

November 2009

# MILITARY AND VETERANS' BENEFITS

## Analysis of VA Compensation Levels for Survivors of Veterans and Servicemembers



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# Highlights

Highlights of [GAO-10-62](#), a report to congressional committees

## Why GAO Did This Study

The Dependency and Indemnity Compensation (DIC) program provides monthly payments to the survivors of those who died as a result of a service-connected disability or while on active duty in the military. In fiscal year 2008, the Department of Veterans Affairs (VA) paid over \$4.7 billion to about 354,000 survivors, replacing a portion of income lost with the death of the veteran or servicemember.

The Veterans' Benefits Improvement Act of 2008 directed GAO to study the DIC program and the levels of payments it provides. This report addresses (1) the extent to which DIC replaces VA disability compensation or active duty military pay lost due to the death of a veteran or servicemember, and (2) how DIC benefits compare to benefits for survivors of civilian federal employees.

GAO obtained and analyzed data on DIC payments, VA disability compensation, and military pay rates. GAO also obtained information on survivor benefits under federal employee retirement and workers' compensation programs. GAO did not include in its analysis other sources of income survivors may receive, such as Social Security, private pensions, and life insurance. Lastly, GAO interviewed officials from VA and groups representing veterans, servicemembers, and their survivors.

GAO is not making any recommendations in this report.

View [GAO-10-62](#) or [key components](#). For more information, contact Daniel Bertoni at (202) 512-7215 or [bertonid@gao.gov](mailto:bertonid@gao.gov).

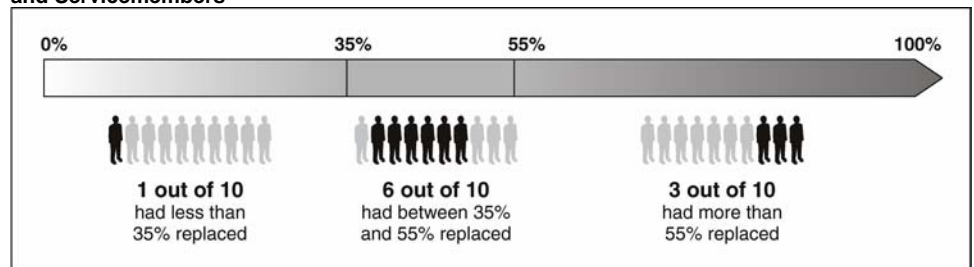
## MILITARY AND VETERANS' BENEFITS

### Analysis of VA Compensation Levels for Survivors of Veterans and Servicemembers

#### What GAO Found

For more than half of survivors who recently began collecting DIC, the benefit replaced between 35 and 55 percent of the VA disability compensation or estimated military pay lost due to the death of a veteran or servicemember. Because DIC provides generally flat payments, the rate at which it replaced lost income varied according to the amount of prior income, such as VA disability compensation. The most common survivor was an older female spouse of a totally disabled veteran who, in 2009, received \$1,154 per month—the base DIC payment—compared with \$2,823 per month paid in VA disability compensation to the disabled veteran prior to death. In these cases, DIC replaced 41 percent of prior compensation. There were, however, DIC recipients at the far ends of the scale. For example, for surviving spouses of mid-ranked officers who died on active duty, the flat rate DIC payment represented 19 percent of prior military pay; for survivors of partially disabled veterans who had received relatively low VA disability compensation, the flat rate DIC payment sometimes represented more than 100 percent of prior compensation.

**Percentage of VA Compensation or Military Pay Replaced by DIC for Survivors of Veterans and Servicemembers**



Source: GAO analysis.

Note: This graphic illustrates recipients who began collecting DIC benefits in fiscal years 2004-2008. GAO estimated military pay based on the rank of the servicemember.

When comparing survivor benefits for DIC with those for comparably paid civilian federal employees, DIC benefits are generally higher than survivor benefits paid by federal retirement programs, but lower than those paid by federal workers' compensation. The DIC program's flat payment structure differs from federal programs in which payment amounts are based on employee salaries and years of employment. We found that for most survivors, DIC provides higher benefits than the federal retirement programs because it gives more money to survivors of lower paid individuals, who comprise the majority of DIC recipients. In contrast, DIC payments are almost always less than workers' compensation payments for survivors of federal employees who die as a result of job-related injuries. For comparable employees, the salary levels of nearly all servicemembers in 2009 would result in higher survivor payments under workers' compensation than under the DIC program.

