent on the nature of disability (through the disability assessment), marital status, and number of children.

In 2006, the Canadian Forces Members and Veterans Re-establishment and Compensation Act, referred to as the New Veterans Charter (NVC) (2005, c.21), was enacted, changing the way that veterans with disabilities are compensated. The financial benefits now consist of some lump-sum payments and some monthly allowances. The amounts are dependent on nature of disability (through the disability assessment), eligibility for work, and military rank.

This chapter begins by discussing the philosophies behind and programs available through the Pension Act and the New Veterans Charter (NVC) in sections one and two, respectively. We offer an interpretation of these programs; official definitions can be found on the Veterans Affairs Canada (VAC) website, <http://www.vac-acc.gc.ca/>. The third section outlines changes announced to the NVC by VAC in September 2010. The fourth section provides a brief history of the policies that have determined the financial benefits and services offered to veterans since the First World War. The fifth section discusses reports that have been written since 2005 about the NVC and its effectiveness as a policy. Finally, the sixth section explains the meaning of a “severe disability,” as veterans with severe disabilities are the focus of this study.

#### **1.1. Pension Act**

The Pension Act was developed following World War I and has been revised and updated many times since that time. The philosophy of the Pension Act was one of compensation for disability. The programs were designed with the intent of compensating veterans who had served the country with

the assumption that those serving in the military were “career soldiers.” Its aim was to provide financial compensation for pain that veterans experienced through disabilities acquired during their service. Because of this focus, the Pension Act dealt very little with the integration of veterans into civilian life after military service. It was also designed with a focus on physical disability and was not set up to deal with mental disabilities due to military service.<sup>1</sup>

The following financial programs are available through the Pension Act to veterans who were medically released before April 2005. There are other educational and service benefits available under the Pension Act that are not summarized here; the focus of this summary is on the financial compensation available to veterans. Unless otherwise stated, this information is summarized from the Pension Act and from information on the Veterans Affairs website.<sup>2</sup>

*Disability Pension, Spousal Pension, Children’s Pension.* These are the main programs available through the Pension Act. The disability pension is awarded based on disability, with additional support awarded to veterans with families. The amount of the pension is determined by the veteran’s disability assessment,<sup>3</sup> up to a maximum monthly payment of \$2,397.83, tax-free. An additional pension amount is awarded if the veteran has a spouse or common-law partner (maximum \$599.46 per month, tax-free). A children’s pension is awarded as well, depending on the number of children (maximum for one child, \$311.72 per month; second child, \$227.79 per month; other children, \$179.84 per month, all tax-free). All of these pensions are proportional to the disability assessment of the veteran. The pensions are paid monthly until death, and are adjusted yearly for inflation according to the Consumer Price Index.

*Survivor Benefits.* When the pensioned veteran dies, the veteran’s spouse and dependent children are eligible to receive the veteran’s disability pension for one year. After one year, the spouse and dependent children receive a survivor pension. If the veteran had a disability assessment of 48 percent or greater, the spouse is eligible for the maximum survivor benefits, \$2,877.39 paid monthly.<sup>4</sup> If the veteran’s disability assessment was less than 48 percent, the survivor benefit is equal to half of the veteran’s monthly pension before death. These pensionable amounts remain tax-free.

*Clothing Allowance.* This is paid to veterans whose disability causes extraneous wear and tear on clothing. It is a fixed amount, paid monthly until death, and is adjusted yearly for inflation according to the Consumer Price Index. The maximum amount available is \$180 per month, tax-free.<sup>5</sup>

*Attendant Allowance.* This pensionable amount is for veterans who need assistance in daily living due to their physical or mental state. It is

awarded in part to compensate informal caregivers such as family members of the veteran. It is a fixed amount, paid monthly until death, and is adjusted yearly for inflation according to the Consumer Price Index. The maximum amount available is \$1,586.66 per month, tax-free.<sup>6</sup>

*Exceptional Incapacity Allowance (EIA).* This pensionable amount is awarded to veterans to compensate for loss of enjoyment of life and pain caused by a pensioned disability. Under the Pension Act, the amount of EIA “is based on the extent of the helplessness, pain, loss of enjoyment of life and shortened life expectancy of the pensioner.”<sup>7</sup> One criterion of EIA is that the veteran must have a disability assessment of 98 percent or higher. The maximum amount available is \$1,269.36 per month, tax-free.<sup>8</sup> It is paid monthly until death, and is adjusted yearly for inflation according to the Consumer Price Index.

*Prisoner of War Compensation.* This benefit is awarded to veterans who were held as prisoners of war for a minimum of 30 days. The amount of the award is a percentage of the disability pension based on the number of days spent as a prisoner of war. Again, this is a tax-free financial benefit.

*Health Benefits.* Veterans with pensioned disabilities are eligible for health care directly related to their pensioned disability. Also, low-income veterans and veterans with severe disabilities (a disability assessment of 78 percent or higher; see section 1.6 for further discussion) are eligible for health benefits that are not covered under provincial plans. Veterans may also qualify for long-term care in community care facilities across Canada or at St Anne’s Hospital in Quebec, the VAC long-term care facility.<sup>9</sup>

In addition to programs provided by VAC, veterans are eligible for a pension and benefits under the Service Income Security Insurance Plan (SISIP), the private insurance provider for Canadian Forces members. The pension, called the Canadian Forces (CF) Superannuation, is provided to all veterans with a minimum of ten years of service and is based on pre-release salary. SISIP offers another program called the Long Term Disability benefit, which is provided to veterans who were medically released with 75 percent of their pre-release salary, minus all other income, until the veteran turned 65 years old. All other income includes employment income, CF Superannuation, and Pension Act disability pensions.<sup>10</sup>

## 1.2. New Veterans Charter

The New Veterans Charter (NVC), enacted in April of 2005, aims to shift the philosophy of veteran support from one of compensation to one of wellness and rehabilitation. Its purpose is to facilitate the re-entry of veterans

into civilian life in a way that promotes reintegration and independence. VAC found that many veterans served by the Pension Act were focusing on their disability rather than on rehabilitation due to the structure of the financial benefits. The NVC attempted to rectify this by dividing financial benefits into compensation for pain and suffering, and compensation for earning loss due to disability. VAC also made rehabilitation services available to all releasing members, regardless of their particular pensioned disability.<sup>11</sup>

Before outlining the programs available under the NVC, it is important to understand the definition of Totally and Permanently Incapacitated. A veteran is considered Totally and Permanently Incapacitated if he or she is incapacitated by a permanent physical or mental health problem that prevents him or her from performing any occupation that would be considered to be suitable and gainful employment. Suitable and gainful employment is any employment that pays at least 66 percent of the veteran's pre-release salary.<sup>12</sup> The totally and permanently incapacitated designation has implications for eligibility for the Earnings Loss Benefit and the Permanent Impairment Allowance.

The following financial programs are available to veterans through the NVC. This information, unless otherwise stated, summarizes the NVC according to information from the VAC website.<sup>13</sup> There are other educational and service benefits available under the NVC that are not summarized here; once again, the focus of this summary is on the financial compensation available to veterans. Information about the way programs are adjusted for inflation comes from the NVC regulations in the *Canada Gazette*.<sup>14</sup>

*Earnings Loss Benefit (ELB).* The benefit replaces the SISIP Long Term Disability benefit discussed in section 1.1. It provides veterans with 75 percent of their pre-release salary; however, it takes into account all other income, including the CF Superannuation and employment income from any work done once released to ensure that the sum of all other income plus the ELB adds to a total of 75 percent of the pre-release salary. It is paid monthly to veterans for two years, or if the veteran is deemed totally and permanently incapacitated as defined above, until the age of 65. It is adjusted quarterly for inflation according to the Consumer Price Index with a maximum adjustment of 2 percent per year. This benefit is taxable as income.

*Permanent Impairment Allowance.* This benefit is available for veterans who are totally and permanently incapacitated to compensate for loss of gainful employment. There are three levels of payment for Permanent Impairment Allowance, and it is paid monthly until the veteran's death. This benefit is adjusted yearly for inflation according to the Consumer Price Index and is taxable as income.<sup>15</sup> The maximum amount available is \$1,600

per month.<sup>16</sup> It should be noted that as of the writing of this paper only 16 veterans, out of the over 20,000 served under the NVC, have received the Permanent Impairment Allowance.

*Supplementary Retirement Benefit.* This is a lump-sum payment awarded at the age of 65 to veterans to compensate for the inability to contribute to a retirement fund. The award is based on 2 percent of all Earnings Loss Benefits paid to the veteran and is taxable.<sup>17</sup>

*Canadian Forces Income Support.* This is a benefit available to veterans who complete rehabilitation but have a low-paying job, or for veterans who cease to receive the Earnings Loss Benefit at the age of 65 and have a low income. The amount of the benefit depends on the income of the veteran, and it increases if the veteran has a dependent spouse or children. A veteran with a spouse would receive a maximum of \$1,943.50 per month, with an additional \$309.88 for each dependent child, and the amounts are non-taxable.<sup>18</sup>

*Disability Award.* The Disability Award is considered a non-financial benefit, because it compensates veterans for pain and suffering due to their disability. It is a lump-sum payment received by the veteran at time of release, and the amount is dependent on the veteran's disability assessment. The maximum award available for a veteran with a disability assessment of 100 percent is \$276,080 as of September 2010, and it is tax-free.<sup>19</sup>

*Clothing Allowance.* This benefit is similar to Clothing Allowance under the Pension Act and provides compensation for extraneous wear and tear on clothing due to disability. The maximum amount available is \$180 per month.<sup>20</sup>

*Detention Benefit.* This benefit is similar to the Prisoner of War Compensation under the Pension Act and provides compensation to veterans who were detained for a minimum of 30 days.<sup>21</sup> It is tax-free.<sup>22</sup>

### 1.3. Changes to the New Veterans Charter

In September 2010, Veterans Affairs Canada announced some changes to the New Veterans Charter related to its financial benefits.<sup>23</sup> At the time of publication of this study, these changes had been promised but not implemented. However, it is important to consider how these changes could affect veterans with disabilities, and so they are included as a separate aspect of analysis. The following section outlines the changes that were announced in September 2010.

*Minimum Earnings Loss Benefits.* The proposed change would see all veterans eligible for Earnings Loss Benefits receive a minimum of \$40,000

per annum.<sup>24</sup> This means that veterans released with a salary of less than \$53,333, such as privates, would receive the minimum Earnings Loss Benefits as opposed to 75 percent of their pre-release salary.

*Permanent Impairment Allowance.* The proposed changes would increase the availability of this benefit and the amount that some veterans receive. The changes to eligibility criteria were not outlined, but VAC suggests that 3,500 more veterans will have access to Permanent Impairment Allowance. As previously mentioned, as of 30 June 2010, only 16 veterans were receiving this allowance. Veterans who have catastrophic injuries will receive a benefit of \$1,000 per month in addition to the Earnings Loss Benefit and the Permanent Impairment Allowance.<sup>25</sup> No definition of catastrophic injury was provided.

Once again it is important to note that at the time of publication of this monograph, these changes had not yet been implemented.

#### **1.4. History of Treatment of Veterans in Canada**

After World War I, there were many veterans returning from Europe. The Canadian government instituted some programs, but benefits were very limited and the application process was convoluted and restrictive. Among the benefits were monthly payments and access to land on which to settle and farm. However, the few benefits were significantly cut back due to the Great Depression in the 1930s.<sup>26</sup> The Great Depression was the only period, from the beginning of veterans' benefits in Canada until the implementation of the NVC, during which disability pensions were not taxable as income.

After World War II, the government increased its efforts to support veterans. A rehabilitation program was created for veterans who were medically released from the armed forces. Veterans continued receiving pensions with the option to settle on land. Before 1941, pensions and benefits were administered by the Department of Pensions and Health Care. In 1944, the Department of Veterans Affairs (DVA) was established and became the overseer of the rehabilitation programs in conjunction with the Department of National Defence. During the post–World War II era, the focus in the DVA was clearly on re-establishment and not on complete maintenance of pensioners.<sup>27</sup> Veterans were given access to job counselling, and loans with which to start businesses.

Benefits were extended in 1951 to Korean veterans, and to veterans from Newfoundland who had served in World War II. Despite this, no moves were made by the DVA at the time to accommodate the rehabilitation and integration needs of Korean veterans. These needs were eventually

addressed by the addition of some rehabilitation programs run by the CF. In 1969, veterans' benefits were re-examined and many changes were made in order to modernize the program. Efforts were made to make the pension application process less arduous, and to give veterans applying for pensions the benefit of the doubt. Exceptional Incapacity Allowance was introduced at this time, and these changes were instituted in 1971. In the late 1970s, DVA made a change from attempting to provide long-term care facilities to focusing on home care and veterans' independence. The Veterans Independence Program (VIP) was instituted, which provided allowances for things such as housekeeping and lawn maintenance so veterans could stay in their homes longer. This program was designed to allow aging veterans to receive the support they needed so they could avoid going into long-term care facilities. It remains one of the flagship programs of Veterans Affairs Canada today.

Through the 1980s, as veterans were moving into retirement, a number of cases of veterans whose needs were not being met came to the attention of the media. This put a lot of pressure on the DVA to make improvements and to hear complaints from veterans. In 1979 the DVA relocated to Prince Edward Island and became Veterans Affairs Canada (VAC), as it is known today. A subsequent restructuring process resulted in the creation of the Veterans Review and Appeal Board in 1995, which was designed to hear veterans' complaints and allow for easier passage through the system.

