

Veteran employment falls as disability enrollment climbs, study shows

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In this 2007 photo, wounded soldiers wait in a physical therapy lab at the Center For The Intrepid at the Brooke Army Medical Center in San Antonio, Texas. Veterans are more likely to file for disability compensation and less likely to find employment than ever before, Stanford economist Mark Duggan says.

U.S. military veterans are more likely to file for disability compensation and less likely to find employment than ever before, according to a Stanford economist.

Mark Duggan suggests in a new article that the two trends are connected: The rapid rise in disability compensation enrollment has contributed to disincentives to job entry.

The U.S. Department of Veterans Affairs pays benefits to military [veterans](#) with medical conditions linked to their service time through the federal disability compensation program.

Veterans have historically done better than the general population in getting jobs. But Duggan found that this is no longer true. From 1980-99, veterans were more likely than other workers to have jobs or be looking for jobs. However, that changed around 2000, and veterans are now much more likely to be out of the labor force than other workers.

Duggan's research found that from 1950 through 2000, about 8 to 10 percent of America's veterans received disability benefits. Today, 18 percent of veterans are enrolled in the program. Disability enrollment has increased, rising from 2.3 million in 2001 to 3.9 million by 2014. This increase occurred despite a 16 percent reduction during that same period in the number of [military veterans](#) – from 26.1 million to 22 million.

"Disability compensation benefits have for decades been a very important source of income support for military veterans with disabilities that were caused by or aggravated during their military service," said Duggan, the incoming director of the Stanford Institute for Economic Policy Research.

Reasons for disability increase

In 2001, the government expanded the program's medical eligibility criteria for Vietnam-era veterans to cover diabetes claims that may have

been associated with Agent Orange, a poisonous herbicide used by U.S. forces during the Vietnam War to defoliate the jungles where enemy forces took refuge.

"Enrollment among Vietnam-era veterans grew substantially thereafter," wrote Duggan, the Wayne and Jodi Cooperman Professor of Economics.

Today's veterans are significantly more likely to receive disability benefits than are their counterparts from previous eras, he said. Nearly one in four veterans serving in the 1990s or later is currently receiving disability benefits versus just one in seven veterans from earlier service eras.

The study found that in the 2000 to 2004 period, veteran males are 0.9 percentage points less likely to have been in the labor force than nonveterans. That increases to a 1.7 percentage point gap from 2005 to 2009 and finally to a 4.3 percentage point gap in the 2010 to 2014 period.

"This significant reduction in [labor force participation](#) among veterans closely coincides with their increase in disability compensation enrollment during this same period," Duggan wrote.

The expansion of coverage through the years is another reason for the spike. For example, in 2010, the government made it easier for veterans to qualify for benefits with a diagnosis of post-traumatic stress disorder, he said. Now it is the third-most-common service-connected disability reported.

Unemployment blues

Duggan found that when a veteran enrolls in the disability compensation program, he or she is more likely to drop out of the labor force. Now

that more disabilities are covered, it is easier for veterans to apply for the program. And then as enrollment increases, more veterans leave the labor force.

"During the 1980s and 1990s, veterans were significantly more likely to work than were nonveterans. Today, the opposite is true," wrote Duggan, who has also conducted other research on this topic.

Duggan explained that the underlying reasons may be due to what economists often refer to as the "income effect" and the "substitution effect."

He said, "The income effect can reduce a recipient's propensity to work because – with the additional income – he may now prefer additional leisure to work."

The substitution effect operates through a change in incentives, he said. "Additional work may prevent a veteran from qualifying for a higher level of disability compensation benefits – and thus increase the effective tax rate on work."

"Our estimates suggest that for every 100 veterans made newly eligible for disability benefits as a result of the 2001 policy change, approximately 18 dropped out of the labor force by 2007," Duggan wrote.

He noted that this finding is similar to other research on the effect of the Social Security Disability Insurance program on labor force participation by nonveterans.

There is no singular answer, Duggan noted. It is possible that other factors contribute as well.

"For example, veterans are much more likely than nonveterans to work for federal, state and local governments. Employment growth in this sector of the economy – which accounts for about one in seven jobs – has lagged that of the private sector during the last several years," he wrote.

Also, the percentage of men who are veterans has been steadily declining for decades, Duggan said. "It is possible that the differential changes in [labor force](#) participation partly reflect the effects of changing veteran characteristics," he wrote.

Another possible explanation is that military service has become more demanding than ever. As a result, he said, a person who serves in the military is more likely to incur a disability.

The next step

As possible reforms, Duggan suggests that policymakers could – if they aimed to slow the growth in program expenditures – revise the eligibility criteria for disability compensation benefits.

For example, the VA could introduce a time limit for applying to the program for certain health conditions, he said. Many veterans qualify for these benefits decades after completing service time when, for instance, they apply with conditions such as hearing loss.

Also, more frequent medical reviews could be conducted to determine whether the health of recipients has improved, he said.

Duggan noted that an alternative strategy would be to help veterans build their skills and reintegrate into the workforce.

"This would increase veterans' financial incentive to work and could

substantially increase both their health and their economic well-being," he said.

More information: The study is available online:
[siepr.stanford.edu/?q=/system/ ... ief-Nov14-Duggan.pdf](https://siepr.stanford.edu/?q=/system/...ief-Nov14-Duggan.pdf)

Provided by Stanford University

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