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**Abbreviations**

|       |  |
|-------|--|
| BDN   | Benefits Delivery Network  |
| CSRS  | Civil Service Retirement System  |
| FECA  | Federal Employees' Compensation Act                                      |
| FERS  | Federal Employees' Retirement System                                     |
| DIC   | Dependency and Indemnity Compensation                                    |
| DOD   | Department of Defense  |
| SBP   | Survivor Benefit Plan  |
| SSA   | Social Security Administration   |
| SGLI  | Servicemembers' Group Life Insurance                                     |
| SSDI  | Social Security Disability Insurance                                     |
| SSI   | Supplemental Security Income   |
| TSGLI | Servicemembers' Group Life Insurance Traumatic Injury Protection Program |
| TSP   | Thrift Savings Plan  |
| VA    | Department of Veterans Affairs   |

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United States Government Accountability Office  
Washington, DC 20548

November 13, 2009

### Congressional Committees

The Department of Veterans Affairs (VA) provides monthly Dependency and Indemnity Compensation (DIC) payments to the survivors of veterans who died as a result of a service-connected disability and servicemembers who died while on active military duty. In fiscal year 2008, VA paid over \$4.7 billion to support about 354,000 survivors. Approximately 91 percent of these recipients were the surviving spouses of veterans and servicemembers; the remainder were children and parents. These payments replace a portion of previous income, including VA disability compensation for veterans and military pay for active duty servicemembers.

Members of Congress and some veterans service organizations have raised questions over the extent to which DIC supports surviving spouses, children, and parents, and how it compares with benefits available to survivors of federal civilian employees. The Veterans' Benefits Improvement Act of 2008<sup>1</sup> directed GAO to study the DIC program and the levels of payments it provides. This report addresses (1) the extent to which DIC replaces VA disability compensation or active duty military pay lost due to the death of a veteran or servicemember, and (2) how DIC benefits compare to benefits for survivors of civilian federal employees.

To address these objectives, we examined VA data on all survivors who received DIC payments in September 2008, the end of the last fiscal year at the time of our review.<sup>2</sup> In addition, we examined VA data on all survivors who began receiving DIC at some point during fiscal years 2004 through 2008, the most recent 5 complete fiscal years for which data were available. For those who began receiving benefits recently, we were able to obtain information on the amount of monthly VA disability compensation paid to the disabled veterans prior to their deaths. We assessed the reliability of the VA data and judged them to be sufficiently reliable for our use. For the more recent survivors, we compared their monthly DIC payments to the payments made to the veterans or

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<sup>1</sup>Pub. L. No. 110-389, § 223, 122 Stat. 4145, 4156-57.

<sup>2</sup>For purposes of this analysis, when referring to survivors, we mean one or more persons (family members) surviving a single veteran or servicemember.

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servicemembers before their deaths, either from VA disability compensation or estimated Department of Defense (DOD) active duty pay.<sup>3</sup> We focused on more recent recipients due to limitations with VA's historical data on disability compensation payments to veterans. We also compared DIC benefits to programs that provide recurring payments to the survivors of federal employees who die while on the job or after a period of disability. These benefits are provided under the Civil Service Retirement System (CSRS) and Federal Employees' Retirement System (FERS); and the federal workers' compensation system under the Federal Employees' Compensation Act (FECA). We did not include in our analysis other sources of income survivors may receive, such as Social Security, private pensions, or life insurance. For additional context, we reviewed past evaluations of DIC benefits and interviewed officials at VA and several organizations representing veterans, servicemembers, and their survivors. We also reviewed relevant federal laws and regulations. Additional information on the objectives, scope, and methodology of our work can be found in Appendix I.

We conducted this performance audit from February 2009 to November 2009, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings based on our audit objectives.

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## Background

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### VA DIC

#### Eligibility

VA pays Dependency and Indemnity Compensation to surviving spouses, children, and parents. The surviving spouse of a veteran may qualify for this compensation if the veteran died on or after January 1, 1957, (1) from a service-connected disability, or (2) after being rated as totally disabled due to service-connected conditions for a continuous period of 10 years,

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<sup>3</sup>To estimate the amounts DOD paid to servicemembers, we used the midpoint of military pay for the servicemember's rank, including basic pay and allowances for housing and subsistence.