Until the 1990s, there were relatively few medical releases. In the 1990s, however, a new era of veterans emerged: the peacekeeping veteran. These "new" veterans had new needs not addressed in the Pension Act. The 1990s and 2000s saw an increase in medical releases each year. In 2001, 12 percent of releases were due to medical reasons; today, because of service in Afghanistan, approximately 25 percent of all releases are medical releases.<sup>28</sup> Additionally, there has been an increasing awareness of mental health issues, called Operations Stress Injuries, such as post-traumatic stress disorder.

These changes in veterans' needs were a motivator for the development of the New Veterans Charter. The NVC was first read in Parliament in 2005 and three weeks after first reading was given Royal Assent and adopted on 13 May 2005. The quick turnover of the bill was justified by the government because the NVC was considered to be a living document, meaning that the bill could be easily changed and regularly updated to meet the complex and changing needs of veterans.<sup>29</sup> Since the First World War, a number of groups have been ignored or left out of veterans' benefits, including prisoners of war, members of the Merchant Navy, Aboriginal veterans, civilians serving during war time, and those who participated in chemical weapons testing.

While a number of programs and steps have been instituted to support these groups, some of these veterans are still marginalized today.

The most important force in improving benefits and provisions for veterans has been veteran organizations. Many organizations, such as the Great War Veterans' Association, Gulf War Veterans Association of Canada, Canadian Peacekeeping Veterans Association, Canadian Association of Veterans in United Nations Peacekeeping, and Korea Veterans Association of Canada, were established due to the growing frustration with the inadequacies of benefits provided by the federal government. Since World War I, veteran organizations have continuously organized and lobbied the government to improve services for their members. This has not changed with the advent of the NVC.

### **1.5. Reports and Public Documents Related to the NVC**

The first comprehensive examination of the NVC came from the New Veterans Charter Advisory Group, established by Veterans Affairs Canada in June 2009 for the express purpose of evaluating the NVC. Their report, *The “Living” Charter in Action: Honouring Our Commitment to Veterans and Families*, was commissioned by VAC and provided 299 recommendations for the NVC, some relating to large “framework” suggestions, others giving specific recommendations.<sup>30</sup> The recommendations focused on all aspects of the NVC—strengthening family support services, ensuring financial security, improving rehabilitation services and outcomes, actively promoting NVC programs and services, and establishing performance measures to monitor and evaluate the impact of the programs.<sup>31</sup>

The House of Commons Standing Committee on Veterans Affairs released a report entitled *A Timely Tune-up for the Living New Veterans Charter*<sup>32</sup> in June 2010. This report provided a discussion of the philosophy behind the Pension Act and the New Veterans Charter, as well as a number of specific recommendations. It stated that recommendations from the Advisory Group report should be implemented, and made the following additional recommendations: increase collaboration between VAC, the Department of National Defence, and SISIP regarding health care, rehabilitation, and career transition programs; increase the Earnings Loss Benefit to 100 percent of pre-release salary instead of 75 percent, make it non-taxable, and adjust it for inflation without cap; improve financial benefits offered after age 65, including the re-examination of Supplementary Retirement Benefits; improve supports for families who are caregivers for veterans with severe disabilities; and change options available for the receipt of the lump-sum Disability Award.

The lump-sum payment offered to disabled veterans is one of the most contested issues of the NVC. The New Veterans Charter Advisory Group recommended that the amount be increased to reflect the amount paid in personal injury claims in civil society, and also recommended that a different payment structure be examined.<sup>33</sup> The House of Commons Standing Committee on Veterans Affairs went further, stating that the amount should be reflective of the veteran's disability, age, and circumstance. It addressed concerns that veterans were not able to manage their lump-sum payments in a way that provided them with the proper support, and that the structure of the payment should be a combination of lump-sum and monthly payments. It found that although Australia and the United Kingdom have payments quoted as lump sum, all have structured payment programs so that veterans can receive their "lump sum" as a monthly salary. Because of these recommendations, in June 2010 Veterans Affairs Canada undertook a study of the satisfaction of veterans with the lump payment and found that 69 percent of injured veterans stated that the lump sum was their preferred method of payment.<sup>34</sup>

Veterans Affairs Canada began its own three-phase review of the New Veterans Charter in April 2009 and published Phase 1 in December 2009 and Phase 2 in August 2010.<sup>35</sup> Phase 3 has not yet been published. The Phase 1 report discussed the relevance and rationale of the NVC and its programs. It looked at the overlap between Veterans Affairs Canada and other government agencies and found that there are some overlaps between VAC programs and Department of National Defence programs, specifically relating to rehabilitation and job placement.<sup>36</sup> It compared the NVC in Canada to programs in the United Kingdom, United States, and Australia and found that all four countries have comparable programs. A notable difference is that Canada is the only one of the four countries that does not provide dental coverage for veterans. The report recommended that Veterans Affairs Canada explore the overlap between its programs and services and those of other government agencies; review the current services offered to families; and examine veterans' access to health and dental care. Phase 2 focused on the service delivery framework of the NVC and provided a number of recommendations specific to service delivery improvement.<sup>37</sup> Phase 3 will focus on the successes and unintended consequences of the NVC.

Despite the extensive examinations of the New Veterans Charter, the guarantee that it would be a "living document" subject to change, and the numerous recommendations highlighted by the NVC Advisory Group and the House of Commons Standing Committee on Veterans Affairs, Veterans Affairs Canada has made no official changes to the NVC and few

commitments to change. In September 2010, the Minister of Veterans Affairs, Jean Pierre Blackburn, announced some changes to the NVC, including an extended Permanent Impairment Allowance and a minimum Earnings Loss Benefit amount.<sup>38</sup> As mentioned previously, these changes have yet to be implemented.

The Special Needs Advisory Group, an advisory group to Veterans Affairs Canada that focuses on the needs of veterans with severe disabilities, has written five reports, the most recent of which was submitted to VAC in September 2010. These reports, not publicly available, are critical of the New Veterans Charter, saying that the NVC programs were not designed for veterans with severe disabilities and thus are leaving them behind.<sup>39</sup>

This study does not aim to develop more recommendations based on study of the NVC, as a number of important recommendations have already been identified in the reports discussed above. Instead, we present a comparison of the financial benefits between the Pension Act and the NVC, with a focus on veterans with severe disabilities. Such a comparison has not been done so far, and we feel that it will illuminate some of the weaknesses in the financial aspects of the NVC. The following section describes our focus on veterans with severe disabilities and provides a definition for use in our study.

## **1.6. Defining Severe Disability**

Veterans Affairs Canada defines a veteran as having a severe disability if he or she has a disability assessment of 78 percent or greater.<sup>40</sup> In the disability assessment, values are given to certain disabilities based on severity of the disability and its relation to service-related duties. Although the disability assessment is complex, as a simplified example, hearing loss could be a 10 percent disability or a 100 percent disability depending on severity and cause. Or, a lower limb, below-the-knee amputation might be a 52 percent disability, regardless of cause, because it is a defined disability.<sup>41</sup> Some disabilities are much more difficult to define accurately and may be assessed through a range of percentages depending on the severity. An example of such a disability would be post-traumatic stress disorder. Currently, 4 percent ( $n = 832$ ) of veterans receiving the Disability Award under the NVC ( $N = 20,796$ ) are assessed with a disability of 78 percent or greater.

## CHAPTER 2

# *Objectives of Study and Methodology*

The purpose of the study was to compare the financial benefits available through the New Veterans Charter with those previously available under the Pension Act for veterans with severe disabilities. In this chapter, we present two research questions that guided our research. We describe three case studies of veterans that we used to compare the NVC and Pension Act benefits, and outline which programs offered by the Pension Act and the NVC are included in the analysis. We then discuss the methodology used in the study, which was a computation of the net present value of the financial benefits available to veterans under each program, based on certain assumptions including age of release, age of death, nature of disability, family and marital status, and rank, and a sensitivity analysis varying these assumptions. Finally, we provide some discussion regarding the assumptions made in our study and compare them to demographic data of veterans in Canada.

### **2.1. Objectives of Study**

Two questions guided this research:

1. *How do the total financial benefits available to veterans with severe disabilities under the New Veterans Charter compare to those available under the Pension Act?*
2. *How do factors such as degree of injury, rank, and family status affect the total amount of financial benefits available from the New Veterans Charter and the Pension Act for veterans with severe disabilities?*

### **2.2. Case Study Analysis**

Three separate case studies were chosen to reflect different plausible scenarios of release. All three case studies employed the scenario of a veteran who was medically released from the military with a disability assessment of 100 percent. In addition, the veteran was assumed to be married with

two children, living in Ontario, and eligible for all programs under both the NVC and the Pension Act. An explanation of how these assumptions were made can be found in section 2.5. All three veterans were assumed to have joined the military at the age of 18, but the three case studies differed in the age and rank at release.

Case 1 looked at a corporal who was released from the military at the age of 25, after seven years of service. This case was chosen in order to study a young veteran with a low salary, typical of the veterans returning from Afghanistan. Because veterans must have ten or more years of service to be eligible for a Canadian Forces Superannuation pension, the case 1 veteran would not receive CF Superannuation payments. The CF Superannuation is important because the amount of the CF Superannuation is clawed back from the total amount received through the SISIP Long Term Disability program under the Pension Act and the ELB program under the NVC.

Case 2 examines a sergeant released at the age of 28, in order to examine a member salaried in the medium range. Also, at the age of 28, the veteran will have served for ten years and would thus be eligible for CF Superannuation payments.

Case 3 examines a captain released at the age of 40. This age of release was chosen because it is the average age of all medically released CF members as of March 2009.<sup>42</sup> The rank of captain was chosen to look at a CF member with a higher rate of pay.

A summary of the variables chosen for each case study can be found in Table 1.

### **2.3. Inclusion of Programs in Analysis**

Both the Pension Act and the NVC have a number of programs that provide financial benefits to veterans. Each program has different stipulations for eligibility criteria, payment structure, taxability, and adjustment for inflation. Table 2 and Table 3 describe all programs available under the Pension Act and the NVC, respectively. Most programs were included in the analysis; however, some programs had very specific eligibility criteria, and so were not included. Table 2 and Table 3 provide rationale for the exclusion of certain programs from this study.

Some programs that are not administered by VAC were included in the analysis, and some were excluded. Table 4 describes other programs not administered by VAC that may be available to veterans, and reasons for the inclusion or exclusion of these programs.

**TABLE 1**  
**Assumptions Made about Three Case Study Veterans**

Variables	Case 1	Case 2	Case 3
Age of release	25	28	40
Years of service	7	10	22
Type of release	Medical	Medical	Medical
Disability assessment	100%	100%	100%
Rank at release†	Corporal (yearly salary \$55,281)	Sergeant (yearly salary \$62,328)	Captain (yearly salary \$90,636)
Age of death	78 (est'd)	78 (est'd)	78 (est'd)
Marital status	Married, spouse dies at age 83 (est'd)	Married, spouse dies at age 83 (est'd)	Married, spouse dies at age 83 (est'd)
Family status	2 children, aged 1 and 3 at release, both pursue post-secondary education	2 children, aged 4 and 6 at release, both pursue post-secondary education	2 children, aged 10 and 12 at release, both pursue post-secondary education
Place of residence	Ontario, Canada	Ontario, Canada	Ontario, Canada
Other	Totally and Permanently Incapacitated; eligible for Exceptional Incapacity Allowance and Permanent Impairment Allowance	Totally and Permanently Incapacitated; eligible for Exceptional Incapacity Allowance and Permanent Impairment Allowance	Totally and Permanently Incapacitated; eligible for Exceptional Incapacity Allowance and Permanent Impairment Allowance

Source: †Salary amounts from New Veterans Charter Advisory Group, “Honouring Our Commitment to New Veterans and Their Families: The ‘Living’ Charter in Action” (Veterans Affairs Canada, 2009), 32.

## 2.4. Data Analysis

Two main financial analytic processes were used for this evaluation: the first was the calculation of net present value, and the second was a sensitivity analysis in which specific variables were altered one at a time to determine their effect on net present value.

In this study, the net present value is the sum of all present values of incoming cash flows to a veteran from VAC over his or her lifetime. The cash flows are the awards, pensions, and benefits that veterans receive through VAC under either the Pension Act or the NVC and that are paid either monthly or as a lump sum. Because awards and pensions will be awarded to veterans at various points in the future, the cash flows are discounted at

**TABLE 2**  
**Description and Rationale for the Inclusion and Exclusion of Programs Available through the Pension Act**

<i>Subprogram</i>	<i>Description</i>	<i>Amount</i>	<i>Included?</i>	<i>Rationale for Exclusion</i>
Disability Pension	Monthly pension until one year after death. Based on disability assessment. Non-taxable.	Max: \$2,397.83/month <sup>†</sup>	Yes	
Spousal Pension	Monthly pension until one year after death, awarded only if veteran has spouse or common-law partner. Based on disability assessment. Non-taxable.	Max: \$599.46/month <sup>†</sup>	Yes	
Children's Pension	Monthly pension, awarded based on number of children, given from birth of child until child turns 18, or 25 if child pursues post-secondary education. Non-taxable.	1 <sup>st</sup> child: \$311.72/month 2 <sup>nd</sup> child: \$227.79/month Other children: \$179.84/month per child <sup>‡</sup>	Yes	
Attendant Allowance	Monthly pension until one year after death. Provided for veterans who are in need of assistance with daily living, often to compensate family caregivers. Non-taxable.	Max: \$1,586.66/month <sup>‡</sup>	Yes	
Clothing Allowance	Monthly pension until death. Provided when a veteran's disability causes extraneous wear and tear on clothing. Non-taxable.	Max: \$179.79/month <sup>‡</sup>	No	The same program exists under the NVC, so no comparison is needed.
Exceptional Incapacity Allowance	Monthly pension until death. For veterans who are exceptionally incapacitated, in whole or part by their disability. Non-taxable.	Max: \$1,269.36/month <sup>‡</sup>	Yes	
Prisoner of War Compensation	Monthly pension until death. For veterans who spent a certain amount of time as a prisoner of war or in a similar situation. Non-taxable.	Max: \$1,989.23/month <sup>‡</sup>	No	It was assumed the veterans in the case study had not been prisoners of war.
Survivor Benefits	Monthly pension awarded to survivors of a veteran beginning one year after veteran's death. Non-taxable.	Max for a veteran with a spouse: \$34,528.68/year <sup>‡</sup>	Yes	

Sources: <sup>†</sup> Veterans Affairs Canada, "Disability Pensions" (2009), <http://www.vac-acc.gc.ca/clients/sub.cfm?source=dispen>.