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or for at least 5 continuous years after discharge from military service.<sup>4</sup> The surviving spouse of a servicemember qualifies for this compensation if the servicemember died while on active duty.<sup>5</sup> Some children aged 18 and older may receive separate DIC payments if they are in school or are unable to care for themselves.<sup>6</sup> Parents may receive these benefits if they were dependent on the veteran or servicemember for financial support.

## Payment Rates

Surviving spouses receive basic DIC payments at a flat rate, currently \$1,154 per month, regardless of their spouse's military rank or degree of disability.<sup>7</sup> In addition to the set basic monthly payment, surviving spouses may qualify for additional payments: for example, if they have children under age 18, or have disabilities themselves. This compensation is paid to other surviving children at a flat rate, while surviving parents' payments are based on the parents' income. These monthly DIC payments are set by law, are consistent across the country, and generally subject to annual cost-of-living adjustments.<sup>8</sup> The payments are not subject to federal income taxes. (See table 1.)

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<sup>4</sup>38 U.S.C. §§ 1310 and 1318(a) and (b). Additionally, a surviving spouse is entitled to this compensation if the veteran was a prisoner of war who was totally disabled for at least one year preceding death, and died on or after January 1, 1999.

<sup>5</sup>38 U.S.C. § 1301.

<sup>6</sup>38 U.S.C. § 1314(a) and (b). Children unable to care for themselves can receive DIC benefits if they became permanently incapable of self-support before reaching age 18.

<sup>7</sup>38 U.S.C. §1311(a)(1). The surviving spouse rate structure has changed over the years. When the current DIC program was established, effective in 1957, DIC provided surviving spouses with a flat-rate payment supplemented by 12 percent of the veteran's basic military pay, adjusted for military pay increases. Servicemen's and Veterans' Survivor Benefit Act, Pub. L. No. 84-881, §§ 201-210, 70 Stat. 857, 862-68. In 1969, the law was amended to base DIC benefits solely on military pay grade, with survivors of higher-ranked veterans and servicemembers receiving higher payments. Act of Oct. 27, 1969, Pub. L. No. 91-96, 83 Stat. 144, 144-45. In 1992, the rate structure was changed once again to a flat monthly payment. Veterans' Benefits Act of 1992, Pub. L. No. 102-568, § 102, 106 Stat. 4321, 4321-22. Survivors of veterans and servicemembers who died prior to January 1, 1993, continue to receive payments determined by military rank.

<sup>8</sup>For example, the current rates, reflecting a 5.8 percent increase over the previous year, became effective December 1, 2008.

**Table 1: Monthly DIC Payments to Survivors, as of December 1, 2008**

| Type of payment  | Monthly amount |
|--|----------------|
| <b>For surviving spouses</b>   |                |
| Basic surviving spouse rate  | \$1,154        |
| For each dependent child under age 18, add   | 286            |
| For 8-year allowance, add <sup>a</sup>   | 246            |
| If the spouse is in need of aid and attendance, add <sup>b</sup>                   | 286            |
| If the spouse is housebound, add   | 135            |
| If the spouse has at least one child under age 18, add <sup>c</sup>                | 250            |
| <b>For other surviving children (payments vary by situation of child)</b>          |                |
| If the child is under age 18 and there is no surviving spouse <sup>d</sup>         | 488            |
| If the child is between ages 18 and 22 and is in school                            | 243            |
| If the child is age 18 or older and became incapable of self-support before age 18 | 488            |
| <b>For surviving parents (payments vary by income)</b>                             |                |
| Maximum payment  | 569            |
| Minimum payment, if income is under maximum allowed                                | 5              |
| If parent is in need of aid and attendance, add                                    | 308            |

Source: VA.

<sup>a</sup>Paid if, for a continuous period of at least 8 years immediately preceding the veteran's death, (1) the veteran was in receipt of or entitled to VA disability compensation, and was rated as totally (100 percent) service-connected disabled (including a rating based on individual unemployability); and (2) the surviving spouse was married to the veteran for the same 8 years.

<sup>b</sup>This allowance applies to a surviving spouse who is (1) a patient in a nursing home; (2) blind; or (3) so nearly blind or significantly disabled as to need regular assistance.

<sup>c</sup>This allowance is paid during a surviving spouse's first 2 years of DIC entitlement, or until all dependent children reach age 18.