<sup>‡</sup> "Pension Rates Rise with Cost of Living," *Legion Magazine*, March–April 2010, p. 68.

**TABLE 3**  
**Description and Rationale for the Inclusion and Exclusion of Programs Available through the New Veterans Charter**

<i>Program</i>	<i>Description</i>	<i>Amount</i>	<i>Included?</i>	<i>Rational for Exclusion</i>
Disability Award	Lump-sum amount paid at release. Paid to compensate for the non-economic impacts of disability (pain and suffering). Non-taxable.	Max: \$276,079.70†	Yes	
Earning Loss Benefit (ELB)	Monthly amount based on 75% of the veteran's pre-release salary minus other income including employment income, Canadian Forces Superannuation, Canada/Quebec Pension Plan. Ends when veteran finishes rehabilitation program, or when veteran turns 65 if deemed Totally and Permanently Incapacitated. Changes made to program in 2010 ensure that the minimum income is approximately \$40,000‡. Taxable.	75% of pre-release salary	Yes	
Permanent Impairment Allowance	Monthly amount paid until death. For veterans who are permanently and severely impaired. Taxable.	Max: \$19,200/year‡	Yes	
Extended Permanent Impairment Allowance	A program that has been promised but not implemented. Monthly amount paid until death. For veterans who receive Permanent Impairment Allowance and have catastrophic injuries. Non-taxable.	\$1,000/month‡	Yes	
Supplementary Retirement Benefit	Lump-sum amount paid at age 65. Amount is 2% x Earnings Loss Benefit amount x number of times Earnings Loss Benefit was paid to veteran. Taxable.	Dependent on receipt of Earning Loss Benefit and pre-release salary	Yes	
Canadian Forces Income Supplement (CFIS)	Monthly pension. Paid to veterans who have low income. Non-taxable.	Max: \$1,944/month‡	No	Veteran would not be eligible based on income from ELB.
Death Benefit	Lump-sum payment paid to survivors of veteran if veteran died during or within 30 days of military service. Non-taxable.	Max: \$276,079.70‡	No	Veteran would not be eligible based on time of death.
Clothing Allowance	Monthly pension until death. Provided when a veteran's disability causes extraneous wear and tear on clothing. Taxable.	Max: \$179.79/month‡	No	The same program exists under the Pension Act, so no comparison is needed.
Detention Benefit	Lump-sum payment paid at release. For veterans who spent a certain amount of time as a prisoner of war or in a similar situation. Non-taxable.	—	No	It was assumed the veterans in the case study had not been prisoners of war.

Sources: †"Pension Rates Rise with Cost of Living," Legion Magazine, March–April 2010.

‡ Veterans Affairs Canada, "Backgrounder: New Veterans Charter Services and Benefits" (Government of Canada, 2010), 1.

**TABLE 4**  
**Description of Programs Not Offered by Veterans Affairs Canada and Reasons for Exclusion**

<i>Program</i>	<i>Description†</i>	<i>Included?</i>	<i>Rationale for Inclusion/Exclusion</i>
Canadian Forces Superannuation	Pension paid to all Canadian Forces members who served for 10 years or more and are medically released from the CF. Dependent on years of service and pre-release salary.	Yes	This benefit is considered income and therefore is deducted from Service Income Security Insurance Plan Long Term Disability payments and Earnings Loss Benefit (ELB) payments. It is included in the analysis because it is important in the calculation of the total Service Income Security Insurance Plan Long Term Disability and ELB received by veterans.
Service Income Security Insurance Plan Long Term Disability	Monthly payment of 75% of pre-release salary, minus other income. Provided to former CF members who are medically released and undergoing rehabilitation. Can be extended if member is deemed to be Totally and Permanently Incapacitated.	Yes	This benefit is similar to ELB. Therefore, under the Pension Act, this benefit was available to veterans if their total income, including Pension Act Disability Pensions and CFSA, was less than 75% of the pre-release salary. However, under the NVC, veterans are not eligible for the Service Income Security Insurance Plan Long Term Disability payment because they are receiving ELB.
Canada Pension Plan Disability	A monthly pension for Canadians with disabilities, ends at 65.	No	These benefits were not included in the analysis because it was assumed that these payments would be similar for the veteran whether under the Pension Act or the NVC. For income-dependent benefits, the payments available under both the NVC and Pension Act would be over the maximum amount for eligibility in most cases.
Canada Pension Plan/Quebec Pension Plan	Retirement benefit paid monthly after retirement. Amount is dependent upon contribution throughout working life.	No	
Old Age Security	Monthly pension paid after retirement. Amount is dependent upon income.	No	
Guaranteed Income Supplement	Monthly pension paid after retirement. Amount is dependent upon income.	No	

Note: † The amounts of each program are not included in this table because they are highly case-dependent and cannot be determined based on the assumptions made within this study.

a rate of 3 percent to account for the time value of money. This is consistent with standard health economic analyses in North America.<sup>43</sup> The comparison was completed over an approximate 50-year period (depending on the case study) from the release of the veteran at ages 25, 28, and 40 in 2010 for cases 1, 2, and 3, respectively to the veteran's and spouse's death at the ages of 78 and 83, respectively. The year 2010 was taken to be "year 0" in the analysis, and future payments were discounted at a rate of 3 percent, compounded annually, meaning that a payment made to the veteran after 2010 would be discounted at a rate of 3 percent for each year after 2010 to be considered in 2010 dollars.

The net present value comparison is from the perspective of the veteran in order to reflect the actual amount of compensation and financial support that veterans with severe disabilities receive. Thus, taxes were deducted from all taxable payments according to federal and provincial (in this case, Ontario) income tax rates, as shown on the Canada Revenue Agency website.<sup>44</sup> The inflation rate was assumed to be 0.0 percent in order to avoid speculation about future interest rates. However, interest rates will affect the net present value of the NVC and the Pension Act differently, and so a discussion of inflation is included.

A sensitivity analysis was then completed by varying the assumptions made about the veteran in each of the three cases and recalculating the net present value in order to determine how different assumptions affect the results. The variables studied were the veteran's age of death, marital status, number of children, military rank, and eligibility for certain programs. In most cases, a simple sensitivity analysis was carried out, where one assumption was varied and all other assumptions were held constant. In the case of marital status, both marital status and number of children were varied simultaneously to reflect a variety of scenarios. The net present values determined through the sensitivity analysis are plotted as a function of the changed variable, and a linear regression was completed to determine the slope of each plot. This allowed us to see how each variable affected the net present value. Table 5 shows how each of the variables was varied in the sensitivity analysis of each case study.

## 2.5. Research Assumptions

The assumptions about the parameters of the three case studies described in section 2.2 were made based on data collected regarding the population of veterans being served by the NVC and other statistical data. The following section discusses the ways in which various assumptions were chosen.

**TABLE 5**  
**Variation of Case Study Variables in Sensitivity Analysis**

<i>Variable</i>	<i>Base Assumption for Each Case Study</i>	<i>Range of Variation Used in Sensitivity Analysis</i>
Type of release	Medical	Not varied
Disability assessment	100%	Studied 75%, 80%, 85%, 90%, 95%, and 100%
Rank at release	Case 1: Corporal Case 2: Sergeant Case 3: Captain	Studied senior private, corporal, sergeant, chief warrant officer, captain, and colonel
Age of death	78	Varied age of death to 65, 72, 78, 84, 90
Marital status	Married	Varied to not married
Family status	2 children	Studied 0, 1, 2, 3, and 4 children
Place of residence	Ontario	Not varied
Other	Eligible for PIA	Varied as if not eligible for PIA

Note: PIA = Permanent Impairment Allowance.

*Age of Release.* The age distribution of veterans being served by the New Veterans Charter as of 30 June 2010 is shown in Table 6. Case studies 1 and 2 would fall into the 20 to 29 category, in which there are 1 percent of all veterans being served under the NVC. This age group reasonably reflects the newest veterans from Afghanistan.

**TABLE 6**  
**Age Distribution of Veterans Being Served under the New Veterans Charter**

<i>Age Distribution</i>	<i>%</i>	<i>Number</i>
Under 20	6%	1,402
20 to 29	1%	234
30 to 39	12%	2,804
40 to 49	24%	5,607
50 to 59	14%	3,271
60 or over	43%	10,047
<b>Total</b>	<b>100%</b>	<b>23,365</b>

Source: The data were provided by Robert MacDonald, Senior Communications Advisor, Ontario Regional Office, Veterans Affairs Canada, in an email to the author, 4 August 2010.

***Disability Assessment.*** The disability assessment assigns a percentage of disability to all veterans. This percentage affects the total amount of eligible pension under the Pension Act and the amount of the Disability Award under the NVC. The distribution of disability assessments to veterans being served (either partially or totally)<sup>45</sup> by the NVC who have received a Disability Award, as of 30 June 2010, is shown in Table 7.

**TABLE 7**  
**Distribution of Disability Assessment of Veterans Served by**  
**the New Veterans Charter Who Have Received a Disability Award**

<i>Disability Assessment</i>	<i>%</i>	<i>Number</i>
Under 20%	53%	11,022
20 to 39%	26%	5,407
40 to 59%	10%	2,080
60 to 79%	6%	1,248
80 to 100%	4%	832
<b>Total</b>	<b>99%</b>	<b>20,589</b>

Source: The data were provided by Robert MacDonald, Senior Communications Advisor, Ontario Regional Office, Veterans Affairs Canada, in an email to the author, 4 August 2010.

VAC defines a seriously disabled veteran as a veteran with a disability assessment of 78 percent or higher,<sup>46</sup> therefore approximately 4 percent of the veterans being covered under the NVC would be considered seriously disabled. For this analysis, all three case scenarios have a disability assessment of 100 percent. This was to show a “worst-case scenario” veteran.

In a sensitivity analysis, the disability assessment was varied between 75 percent and 100 percent in order to view the present values of both policies for all veterans with severe disabilities.

***Rank at Release.*** The rank is important in this analysis because the SISIP Long Term Disability benefit, available under the Pension Act, and the Earnings Loss Benefit under the NVC, are dependent on the pre-release salary of the veteran. For both the ELB and the SISIP Long Term Disability benefit, the amount of payment is equal to 75 percent of the veteran’s pre-release salary, minus all other income. Under the SISIP Long Term Disability Benefit, other income would include the CF Superannuation, the disability pension, and all employment income. Under the ELB, other income would include the CF Superannuation and all employment income.

The salaries for various ranks are shown in Table 8. Data related to the rank of medically released military personal were not available. Thus, for the three case studies, the ranks of corporal, sergeant, and captain were chosen in order to show cases across the spectrum of ranks. The sensitivity analysis examined the ranks of senior private, corporal, sergeant, chief warrant officer, captain, and colonel. Analysis was completed for a member at the rank of a senior private, but changes in September 2010 to NVC programs have ensured that a senior private who is medically released will be pensioned at the rate of a corporal basic, with a salary of \$55,218/year as of 2010.<sup>47</sup>

**TABLE 8**  
**Salaries Corresponding to Various Ranks in the Canadian Forces**

Rank	Salary	75% of Salary
Senior private	\$ 44,364.00	\$33,273.00
Corporal	\$ 55,218.00	\$41,413.50
Sergeant	\$ 62,328.00	\$46,746.00
Chief warrant officer	\$ 85,152.00	\$63,864.00
Captain	\$ 90,636.00	\$67,977.00
Colonel	\$106,500.00	\$79,875.00

Source: New Veterans Charter Advisory Group, "Honouring Our Commitment to New Veterans and Their Families: The 'Living' Charter in Action" (Veterans Affairs Canada, 2009), 32.

*Age of Death.* The average lifespan of Canadian males and females is 78 and 83 years, respectively, as of 2007.<sup>48</sup> Data were not available about the average age of death for veterans with severe disabilities or for all veterans, therefore the average age of death for all Canadians was used in this analysis. The base case veteran was assumed to be male, and his spouse was assumed to be female. Therefore the ages of death for the veteran and his spouse were taken to be 78 and 83, respectively.

*Marital Status.* The marital status of VAC clients who are served by the NVC is shown in Table 9. Marital status affects the eligibility of the veteran's spouse to receive a spousal pension under the Pension Act, and has no effect under the NVC. In all three scenarios, the veteran was assumed to be married. This is consistent with the majority (72 percent) of clients being served under the NVC. A sensitivity analysis was completed for a veteran who was not married.

**TABLE 9**  
**Marital Status of Veterans Served under the New Veterans Charter**

<i>Marital Status</i>	<i>%</i>	<i>Number</i>
Married/common law	72%	16,822
Single or divorced	23%	5,374
Survivors	3%	701
Separated	2%	467
<b>Total</b>	<b>100%</b>	<b>23,364</b>

Source: Statistics Canada, “Census Families by Number of Children at Home, by Province and Territory (2006 Census), <http://www40.statcan.gc.ca/l01/cst01/famil50a-eng.htm> (accessed 17 August 2010).

*Number of Children.* The average number of children for families in 2006 was 1.5 for married couples and 1.4 for common-law couples,<sup>49</sup> although data related specifically to the veterans with disabilities population were not available. The number of dependent children that a veteran has affects eligibility for children’s allowance under the Pension Act, and has no effect under the NVC. In this analysis, all case scenarios assumed a veteran had two children, and the sensitivity analysis varied the number of children from 0 to 4.

*Totally and Permanently Incapacitated.* All veterans who qualify for a rehabilitation program through the NVC are eligible for the Earnings Loss Benefit while they go through training. If a veteran is deemed Totally and Permanently Incapacitated, he or she can continue receiving the ELB until the age of 65 (or until no longer deemed Totally and Permanently Incapacitated). A veteran is considered Totally and Permanently Incapacitated if he or she is incapacitated by a permanent physical or mental health problem that prevents him or her from performing any occupation that would be considered to be suitable and gainful employment. Suitable and gainful employment is any employment that pays at least 66 percent of the veteran’s pre-release salary.<sup>50</sup>

The veterans in the case studies presented here were assumed to have the Totally and Permanently Incapacitated designation because at 100 percent disability it was assumed that the veteran would not seek “gainful employment” after being released from the CF. The designation of Totally and Permanently Incapacitated has no bearing on any Pension Act programs.

*Permanent Impairment Allowance and Exceptional Incapacity Allowance.* Permanent Impairment Allowance (PIA), available under the NVC,

and Exceptional Incapacity Allowance (EIA), available under the Pension Act, are two programs that have similar but not identical functions. Under the Pension Act, the amount of EIA “is based on the extent of the helplessness, pain, loss of enjoyment of life and shortened life expectancy of the pensioner.”<sup>51</sup> One criterion of EIA is that the veteran must have a disability assessment of 98 percent or higher, therefore this amount is removed from the sensitivity analysis in which the percentage of disability assessment is varied. Both programs are paid monthly until the veteran’s death, although PIA is a slightly larger allowance than EIA (PIA: \$1,500 monthly vs. EIA: \$1,269 monthly). Permanent and severe impairment, which is defined by the type of disability that the veteran has but is not officially tied to any minimum disability assessment percentage, is available under the NVC to veterans who have a permanent and severe impairment. Sixteen veterans are in receipt of PIA, as of 30 June 2010.<sup>52</sup> This represents around 0.1 percent of the veteran population who have been assessed with a disability under the NVC. Data related to the number of veterans receiving EIA under the Pension Act were not available.

In these cases, the veteran was assumed to be in receipt of PIA under the NVC and EIA under the Pension Act, despite the low numbers of veterans in receipt of PIA. We made this assumption because the case study veterans, with a disability assessment of 100 percent, would be more likely to qualify for PIA. This means that the net present value of the NVC calculated in the study may be higher than in practice.

## CHAPTER 3

# *Results*

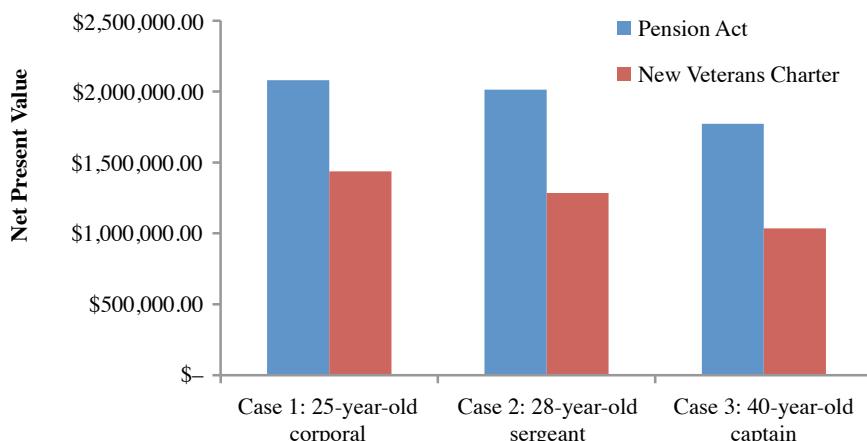
### **3.1. Net Present Values**

This section presents the overall values of each of the three case scenarios.

The net present values of the three case scenarios are compared in Figure 1 without changing the base assumptions mentioned in section 2.2. In all three cases, the net present value of the Pension Act is greater than that of the NVC. As a measure of the difference between the Pension Act and the NVC, the net present value of the NVC is shown as a percentage of the net present value of the Pension Act, and is summarized in Table 10.

The difference between the NVC and the Pension Act was greatest for case 3, the 40-year-old captain, and lowest for case 1, the 25-year-old corporal. This is likely due to the number of years for which these veterans would receive benefits, with the corporal being the youngest and therefore receiving benefits for a longer time span, since the same age of death was assumed in all cases. In addition, the CF Superannuation pension would affect the total amount received by the veterans in each case. The case 1 veteran will not have served the CF Superannuation minimum requirement of ten years and thus will not be eligible for this pension. Therefore, his CF Superannuation pension will not be clawed back from the ELB under the NVC and the SISIP Long Term Disability benefit under the Pension Act. The case 2 veteran, the 28-year-old sergeant, will be eligible for a CF Superannuation pension, and therefore this amount will be deducted from both the ELB and the SISIP Long Term Disability. The case 3 veteran will be eligible for the largest CF Superannuation pension because he served for the most years of the three cases. This accounts for an even larger deduction from the ELB and the SISIP Long Term Disability, which affects the total amount received over the veteran's lifespan from VAC.

**FIGURE 1**  
**Comparing the Net Present Values of the Three Case Studies**



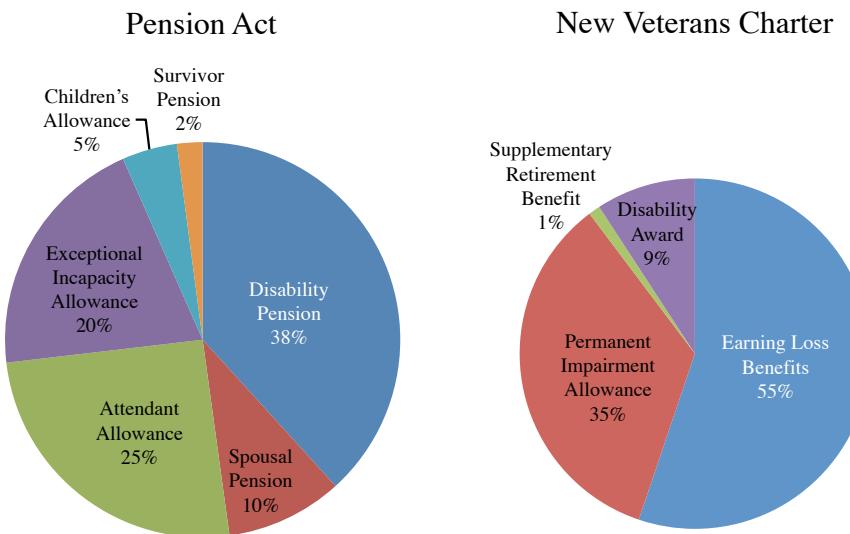
**TABLE 10**  
**Net Present Value of Three Case Studies and Ratio of  
 New Veterans Charter to Pension Act**

Case Studies	NVC Net Present Value	Pension Act Net Present Value	The NVC as a Percentage of the Pension Act
Case 1: 25-year-old corporal	\$ 1,437,727.97	\$ 2,080,784.87	69%
Case 2: 28-year-old sergeant	\$ 1,285,343.99	\$ 2,013,002.64	64%
Case 3: 40-year-old captain	\$ 1,035,957.51	\$ 1,772,197.10	58%

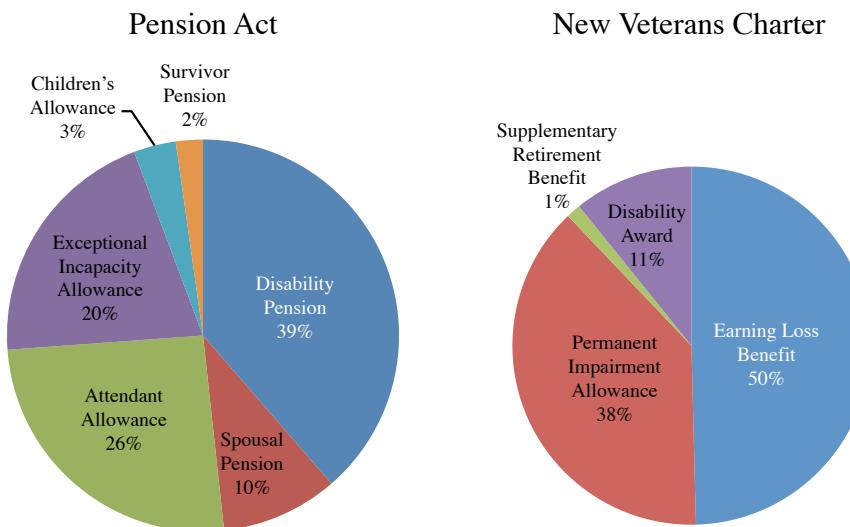
Figure 2, Figure 3, and Figure 4 show how each of the programs contributes to the total net present value for the Pension Act and the NVC in cases 1, 2, and 3, respectively. The plots were created without discounting for the time-value of money using before-tax numbers, although in the comparative analyses that follow, discounting and after-tax values were used.

*After 65.* The net present values of the Pension Act and the NVC differ not only in their total amounts, but also in when these benefits are paid to the veteran. Figure 5 shows the proportions of the net present values of the two programs that are paid to the veteran before the age of 65 and at the age of 65 and beyond. In all three cases, the amount paid to the veteran

**FIGURE 2**  
**Breakdown of Programs Making Up the Net Present Values of the Pension Act and the New Veterans Charter for Case 1, the 25-Year-Old Corporal**

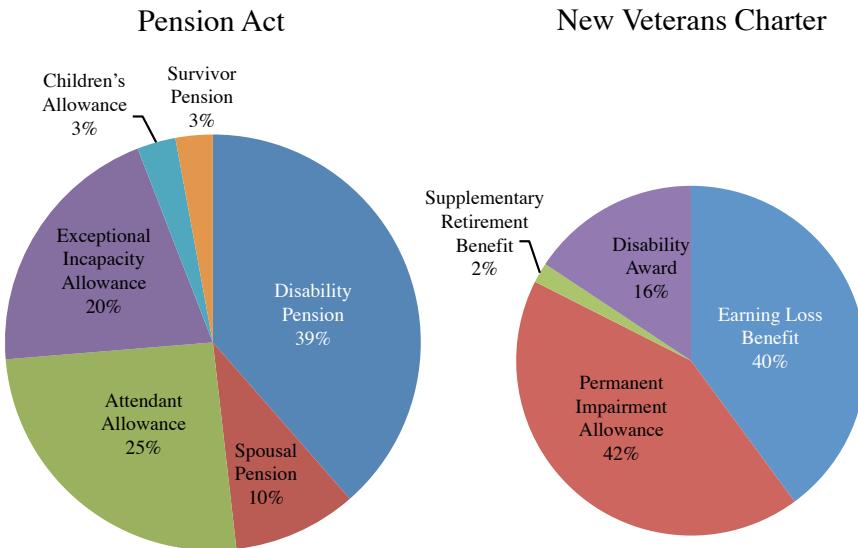


**FIGURE 3**  
**Breakdown of Programs Making Up the Net Present Values of the Pension Act and the New Veterans Charter for Case 2, the 28-Year-Old Sergeant**

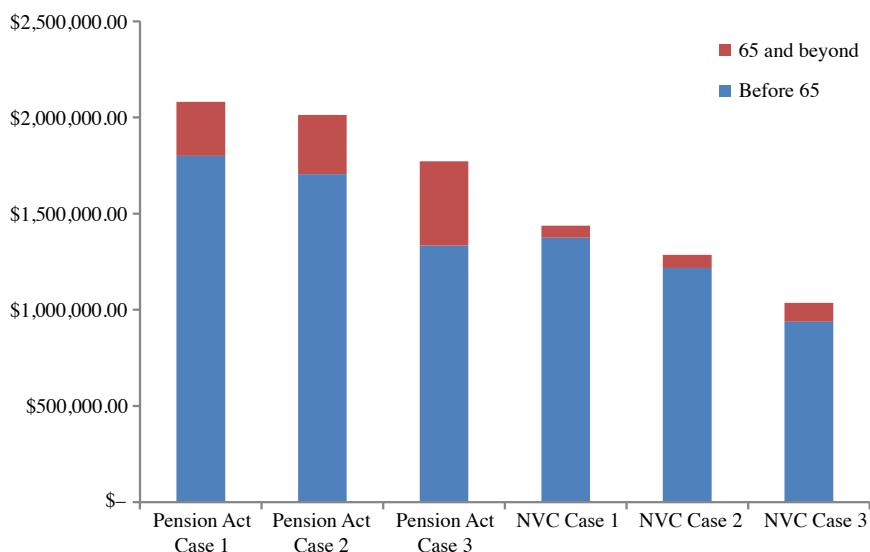


**FIGURE 4**

**Breakdown of Programs Making Up the Net Present Values of the Pension Act and the New Veterans Charter for Case 3, the 40-Year-Old Captain**