<sup>d</sup>If there is more than one surviving child, the overall rate is higher, but the rate per child is lower than \$488 and the total payment is evenly split. For example, the rate for two children is \$701 per month, with each child receiving \$350.50.



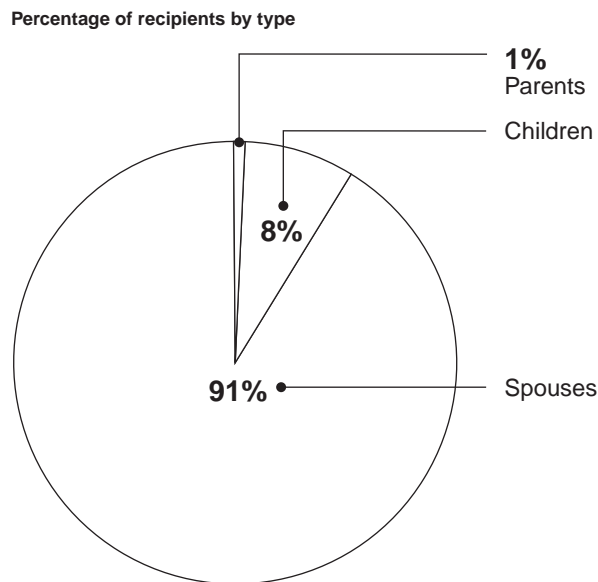
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## Recipients

In September 2008, most DIC recipients (91 percent) were the surviving spouses of veterans and servicemembers.<sup>9</sup> The remainder were children and dependent parents. (See fig. 1.) Few of the surviving spouses had children supported by these benefits. Of the approximately 321,000 surviving spouses receiving benefits, only about 13,000 had children supported by DIC.

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**Figure 1: Dependency and Indemnity Compensation Recipients by Type, September 2008**



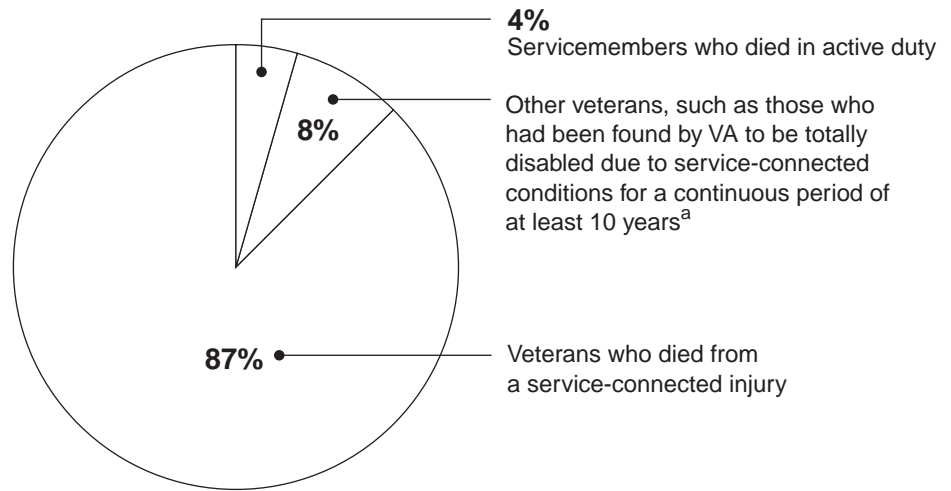
Source: GAO analysis of VA data.

Meanwhile, the most common reason survivors qualified for this benefit was the death of a veteran from a service-connected disability. This accounted for 87 percent of the individuals whose survivors received these payments in September 2008. The remainder were survivors of other veterans, such as those found by VA to be totally disabled due to service-connected conditions for a continuous period of at least 10 years, and survivors of servicemembers who died on active duty. (See fig. 2.)

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<sup>9</sup>We use the term “recipient” to refer to any survivor who is supported by DIC payments. In some cases, more than one survivor is supported by a single DIC payment, such as a surviving spouse with a child.

**Figure 2: Dependency and Indemnity Compensation Recipients, by Qualification for Benefits, September 2008**



Source: GAO analysis of VA data.

Note: Numbers do not add to 100 due to rounding.

<sup>a</sup>Includes recipients who qualified as survivors of veterans who were found by VA to be totally disabled due to service-connected conditions for a continuous period of at least 5 years after discharge from military service, and survivors of veterans who were former prisoners of war.

Most recipients were older widows who survived veterans and servicemembers who served in the enlisted ranks, as opposed to military officers. About 81 percent were aged 60 or older, and about 86 percent survived veterans and servicemembers who served in the enlisted ranks.

## Past Evaluations of DIC Benefits

Several previous studies have reported on the level of benefits provided by this program. In 1995, we reported on the income and benefits received by surviving spouses who were receiving DIC benefits in 1993.<sup>10</sup> We found that the DIC benefit represented a significant portion of surviving spouses' income and that many spouses also received other benefits such as Social Security. In 2001, a VA-commissioned study reported that the DIC program provided surviving spouses with incomes higher than the incomes of their

<sup>10</sup>GAO, *Veterans' Benefits: Basing Survivors' Compensation on Veterans' Disability Is a Viable Option*. GAO/HEHS-95-30, (Washington, D.C.: Mar. 6, 1995.)

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counterparts in the general population.<sup>11</sup> The CNA Corporation, a consulting firm, reported in August 2007 to the Veterans' Disability Benefits Commission that DIC beneficiaries were at least as well off as widows and widowers in the general population.<sup>12</sup> It found that although DIC beneficiaries had lower employment rates and earned incomes than the general population, DIC benefits offset this economic loss in every age group.<sup>13</sup>

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## Disability Benefits

Veterans, servicemembers, and federal employees may receive disability benefits from various sources including VA, DOD, and the Social Security Administration. These disability benefits terminate upon the death of the disabled person.

## Veterans and Servicemembers

Veterans may receive disability compensation payments through VA.<sup>14</sup> A veteran's qualification for, and amount of, disability compensation is not dependent on the veteran's military rank or current income. If a veteran has one or more service-connected disabilities—conditions incurred or aggravated by military service—VA assigns a disability rating. This rating is intended to represent the average earnings loss the veteran would experience in civilian occupations due to the disabling conditions. Ratings range from 0 to 100 percent, in 10 percent increments. Basic monthly payments for a veteran with a spouse range from \$123 for a 10 percent rating to \$2,823 for a 100 percent rating (i.e., totally disabled or unemployable).<sup>15</sup> A veteran rated at 60 to 90 percent also can receive VA compensation at the 100 percent level if also determined to be unable to

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<sup>11</sup>System Flow Inc., Economic Systems Inc., Macro International Inc., and Hay Group, *Program Evaluation of Benefits for Survivors of Veterans With Service-Connected Disabilities, Final Report, Volume II - Evaluation of the Dependency and Indemnity Compensation (DIC) Program*, May 2001.

<sup>12</sup>The CNA Corporation, *Final Report for the Veterans' Disability Benefits Commission: Compensation, Survey Results, and Selected Topics* (Alexandria, VA, Aug. 2007).

<sup>13</sup>The CNA Corporation study compared the earned income of DIC recipient groups with the earned income of widows and widowers in the general population and did not compare individual-level incomes. When aggregated information, such as group-level data is used, it can mask individual situations.

<sup>14</sup>38 U.S.C. §§ 1101-1163.

<sup>15</sup>In general, veterans rated at 0 percent do not receive disability compensation. A veteran with a rating of 30 percent or higher may receive additional compensation for a spouse, dependent children, and dependent parents.

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work.<sup>16</sup> The veteran may receive additional compensation if he or she meets certain other criteria; for example, loss of a limb or requiring assistance in performing the functions of everyday living. For a veteran with a spouse, total compensation may be as much as \$7,800 per month.

DOD also provides disability retirement payments to servicemembers who are separated from service because they are unfit to continue to serve, provided that their disabilities were incurred in the line of duty.<sup>17</sup> Some veterans may receive disability retirement pay and VA disability compensation simultaneously; for example, if their VA disability rating is 50 percent or higher.

In addition, servicemembers who are enrolled in the military's life insurance program, Servicemembers' Group Life Insurance (SGLI), may also receive financial assistance for certain losses resulting from certain traumatic injuries.<sup>18</sup> Disabled servicemembers receive lump-sum payments, ranging from \$25,000 to \$100,000, depending upon the nature of the qualifying loss.