**FIGURE 5**

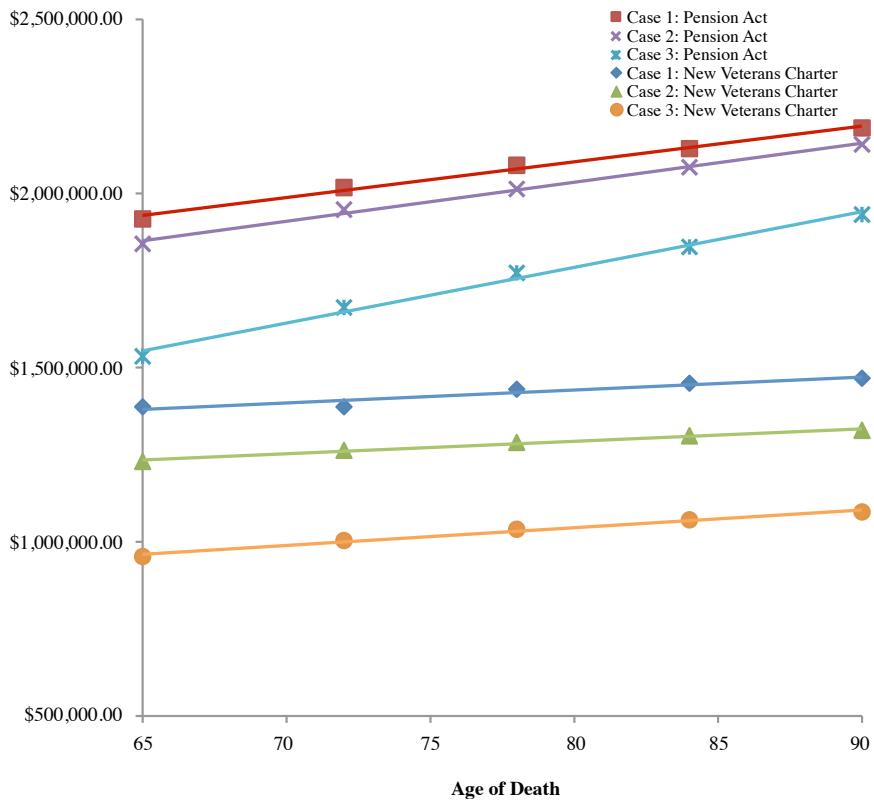
**The Amount of the Net Present Values of the Pension Act and the NVC Paid to Veterans before and after Age 65**



before the age of 65 is greater under the Pension Act; the amount paid to the veteran before the age of 65 under the NVC is 76 percent, 71 percent, and 70 percent of the similar amount from the Pension Act in cases 1, 2, and 3, respectively. The amount paid to the veteran at the age of 65 and beyond is also larger under the Pension Act than under the NVC, but the differences are much more significant. The amount paid to the veteran at age 65 and beyond under the NVC is 22 percent of the same amount paid under the Pension Act in all three cases. This means that differences between the net present values of the Pension Act and the NVC are most significant at the age of 65 and beyond in all three cases.

*Age of Death.* Figure 6 shows the net present values of the three cases as the age of death of the veteran is varied between 65 and 90. For all cases and for all ages of death studied, the net present value of the Pension Act was greater than that of the NVC. As expected, based on Figure 1, the case

**FIGURE 6**  
**Net Present Value of Each Case Study, Varying the Age of Death**



1 net present values for both the Pension Act and the NVC are greater than those for case 2, which are in turn greater than case 3. In all six cases, the net present value increases as age of death increases. This is a reasonable result, because a person who lives longer requires more money to live.

In order to ensure the data in Figure 4 were accurate, a linear regression was completed on the data in Figure 6, and the slope of the line of best fit was determined for all six cases. These slopes can be considered to be the increase of the net present value in thousands of dollars per year lived beyond 65 (see Table 11). The increase in thousands of dollars per year was larger in all three cases for the Pension Act (11.2, 10.3, and 16.0) than for the NVC (3.71, 3.57, and 5.09). The  $R^2$  values for each of the lines of best fit were calculated as a measure of how well the slopes fit the data, with a value of 1 meaning a perfect fit and a value of 0 meaning a poor mean. The  $R^2$  values for all six lines of best fit were between 0.912 and 0.995, indicating a good fit with the data, and therefore valid predictability. The values are summarized in Table 11.

For both the Pension Act and the NVC, the case 3 increase, in thousands of dollars per year, was larger than the case 1 and 2 increases. This is because as the age of release increases, the funds given after age 65 become a larger portion of the net present value.

**TABLE 11**  
**The Increase in Net Present Value Per Year Lived Past 65 for**  
**the Pension Act and the New Veterans Charter**

<i>Increase in net present value (\$1,000/year)</i>				
	<i>Pension Act</i>	<i>R</i> <sup>2</sup>	<i>New Veterans Charter</i>	<i>R</i> <sup>2</sup>
Case 1	11.2	0.995	3.71	0.912
Case 2	10.3	0.992	3.57	0.988
Case 3	16.0	0.992	5.09	0.988

### 3.2. Sensitivity Analyses

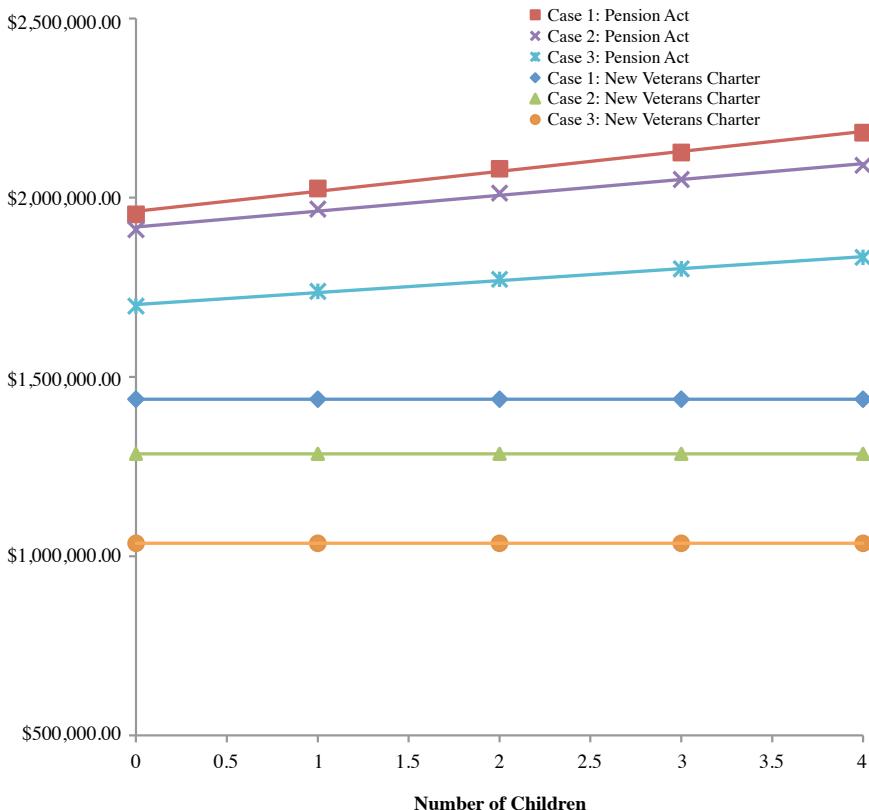
The following section looks at how each of the net present values of the three case studies change as different parameters are varied.

*Family Status.* Figure 7 shows the net present values of the three cases as the number of dependent children is varied from 0 to 4. For all cases and for all numbers of children, the net present values of the Pension Act were

greater than those of the NVC. This is because the NVC does not provide any financial support for children, whereas the Pension Act does.

A linear regression was completed on the data in Figure 7 and slope of the line of best fit was determined for all six cases. The slope can be considered to be the increase in the net present value in thousands of dollars per child. Because the NVC does not account for the number of children that a veteran has, the NVC net present value was not changed by the number of children dependent on the veteran. The increases of the net present value per thousands of dollars per child for the Pension Act were 55.6, 44.2, and 33.4 for case studies 1, 2, and 3, respectively.  $R^2$  for these slopes ranged from 0.992 to 0.996, indicating these lines are a good fit for the data. The slopes and  $R^2$  values are summarized in Table 12. For the Pension Act, the increase in net present value per child, in thousands of dollars per year, decreases as

**FIGURE 7**  
**Net Present Value of Each Case Study, Varying the Number of Children**



age of release and pre-release salary increase. This is because as the age of release increases, the ages of the veteran's children also increase, meaning the number of years that the children are dependent on the veteran decreases.

**TABLE 12**

**The Increase in Net Present Value Per Child for the Pension Act and the New Veterans Charter (\$1,000/Child)**

	<i>Pension Act</i>	<i>R</i> <sup>2</sup>	<i>New Veterans Charter</i>	<i>R</i> <sup>2</sup>
Case 1	55.6	0.993	0	1
Case 2	44.2	0.992	0	1
Case 3	33.4	0.996	0	1

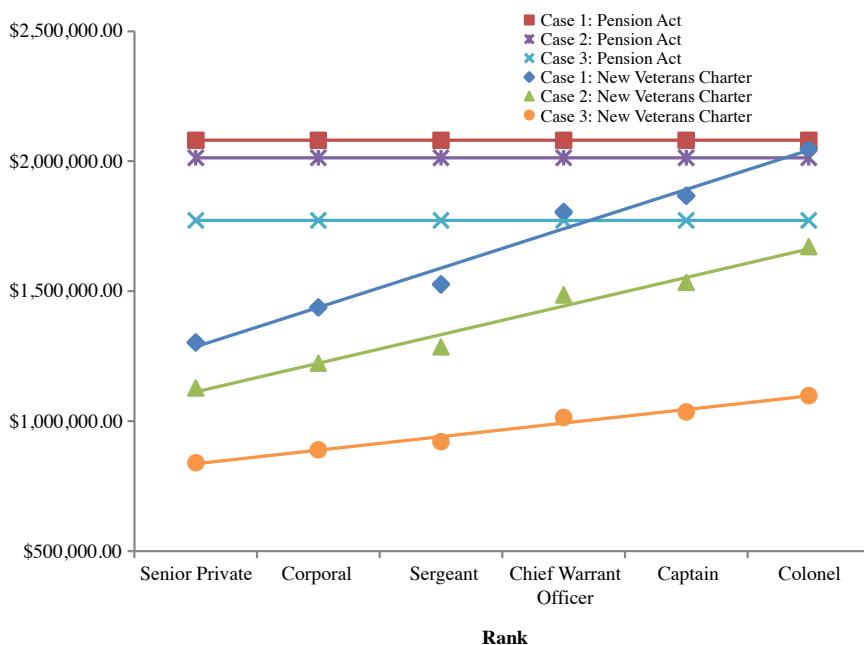
Table 13 shows the net present values for the three case studies while varying the marital status and number of children of the veterans. Both marital status and number of children were varied to more closely reflect reality, since it is likely that if a veteran was not married, he or she would not have children. The NVC takes neither the veteran's marital status nor his or her number of children into account in determining financial benefits, so the total net present values for all cases are the same. The net present value of the NVC, as a percentage of the net present value of the Pension Act, is shown in the last column of Table 13. This analysis demonstrates that the net present value of the Pension Act is greater than that of the NVC in each case. Also, the differences between the net present values of the NVC and Pension Act are greatest for case 3 and least for case 1.

Figure 8 shows the net present values of the three cases as the rank at release is varied from senior private (salary \$44,364) to colonel (salary \$106,500).<sup>53</sup> Since monies paid under the Pension Act are not dependent on rank but rather on disability, the slopes of all the lines are 0, meaning there is no change in the amount paid based on difference in rank. However, monies paid under NVC are dependent on the rank of veterans when they suffered their injury. The Pension Act cases 1 and 2 have larger net present values than cases 1, 2, and 3 of the NVC. However, the Pension Act case 3 net present values are less than the NVC case 1 net present values for higher pre-release ranks (chief warrant officer, captain, and colonel). This analysis does not include the changes announced in September 2010 that provide a minimum payment amount for the ELB since they have not yet been enacted; these changes are examined and discussed later in this section.

**TABLE 13**  
**Net Present Value for Three Case Studies for Different Family Statuses**

Case	Family Status	New Veterans Charter	Pension Act	Ratio of NVC to Pension Act
Case 1	Married, 2 children	\$1,437,727.97	\$2,080,784.87	69%
	Married, no children	\$1,437,727.97	\$1,953,304.67	74%
	Unmarried, 2 children	\$1,437,727.97	\$1,866,146.90	77%
	Unmarried, no children	\$1,437,727.97	\$1,738,666.70	83%
Case 2	Married, 2 children	\$1,285,343.99	\$2,013,002.64	64%
	Married, no children	\$1,285,343.99	\$1,910,811.68	67%
	Unmarried, 2 children	\$1,285,343.99	\$1,801,363.42	71%
	Unmarried, no children	\$1,285,343.99	\$1,699,172.46	76%
Case 3	Married, 2 children	\$1,035,957.51	\$1,772,197.10	58%
	Married, no children	\$1,035,957.51	\$1,697,611.05	61%
	Unmarried, 2 children	\$1,035,957.51	\$1,586,452.54	65%
	Unmarried, no children	\$1,035,957.51	\$1,569,547.00	66%

**FIGURE 8**  
**Varying the Rank at Release**



Both the NVC and the Pension Act use the pre-release salary to determine some aspect of the financial benefits received by veterans. Under the Pension Act, the CF insurance provider, SISIP, provides veterans with monthly Long Term Disability payments, amounting to 75 percent of their monthly pre-release salary minus all benefits provided to them through the Pension Act. Because the Pension Act monthly benefits are usually higher (in these cases) than the monthly pre-release salary of the veteran, a veteran with similar characteristics to those in this study does not receive any Long Term Disability payments through SISIP. Therefore, the net present values under the Pension Act are the same for all ranks.