## Federal Employees

Disability benefits for federal employees are provided through their retirement and workers' compensation programs, and payment amounts are generally tied to the employee's salary. The Civil Service Retirement System (CSRS) generally covers employees who began federal employment prior to 1984.<sup>19</sup> The Federal Employees' Retirement System (FERS), established to eventually replace CSRS, generally covers federal employees who began their term of employment in 1984 or later.<sup>20</sup> The Federal Employees' Compensation Act (FECA) provides the workers' compensation program for federal employees who suffer injuries or

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<sup>16</sup>This applies when a veteran has a single disability rated 60 percent or higher or a combined rating of at least 70 percent (with at least one disability rated at 40 percent or higher), and there is evidence that the veteran cannot work.

<sup>17</sup>If DOD rates the disability at less than 30 percent, then the servicemember receives a lump-sum disability payment. If rated 30 percent or above, or if the member has at least 20 years of service, DOD provides monthly disability retirement payments.

<sup>18</sup>This assistance is provided by the Servicemembers' Group Life Insurance Traumatic Injury Protection Program (TSGLI). All servicemembers paying SGLI premiums are automatically enrolled in TSGLI, and pay an additional \$1 per month premium.

<sup>19</sup>5 U.S.C. §§ 8331-8351.

<sup>20</sup>5 U.S.C. §§ 8401-8480. In addition, FERS may cover those federal employees who began their careers under CSRS, but chose to switch to FERS.

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illnesses while on the job, or whose preexisting conditions are aggravated by their jobs.<sup>21</sup> An eligible employee may elect to receive disability retirement benefits under CSRS or FERS instead of under FECA, but cannot receive both.

## Social Security Benefits for Servicemembers and Federal Employees

Additionally, servicemembers and federal employees are eligible for Social Security disability benefits.<sup>22</sup> As part of its Old Age, Survivors, and Disability Insurance program, the Social Security Administration pays Social Security Disability Insurance (SSDI) benefits to individuals who are unable to work. To be eligible for SSDI, an individual must have a condition that will last at least one year or will result in death, and meet certain age and work requirements, which may include military service. SSDI benefit amounts are calculated on average earnings indexed to national wage levels. SSA also pays Supplemental Security Income (SSI) to qualifying adults with limited income and resources who have disabilities or are blind, or are age 65 or older, and to children who have disabilities or are blind.<sup>23</sup>

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## Survivor Benefits

### Military

In addition to DIC benefits, survivors of servicemembers and veterans can receive cash payments and other types of benefits. DOD provides a lump sum death gratuity of \$100,000 to the survivors of a servicemember who dies on active duty or in training, or due to a service-related disability.<sup>24</sup> DOD also provides up to \$8,800 for burial expenses. The deceased may have had Servicemembers' Group Life Insurance (SGLI) coverage,<sup>25</sup> which can pay surviving family members a lump sum of up to \$400,000. A surviving spouse and children may also receive monthly payments after the death of an active duty or retired servicemember through the Survivor

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<sup>21</sup>5 U.S.C. §§ 8101-8193.

<sup>22</sup>42 U.S.C. §§ 401-434. Federal employees' eligibility applies to those covered by FERS because they pay Social Security taxes. CSRS participants do not pay Social Security taxes and are not eligible for Social Security disability benefits based on their CSRS employment.

<sup>23</sup>42 U.S.C. §§ 1381-1385.

<sup>24</sup>10 U.S.C. § 1478. The death gratuity may be paid if the servicemember died of a service-related disability within 120 days after release from active duty.

<sup>25</sup>38 U.S.C. §§ 1965-1980A.

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## Federal Employees

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Benefit Plan (SBP).<sup>26</sup> These payments equal 55 percent of the servicemember's retirement pay.<sup>27</sup> In addition to cash payments, survivors may also be eligible for health care, housing assistance, and education benefits.<sup>28</sup>

Survivors of federal employees can receive benefits through retirement programs, workers' compensation, and life insurance. CSRS provides benefits to the surviving spouses of retired employees.<sup>29</sup> The maximum CSRS survivor benefit is 55 percent of the retired employee's monthly payment.<sup>30</sup> CSRS also provides payments to the survivors of covered employees who die while employed, with survivors receiving a percentage of the employee's calculated retirement annuity.<sup>31</sup> FERS offers similar survivor benefits, but the maximum is 50 percent of the retired employee's

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<sup>26</sup>Retired servicemembers must choose to receive a reduced annuity in order to participate in SBP.