Under the NVC, the SISIP Long Term Disability was replaced with the ELB administered by Veterans Affairs Canada. This benefit similarly provides the veteran with 75 percent of the pre-release salary minus all other income. However, this program has a more significant impact on the net present value of the benefits offered by the NVC because the veteran's other income is not close to 75 percent of the pre-release salary. Because the net present value of the NVC depends significantly on the ELB, it is more sensitive to pre-release salary than the Pension Act. A linear regression was completed and the slopes of the lines of best fit were determined for all three NVC cases. The slope can be considered to be the increase in thousands of dollars of net present value per dollar of pre-release salary. These increases for the NVC were 151.2, 110.0, and 52.1 for case studies 1, 2, and 3, respectively. The  $R^2$  values of these slopes are all above 0.978, meaning they are a good fit for the data. The slopes and  $R^2$  values are summarized in Table 14. For the NVC, the increase in thousands of dollars of net present value per dollar of pre-release salary decreases as age of release increases.

**TABLE 14**  
**The Increase in Net Present Value per \$1,000 of Salary under the New Veterans Charter**

	<i>New Veterans Charter (\$1,000 Increase in Net Present Value/Dollar of Salary)</i>	$R^2$
Case 1	151.2	0.978
Case 2	110.0	0.978
Case 3	52.1	0.981

The changes to the NVC proposed in September 2010 provide a minimum ELB amount of \$40,000 for veterans with low pre-release salaries. As discussed in section 1.3, this means that any veterans with a pre-release

salary of \$53,333 per year or lower will receive an Earnings Loss Benefit of \$40,000, as opposed to 75 percent of their pre-release salary. Figure 9 shows how this change would affect the net present value of the NVC for the 40-year-old captain. In this analysis, it was assumed that the veteran would receive \$40,000 minus all earned income, including the CF Superannuation pension. The only difference appears for the senior private released at age 25. The private would actually receive a higher ELB than the corporal because although the corporal receives a higher initial ELB, the corporal also receives a CF Superannuation pension that is larger than that of the private. Therefore, the corporal has more deducted from the ELB and receives a lower net present value than the private.

**FIGURE 9**  
**Varying Rank, Accounting for the Proposed Changes**  
**from September 2010 for Case 3, the 40-Year-Old Veteran**

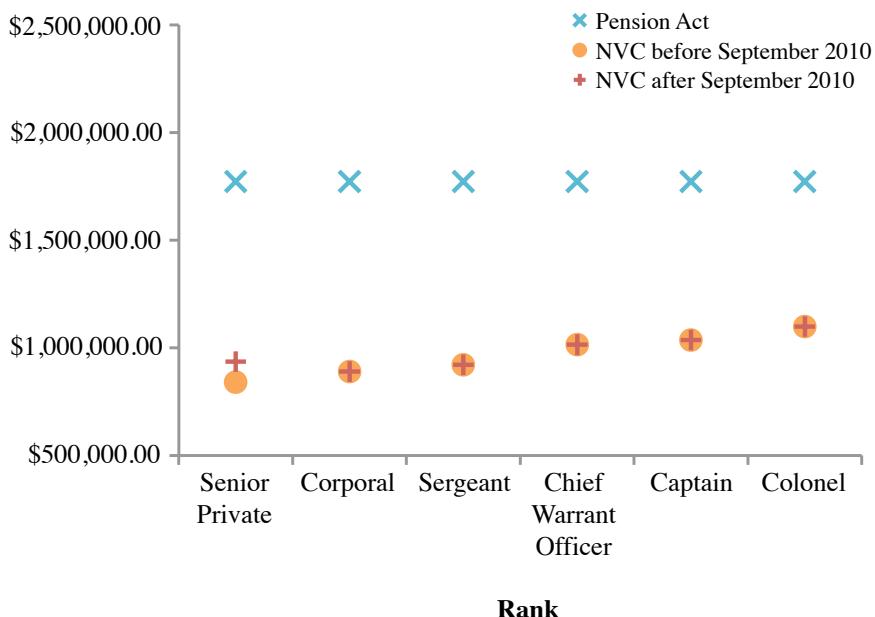


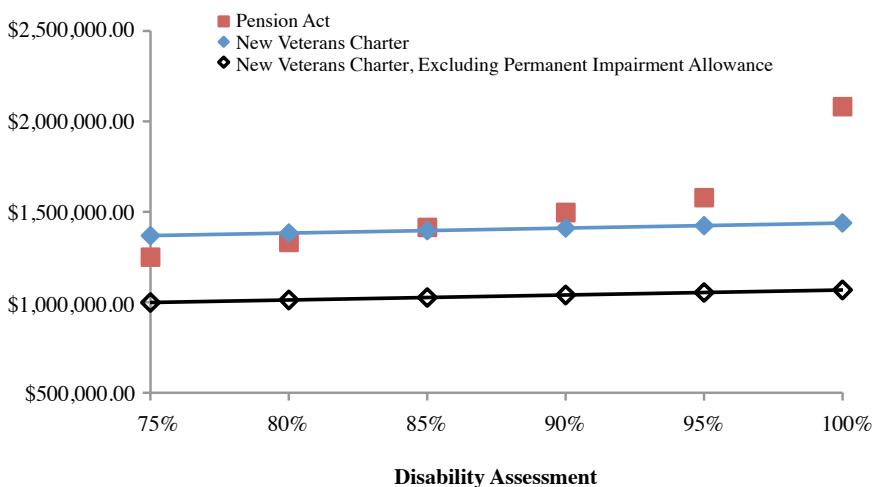
Figure 9 shows that while the proposed changes will benefit veterans released at a low rank, these changes will not bring the net present value of the NVC significantly closer to that of the Pension Act.

*Disability Assessment.* Figure 10 shows the net present values of case 1 as the disability assessment of the veteran is varied from 75 percent to

100 percent, and Figure 11 shows the same calculation for case 2. Eligibility criteria for certain programs under the Pension Act and the NVC depend on the disability assessment in different ways, and will be explained here to provide some clarification. Under the Pension Act, as explained in section 2.2, the veterans in all three cases are assumed to be receiving the disability pension, spousal and children's pension, attendant allowance, and Exceptional Incapacitated Allowance (EIA). EIA is available for veterans with a disability assessment of 98 percent or higher. Therefore, in Figure 10 and Figure 11, only the net present value for a disability assessment of 100 percent includes the EIA. This explains the high net present value of the Pension Act for a 100 percent disability assessment compared to the other net present values of the Pension Act.

Under the NVC, the case studies assume that the veteran is receiving the Earnings Loss Benefit and Permanent Impairment Allowance on a monthly basis. However, unlike the EIA under the Pension Act, the PIA is not dependent on disability assessment. Therefore, Figures 10 and 11 show two possible scenarios for the net present value of the NVC: one in which PIA is included, and the other in which it is excluded. When PIA is included, the net present values of the NVC are closer to those of the Pension Act (excluding EIA). However, as discussed in section 2.4, as of 30 June 2010 only 16 veterans were in receipt of PIA, representing about 0.1 percent of

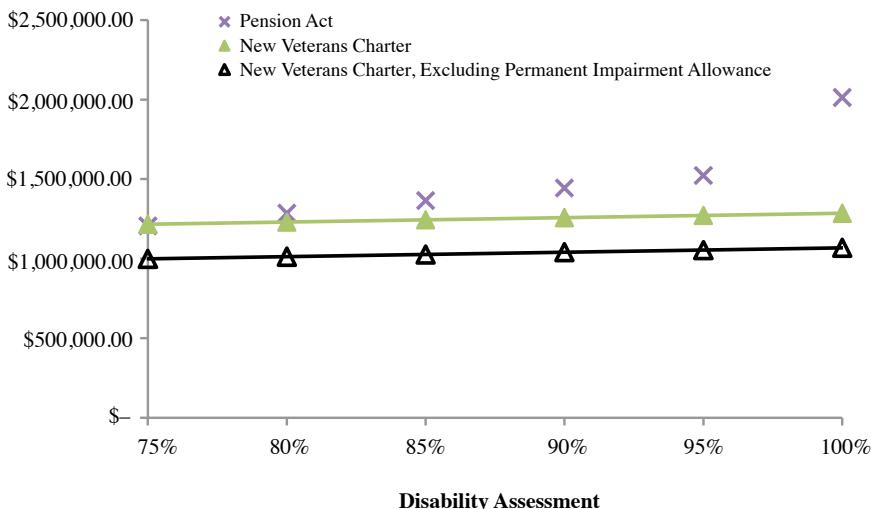
**FIGURE 10**  
**Varying Disability Assessment Percentage for Case 1,**  
**the 25-Year-Old Corporal**



the veteran population. Therefore, although it is possible for veterans to be in receipt of PIA, it is important to compare the net present values of the NVC excluding PIA due to the low percentage of veterans receiving it.

A similar analysis was completed for case 3, but the changes to the NVC programs announced in September 2010 were included. As shown in Figure 12, this analysis found that although the September 2010 changes do increase the net present values of the NVC for all disability assessments studied, they do not increase the net present values of the NVC to match those of the Pension Act.

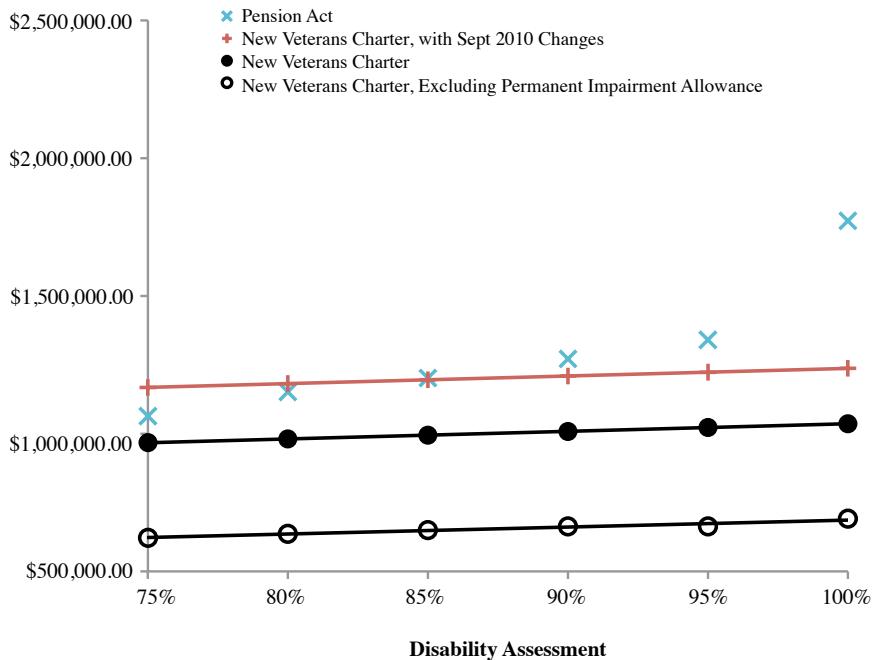
**FIGURE 11**  
**Varying Disability Assessment Percentage for Case 2,  
 the 28-Year-Old Sergeant**



A linear regression was completed on the data in Figures 10, 11, and 12 and slope of the line of best fit was determined. The slope can be considered to be the increase in tens of thousands of dollars of net present value per increase in disability assessment (\$10,000/percent). In case 1, the increase in tens of thousands of dollars of net present value per disability assessment percentage for the Pension Act (200) was significantly higher than that for the NVC including and excluding PIA (27.6, 27.6, respectively; see Table 15). Similar results were found for case study 2, shown in Figure 11. For case studies 1 and 2, the  $R^2$  values for each line of best fit were greater than or equal to 0.999, meaning the lines of regression were good fits for the data.

The increase in tens of thousands of dollars of net present value per percentage of disability assessment and  $R^2$  values for all three cases are shown in Table 15. In all three cases, the increase in net present value per disability assessment percentage is greater for the Pension Act than for the NVC.

**FIGURE 12**  
**Varying Disability Assessment Percentage for Case 3,  
the 40-Year-Old Captain**



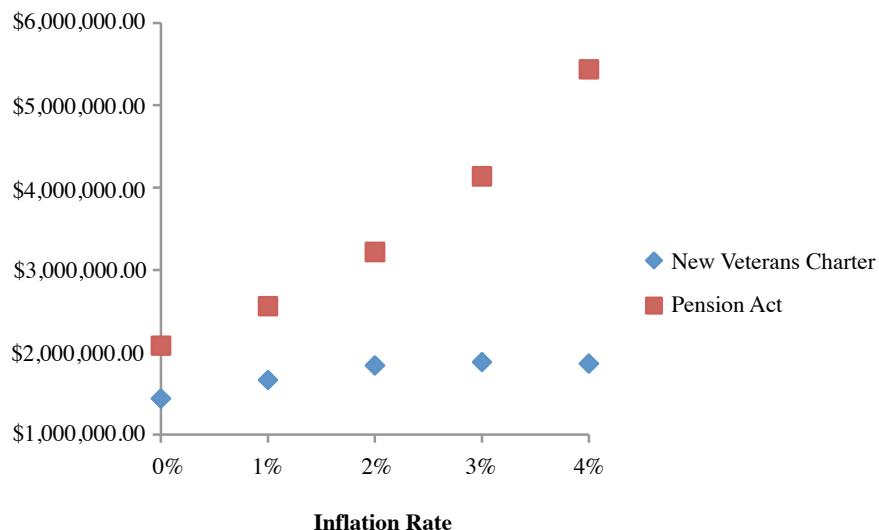
**TABLE 15**  
**The Increase in Net Present Value Per Percentage of Disability  
Assessment for the Pension Act and New Veterans Charter (\$10,000/%)**

	Pension Act (excluding net present value at disability assessment of 100%)	$R^2$	New Veterans Charter	$R^2$	New Veterans Charter (excluding Permanent Impairment Allowance)	$R^2$	New Veterans Charter (with Sept 2010 changes)	$R^2$
Case 1	200.0	1	27.6	1	27.6	1		
Case 2	100.0	0.999	27.6	1	27.6	1		
Case 3	32.3	1	27.6	1	25.2	0.954	27.6	1

*Inflation.* Figure 13 shows the net present values of case 1 as the inflation rate is varied between 0 percent and 4 percent. As is consistent with all other findings, the net present values of the Pension Act are greater than those of the NVC. Figure 13 shows that the net present values of the Pension Act are increasing non-linearly. The net present values of the NVC are also increasing non-linearly for inflation rates between 0 percent and 2 percent. However, for inflation above 2 percent, the net present value increases at a much lower rate. This is because adjustments for inflation are different for the NVC and for the Pension Act. Payments under the Pension Act are adjusted yearly for inflation according to the Consumer Price Index (CPI). Payments under the NVC are also adjusted yearly for inflation according to CPI with one important exception: the ELB. This benefit is adjusted quarterly according to the CPI to a maximum of 2 percent per year. This has a significant impact on the net present value of the NVC benefits because the ELB is up to 40 percent of the net present value of a veteran's pension, as shown in Figures 2, 3, and 4. Therefore, when the average inflation rate is 2 percent or above, the increase in net present value of the NVC is far less than that of the Pension Act.

The adjustments made to VAC pensions under the Pension Act due to inflation from 1998 to 2009 are shown in Table 16. The average over the

**FIGURE 13**  
**Net Present Value, Varying Inflation Rates, for Case 1,**  
**the 25-Year-Old Corporal**



12 years is 2.72 percent, which indicates that it is possible that the NVC present value will be decreased by the cap of 2 percent on inflation adjustments of the ELB.

**TABLE 16**  
**Adjustments to VAC Pensions for Inflation from 1998 to 2009**

<i>Year</i>	<i>Inflation Adjustments to VAC Pensions</i>
1998	1.90%
1999	0.90%
2000	2.60%
2001	2.50%
2002	3.00%
2003	2.96%
2004	3.20%
2005	1.70%
2006	7.11%
2007	2.29%
2008	2.00%
2009	2.50%
<b>Average</b>	<b>2.72%</b>

Source: Patrick Butler and Kathie Gallant, “Table D: Table of Rates of Exceptional Incapacity Allowance – Attendance Allowance – Clothing Allowance,” Veterans Affairs Canada: 2009 Pension Rates (Veterans Affairs Canada, 2009).

## CHAPTER 4

# *Discussion*

### **4.1. Study Summary**

This study presented three realistic but hypothetical case scenarios of veterans and conducted a financial comparison, based on sound economic principles, of the financial benefits that they would receive from both the New Veterans Charter (NVC) and the Pension Act. The purpose of this study was to focus on veterans with severe disabilities, or those with a disability assessment of 78 percent or greater, as defined by Veterans Affairs Canada (VAC).<sup>54</sup> This represents a small proportion, 4 percent, of the veterans covered by the NVC;<sup>55</sup> however, it represents the group most in need of the services and financial benefits provided by VAC. It has been shown that financial security is a predictor of improved health outcomes in people with severe disabilities;<sup>56</sup> therefore, it is essential that the veterans who have sacrificed the most are given the appropriate resources to ensure that they can live their lives to the fullest.

Case scenario 1 presented a 25-year-old corporal released after seven years of service, case 2 presented a 28-year-old sergeant released after ten years of service, and case 3 presented a 40-year-old captain released after 22 years of service. These scenarios were developed to represent those in the lower, middle, and higher pay categories respectively. In all three cases the veteran was assumed to be male, married with two children, to have joined the military at age 18 years, and to have a 100 percent disability assessment. They were all assumed to live to the age of 78 and their spouses were assumed to live to age 83; both of these are considered norms for Canadians. Calculations were done comparing realistic financial benefits that the veterans in each case could be expected to receive under both the NVC and the Pension Act. These totals are presented as a net present value and compared, including an analysis on changes in age of death. Following this, each of the critical areas affecting the pension—level of disability, marital and family status, and rank at release—was subjected to a sensitivity analysis in which each factor was varied across a spectrum to determine how

it would affect total financial benefits for the veteran. Finally, a calculation to determine the potential effect of inflation on the pension was conducted.

#### **4.2. Net Present Value Results Summarized**

The results of this study show that in all three case scenarios the net present values of the financial benefits provided under the Pension Act are greater than those provided by the NVC. This means that “new” veterans pensioned under the NVC are at a financial disadvantage over their life course compared to those pensioned under the Pension Act. The three case scenarios presented in this analysis covered a range of ranks and length of time in service that realistically represent the “new” veteran, and in all three cases the veteran would have received more financial compensation under the Pension Act.

In the cases presented in this analysis, the ratio of NVC to Pension Act net present value ranged between 58 and 69 percent (Table 10). The main factor that contributed to the differences is that under the Pension Act a veteran receives spousal support, children’s allowance, and attendant care benefits totalling up to 40 percent of his monthly pension (Figures 2, 3, 4). These benefits are not available under the NVC, and represent a significant proportion of the tax-free monies awarded under the Pension Act.

In addition, it is important to note that the Permanent Impairment Allowance awarded under the NVC is 42 percent of the veteran’s income, while the Exceptional Incapacity Allowance awarded under the Pension Act is only 20 percent of the veteran’s income. Both of these allowances are awarded very infrequently, with Permanent Impairment Allowance having been awarded to only 16 NVC veterans to date (< 0.01 percent of all NVC veterans), and Exceptional Incapacity Allowance awarded only to Pension Act veterans who have a disability assessment of greater than 98 percent. If we assume that these benefits are not likely to be awarded, the lack of a Permanent Impairment Allowance from the NVC as part of an overall pension would have a much greater impact on the income of the veteran than the lack of an Exceptional Incapacity Allowance from the Pension Act.

Another factor contributing to the discrepancy is the amount of pension the veteran will receive from other mechanisms, such as the CF Superannuation fund. In case 1, the veteran had not served the required ten years to receive the Superannuation, therefore the amount provided by VAC through the Earnings Loss Benefit (ELB) program to top up his salary to the required 75 percent is included in his financial benefits. In this case, the

financial benefits the veteran receives under the NVC are worth 69 percent of the pension he would have received under the Pension Act, because VAC is paying a higher ELB top-up. As the veteran's Superannuation increases, the relative amount of contribution from the NVC to his overall income decreases. So, in case 2, the sergeant who served for ten years will receive a small CF Superannuation pension, and the NVC pension represents 64 percent of what he would have received under the Pension Act. And in our final case, the captain who served 22 years will receive a generous CF Superannuation pension, therefore the NVC pension represents only 58 percent of what he would have received under the Pension Act.

Interestingly, 16 percent of the NVC veterans' total pension, if they are eligible for all benefits, is the lump-sum Disability Award. Though beyond the purview of this study, arguments can be made on both sides for the value of receiving monies in a lump sum versus as a monthly income over the veteran's life course. It remains to be properly investigated if this is beneficial or not for veterans; however, countries such as Australia have programs in which benefits can be paid out monthly because they determined this would be more beneficial to the veteran.<sup>57</sup>

One of the main disadvantages of monthly amounts received by veterans under the NVC is that the benefits are taxable as income, including the Permanent Impairment Allowance. This means that the veteran does not receive the gross amount of his benefits each month. The same is not true for veterans who receive a Pension Act pension, since all benefits are tax free. So the actual take-home amount between the two types of veterans is further separated by the fact that the NVC veteran will pay income tax on all monthly benefits, whereas the Pension Act veteran will not.

Another significant difference between the two programs becomes evident once the veteran reaches age 65. At age 65, NVC veterans cease to receive most financial benefits from Veterans Affairs Canada. Once they receive a Canada or Quebec Pension Plan pension, they no longer receive any monthly financial allowances unless they are below the poverty line or they are recipients of the Permanent Impairment Allowance, which to date has been awarded to only 16 NVC veterans. Under the Pension Act, veterans continue to receive their monthly, tax-free pension until they die, at which time a surviving spouse would continue to receive a portion of the pension until he or she dies. This makes a significant difference to the overall financial benefits received by the two types of veterans, since the net present value increases at a higher rate than the NVC as the age of death increases. Changing this so that an NVC veteran continues to receive benefits after age 65 was one of the recommendations made by the NVC Advisory Group.<sup>58</sup>

Figures 5 and 6 show that after age 65, the differences between the Pension Act and NVC financial benefits are even greater than before age 65 for all three case scenarios. This is because, as previously stated, virtually all financial benefits stop at age 65 for NVC veterans, whereas Pension Act veterans continue to receive their benefits. After age 65 the only ongoing benefit, analyzed in this study, that an NVC veteran continues to receive is the Permanent Impairment Allowance. Table 11 shows us that under the Pension Act, a veteran will receive an additional \$10,300 to \$16,000 a year in additional pension compared to the NVC veteran, who will receive between \$3,570 and \$5,090. This can make a significant difference to the overall quality of life of a veteran. Additionally, since women generally live longer than men, spouses and female veterans may be more affected by this problem.<sup>59</sup>

One of the most significant monthly contributions that was available under the Pension Act but is no longer available under the NVC is Attendant Care Allowance. As discussed in section 1.1, this was a tax-free benefit of approximately \$1,600 per month available so the veteran could get assistance for living. This could be paid to a hired worker or a family member if that family member was the primary caregiver for the veteran.<sup>60</sup> This is one of the most critical benefits that allows veterans with serious disabilities to stay in their homes and get the care they need; however, it has also been cited as one of the most costly benefits to VAC.<sup>61</sup> Many disability experts agree that for people with severe disabilities, an attendant is the only link to their independence,<sup>62</sup> and so the rationale for removing this from the NVC is unclear unless it is strictly financial.

### **4.3. Sensitivity Analyses Summarized**

*Marital and Family Status.* The financial differences between the NVC and the Pension Act are further highlighted in the sensitivity analyses done in this study. Marital and family status has a significant effect on the financial benefits received by both types of veterans. Although the NVC aims to consider the family, it makes no allowance for veterans' marital status or the number of dependent children they may have. Table 13 shows that in the least-need case scenario, if the veteran is unmarried with no children in case 1, the NVC will provide 83 percent of the financial benefits that would be provided under the Pension Act. In high-need scenarios, case 3, where a veteran with serious disabilities is married with two children, the NVC provides only 58 percent of the financial benefits that would be provided under the Pension Act. This means that the greater the veteran's financial

need in the form a spouse and children, the less he or she will receive overall under the NVC. Figure 7 shows us that this discrepancy grows if the veteran has more than two children. In fact, Table 12 shows that the difference can be up to \$55,600 per child over the life of the veteran.

Financial security has a direct relation to an individual's overall health and can alleviate much of the worry surrounding ongoing care.<sup>63</sup> If a veteran with serious disabilities is married with a family and is the sole income earner, the more financial support he or she has, the less worry, and consequently the better health, for the veteran and his or her family. The NVC states it is focused on the family;<sup>64</sup> however, it could be argued that without proper financial supports the family will suffer. In removing family compensation from the NVC, it is difficult to understand the purported family focus of the Charter.

Figure 8 shows that the rank of a person when they are released has more of an effect on the pension received under the NVC than under the Pension Act. While it is common for insurance companies to consider the earnings potential of an individual before awarding a disability allowance, this had not been the practice under the Pension Act. While awarding disability insurance based on earnings potential may be beneficial to veterans who can rehabilitate to return to the workforce, this unfairly discriminates against the veterans with severe disabilities who may not have the option to return to work. A service member, regardless of rank, who is severely injured in the line of duty should not be penalized for being a lower rank or rewarded for being a higher rank. This calls into question the fairness of the NVC as it relates to veterans with severe disabilities who may not rehabilitate to a full, pre-service work life. The NVC Advisory Group report supports this analysis and identifies VAC's practice of basing NVC policies on insurance policy as problematic.<sup>65</sup>

***Disability Assessment.*** Figures 10, 11, and 12 show the difference in pension based on the sensitivity analysis related to disability assessment. The percentage disability assessment was varied from 75 percent to 100 percent in 5 percent increments. This takes into account veterans with a severe disability, who have a disability assessment of over 78 percent. It can be seen that as the disability assessment increases, the greater the amount provided by the Pension Act as compared to the NVC. In all cases, the difference between the two programs is greatest at 100 percent disability, with the Pension Act providing more financial benefits, because once a veteran is assessed with greater than 98 percent disability, the Exceptional Incapacity Allowance is awarded and this significantly augments the financial benefits. All figures show the NVC calculations both with and without the

Permanent Impairment Allowance (PIA). Since this allowance has been offered to less than 0.01 percent of all NVC veterans, it is reasonable to assume that it would not be awarded. These figures show that inclusion of the Permanent Impairment Allowance makes a substantial difference to veterans with severe disabilities under the NVC, and allows the NVC to come much closer to the values offered by the Pension Act. Table 15 shows us that as the percentage of disability increases, the greater the amount provided by the Pension Act over the NVC in all cases. One of the changes to the NVC recommended in September 2010 is that the PIA be offered to more veterans. Our findings show that the changes proposed in September 2010 would significantly increase financial benefits for NVC veterans and should be carried out.

*Inflation.* It is interesting to notice in Figure 13 that inflation will positively benefit a Pension Act veteran over an NVC veteran. This is because under the Pension Act, all allowances and pensions are adjusted yearly for inflation according to the Consumer Price Index (CPI). Allowances under the NVC are similarly adjusted for inflation—except for the Earnings Loss Benefit, which has a maximum adjustment of 2 percent per year. This means that if inflation rises above 2 percent per year, the ELB will not rise with the cost of living. This is particularly significant because the ELB is approximately 40 percent of the NVC veteran's total benefits (Figures 2, 3, and 4). As shown in Table 16, the average inflation rate was greater than 2 percent in the last ten years. This means that it is possible that it will remain above 2 percent in the coming years, which will disadvantage NVC veterans as their allowances do not rise with the costs of living. ELB has a cap on inflation adjustments because it is based on the SISIP Long Term Disability payment.

Although this issue has been highlighted by the NVC Advisory Group, further discussion should be had about whether Veterans Affairs Canada should function like a for-profit insurance company in paying out benefits.<sup>66</sup>

#### **4.4. Limitations**

The main limitation of this study is that it focused only on the financial benefits offered under the NVC and the Pension Act. It did not take into account the numerous other programs and benefits offered under both programs. These benefits include the Veterans Independence Program, which provides assistance for housework and gardening so veterans can stay in their own homes longer, as well as federal programs such as Canada/Quebec Pension Plans and Old Age Security. However, these values fluctuate greatly

depending on the needs of the veteran and are difficult to quantify in an economic analysis.

The other limitation of this study is that it focused only on veterans with severe disabilities—those with a disability assessment of 78 percent or greater. This does not take into account the majority of veterans, who do not have severe disabilities. It may be that those with lesser disabilities receive more equitable financial benefits under the NVC; however, that was beyond the purview of this study.

#### **4.5. Future Directions**

Future financial analyses of the NVC should focus on the full range of disability assessments (5 percent to 100 percent) for veterans, so the full impact of the NVC as compared to the Pension Act can be known. It would also be of benefit to compare the payments under the NVC to the poverty line in Canada to see how many veterans require income supplement after age 65. Finally, a comparison should be made between the NVC and civilian disability insurance schemes to determine if veterans are treated the same as civilians with severe disabilities.



## CHAPTER 5

### *Conclusions*

Several conclusions arise from this study. The first and most obvious is that the Pension Act provides a significant financial advantage over the New Veterans Charter (NVC) for veterans with severe disabilities. The difference between the Pension Act and the NVC compensations is greatest for veterans who live longer, those who are married and have more children, those with a higher disability assessment, and those released at a lower rank. These groups are financially disadvantaged under the NVC compared to the Pension Act.

Changes need to be made to the NVC to ensure that veterans with severe disabilities receive compensation equivalent to that under the Pension Act. The most obvious discrepancies come from programs or benefits that were eliminated under the NVC. It would benefit veterans with severe disabilities if Attendant Care Allowance was reinstated as part of the financial benefits, and if spousal and child benefits were restored to the plan. In this way, the NVC would acknowledge the family and their new life circumstances of living with a veteran with severe disabilities, particularly if the family is the primary caregiver, which is often the case.

Additionally, changes need to be made to address the lack of financial support for veterans after the age of 65, when veterans may have the most need. All benefits should continue until the time of a veteran's death and should not be stopped once the veteran receives the Canada or Quebec Pension Plan (CPP, QPP). Like other Canadians, veterans earned CPP or QPP, and their disability benefits should be considered separate from these monies and continue until their death.

It can be seen from this analysis that the majority of the benefits offered under the NVC are taxable. This puts NVC veterans at a serious disadvantage over their life course since the net amount they take home each month is less than the gross amount they are pensioned. Over the life course of the veteran, this can amount to a significant amount of money.

Overall, to change the NVC to accommodate veterans with severe disabilities would not be very costly since only 4 percent of all NVC veterans

are considered seriously disabled. One of the most important recommendations that comes out of this study is that creating separate standards and pension categories for veterans with severe disabilities may ensure that the NVC supports veterans who are most in need.

## *Notes*

<sup>1</sup> Standing Committee on Veterans Affairs, “A Timely Tune-up for the Living New Veterans Charter” (Parliament of Canada, 2010), 9.

<sup>2</sup> Veterans Affairs Canada, “Disability Pensions” (2009), <http://www.vac-acc.gc.ca/clients/sub.cfm?source=dispen> (accessed 17 August 2010).

<sup>3</sup> Veterans are given a disability assessment in the form of a percentage between 0 percent and 100 percent that relates to the level and extent of disability, as well as the relationship between service in the Canadian Forces and the cause of the disability.

<sup>4</sup> “Pension Rates Rise with Cost of Living,” *Legion Magazine*, March–April 2010, 68.

<sup>5</sup> Ibid.

<sup>6</sup> Ibid.

<sup>7</sup> Veterans Affairs Canada, “Disability Pensions.”

<sup>8</sup> “Pension Rates Rise with Cost of Living.”

<sup>9</sup> Veterans Affairs Canada, “A Guide to Using Your Veterans Affairs Canada (VAC) Health Care Identification Card,” <http://www.vac-acc.gc.ca/clients/sub.cfm?source=services/identcard> (accessed 27 October 2010).

<sup>10</sup> SISIP Financial Services, “SISIP FS – Long Term Disability,” [http://www.sisip.ca/en/insurance\\_e/ltd\\_e.asp#2](http://www.sisip.ca/en/insurance_e/ltd_e.asp#2) (accessed 18 August 2010).

<sup>11</sup> Standing Committee on Veterans Affairs, “Timely Tune-up,” 3-5.

<sup>12</sup> Canada Gazette, “Canadian Forces Members and Veterans Re-establishment and Compensation Regulations,” *Canada Gazette* 139, no. 51 (2005): s. 6.

<sup>13</sup> Veterans Affairs Canada, “The New Veterans Charter: Services and Benefits,” <http://vac-acc.gc.ca/content/Forces/nvc/infoKits/ServiceBenefits> (accessed 18 August 2010); Veterans Affairs Canada, “NVC Support for CF Families,” <http://www.vac-acc.gc.ca/youth/sub.cfm?source=forces/nvc/infoKits/support> (accessed 18 August 2010).

<sup>14</sup> Canada Gazette, “Veterans Re-establishment and Compensation Regulations.”

<sup>15</sup> Ibid., 4237.

<sup>16</sup> Veterans Affairs Canada, “Backgrounder: New Veterans Charter Services and Benefits” (Government of Canada, 2010).

<sup>17</sup> Canada Gazette, “Veterans Re-establishment and Compensation Regulations,” 4231.

<sup>18</sup> Veterans Affairs Canada, “Backgrounder.”

<sup>19</sup> Ibid.

<sup>20</sup> Veterans Affairs Canada, “The New Veterans Charter: Services and Benefits.”

<sup>21</sup> Veterans Affairs Canada, “Backgrounder.”

<sup>22</sup> Ibid.

<sup>23</sup> CBC News, “Injured Soldiers Get Expanded Benefits,” 19 September 2010, <http://www.cbc.ca/canada/story/2010/09/19/injured-soldiers-benefits.html> (accessed 28 October 2010).

<sup>24</sup> Veterans Affairs Canada, “Speaking Notes for the Honourable Jean-Pierre Blackburn on Proposed Changes for Service to Canadian Veterans,” <http://www.vac-acc.gc.ca/general/sub.cfm?source=department/press/viewspeech&id=523> (accessed 19 September 2010).

<sup>25</sup> Ibid.

<sup>26</sup> Veterans Affairs Canada – Canadian Forces Advisory Council, “The Origins and Evolution of Veterans Benefits in Canada 1914-2004” (Veterans Affairs Canada, 2004), 4.

<sup>27</sup> Ibid., 13.

<sup>28</sup> Standing Committee on Veterans Affairs, “Timely Tune-up,” 10.

<sup>29</sup> Ibid., 13.

<sup>30</sup> New Veterans Charter Advisory Group, “Honouring Our Commitment to New Veterans and Their Families: The ‘Living’ Charter in Action” (Veterans Affairs Canada, 2009).

<sup>31</sup> Ibid., 2-5.

<sup>32</sup> Standing Committee on Veterans Affairs, “Timely Tune-up.”

<sup>33</sup> New Veterans Charter Advisory Group, “Honouring Our Commitment,” 35.

<sup>34</sup> Veterans Affairs Canada, “An Internal Survey Reveals That the Disability Award Is the Preferred Option for the Majority of Veteran Beneficiaries – Jean-Pierre Blackburn,” news release, 21 June 2010, <http://www.veterans.gc.ca/general/sub.cfm?source=department/press/viewrelease&id=923>.

<sup>35</sup> Veterans Affairs Canada, “New Veterans Charter Evaluation – Phase I” (Veterans Affairs Canada, 2009); Veterans Affairs Canada, “New Veterans Charter Evaluation – Phase II” (Veterans Affairs Canada, 2010).

<sup>36</sup> Veterans Affairs Canada, “Phase I,” i.

<sup>37</sup> Veterans Affairs Canada, “Phase II,” 1.

<sup>38</sup> Veterans Affairs Canada, “Speaking Notes for the Honourable Jean-Pierre Blackburn.”

<sup>39</sup> Special Needs Advisory Group, “The New Veterans Charter: What Are the Gaps for Special Needs Veterans and Their Families?,” *SNAG Report 4* (Veterans Affairs Canada, 2009).

<sup>40</sup> Canada Gazette, “Regulations Amending the Veterans Health Care Regulations,” *Canada Gazette* 135, no. 25 (2001), <http://canadagazette.gc.ca/archives/p1/2001/2001-06-23/html/reg3-eng.html>.

<sup>41</sup> Veterans Affairs Canada, “Table of Disabilities,” [http://www.vac-acc.gc.ca/content/dispen/2006tod/pdf\\_files/tod\\_total\\_2006.pdf](http://www.vac-acc.gc.ca/content/dispen/2006tod/pdf_files/tod_total_2006.pdf) (accessed 19 November 2010).

<sup>42</sup> New Veterans Charter Advisory Group, “Honouring Our Commitment,” 10.

<sup>43</sup> Erik Nord, “Discounting Future Health Benefits: The Poverty of Consistency Arguments,” *Health Economics* (2010).

<sup>44</sup> Canada Revenue Agency, “What Are the Income Tax Rates in Canada?” (Government of Canada 2010), <http://www.cra-arc.gc.ca/tx/ndv/dls/fq/txrts-eng.html> (accessed 17 August 2010).

<sup>45</sup> Some veterans may be partially covered by the NVC and partially by the Pension Act. For example, if a veteran was released before April 2005 with a particular disability, he or she would receive a disability pension related to the disability. Then, if the veteran’s health deteriorated and he or she acquired another disability after April 2005, he or she would be eligible to receive benefits related to the second disability under the NVC.

<sup>46</sup> Canada Gazette, “Regulations Amending the Veterans Health Care Regulations.”

<sup>47</sup> Veterans Affairs Canada, “Case Scenarios: Final New Veterans Charter Announcements” (Government of Canada, 2010), 2.

<sup>48</sup> Statistics Canada, “Life Expectancy at Birth, by Sex, by Province” (Government of Canada), <http://www40.statcan.gc.ca/l01/cst01/health26-eng.htm> (accessed 17 August 2010).

<sup>49</sup> Statistics Canada, “Census Families.”

<sup>50</sup> Canada Gazette, “Veterans Re-establishment and Compensation Regulations,” s. 6.

<sup>51</sup> Veterans Affairs Canada, “Disability Pensions.”

<sup>52</sup> Robert MacDonald, email message to author, 4 August 2010.

<sup>53</sup> New Veterans Charter Advisory Group, “Honouring Our Commitment,” 32.

<sup>54</sup> Canada Gazette, “Regulations Amending the Veterans Health Care Regulations.”

<sup>55</sup> Robert MacDonald, email message to author, 4 August 2010.

<sup>56</sup> Mary Ann McColl and Lyn Jongbloed, eds., *Disability and Social Policy in Canada*, 2nd ed. (Concord, ON: Captus University Publications, 2006).

<sup>57</sup> Standing Committee on Veterans Affairs, “Timely Tune-up,” 38.

<sup>58</sup> New Veterans Charter Advisory Group, “Honouring Our Commitment,” 33.

<sup>59</sup> Statistics Canada, “Life Expectancy at Birth, by Sex, by Province.”

<sup>60</sup> Veterans Affairs Canada, “Disability Pensions.”

<sup>61</sup> “Pension Rates Rise with Cost of Living.”

<sup>62</sup> David W. Shannon, *Six Degrees of Dignity: Disability in an Age of Freedom* (Creative Bound International Inc., 2007).

<sup>63</sup> McColl and Jongbloed, *Disability and Social Policy*.

<sup>64</sup> Veterans Affairs Canada, “NVC Support for CF Families,” <http://www.vac-acc.gc.ca/youth/sub.cfm?source=forces/nvc/infoKits/support> (accessed 18 August 2010).

<sup>65</sup> New Veterans Charter Advisory Group, “Honouring Our Commitment,” 30-31.

<sup>66</sup> Ibid.

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