<sup>27</sup>10 U.S.C. § 1451. If SBP benefits are paid to a survivor of a deceased military retiree, the payment equals 55 percent of the deceased's retired pay. If SBP benefits are paid to the survivor of a servicemember who died on active duty, the payment equals 55 percent of what the servicemember would have received in retirement at the 100 percent disability level. In general, a survivor's payments are reduced by any DIC benefits. DOD provides payments to survivors to partially make up for this offset. This offset does not apply if the surviving spouse chose "child only" SBP benefits.

<sup>28</sup>DOD provides survivors of servicemembers with health care benefits through its TRICARE program. 10 U.S.C. §§ 1071-1110. Survivors of veterans may receive health care benefits through the Civilian Health and Medical Program of VA. 38 U.S.C. §§ 1721-1730. Housing benefits include temporary rent-free government housing or a tax-free housing allowance for the survivors of servicemembers and home loan assistance for survivors of veterans. VA provides education benefits through its Dependents' Educational Assistance Program. 38 U.S.C. §§ 3500-3697A.

<sup>29</sup>For both the CSRS and FERS programs, the retiree must take a reduced retirement annuity in order to provide this survivor benefit. A couple may choose to waive their right to a survivor benefit and not have the retiree's annuity reduced.

<sup>30</sup>The 55 percent calculation is based on what the retired employee's benefit would have been if a couple had waived the right to a survivor benefit.

<sup>31</sup>The calculated annuity is the amount that the employee would have received if he or she had retired on a disability retirement as of the date of death.

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## Social Security Survivor Benefits

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monthly payment.<sup>32</sup> Under FECA, the federal workers' compensation program, benefits may be provided to the survivors of federal civilian employees who die as a result of work-related injuries and illnesses. Payment amounts are based on the deceased's last salary and, unlike other federal employee programs, FECA provides additional benefits to the spouse for dependent children. A surviving spouse is eligible to receive 50 percent of the deceased's salary, or 45 percent plus 15 percent for each dependent child, up to a maximum of 75 percent. Survivors of federal employees who die of a work-related injury or disease may receive benefits under either FECA or the employee's retirement program, CSRS or FERS, but if eligible for more than one benefit, survivors typically choose the more generous FECA benefit. FECA benefits are not subject to federal income taxes.<sup>33</sup> Survivors also may receive a lump sum benefit from the employee's Federal Employees' Group Life Insurance policy.

Survivors may also collect Social Security benefits through the Old Age, Survivors, and Disability Insurance program. These benefits are paid to the surviving spouse, children, and dependent parents of any worker with a qualifying work history, including military servicemembers and federal employees under FERS. Survivor benefits may also be paid to the survivors of veterans and some CSRS-covered federal employees, if the veteran or federal employee had sufficient Social Security earnings credits. For the surviving spouse, eligibility for full benefits may occur at the spouse's normal retirement age, while partial benefits can be paid as early as age 60.<sup>34</sup> Also, a surviving spouse can receive survivor benefits at any age if caring for a child who is receiving Social Security benefits and is

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<sup>32</sup>Under FERS, the pension benefit represents one part of a covered employee's total retirement income. Retirees may also receive income through the Thrift Savings Plan (TSP), which offers federal employees the same type of savings and tax benefits that many private corporations offer their employees under "401(k)" plans. Both civilian federal employees and servicemembers may contribute to retirement accounts in the TSP. Under FERS, the government matches employee contributions up to 5 percent of a covered employee's salary, while there is no matching contribution for CSRS-covered employees or for servicemembers. In the event of death, funds in these accounts are transferred to the employee's or servicemember's survivors.

<sup>33</sup>A portion of CSRS and FERS benefits are subject to federal income tax.

<sup>34</sup>If the surviving spouse is disabled, benefits can begin as early as age 50.

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younger than age 16 or disabled. Unmarried children may receive benefits if they are under age 18.<sup>35</sup>

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## For Most Recent Survivors, DIC Replaced Between 35 and 55 Percent of the VA Disability Compensation or Military Pay Previously Paid to the Veteran or Servicemember

For more than half the survivors who began collecting benefits in fiscal years 2004-2008, DIC replaced between 35 and 55 percent of the VA disability compensation or military pay previously paid to the veteran or servicemember.<sup>36</sup> Most of the DIC recipients in this group survived a totally disabled veteran or a low- to mid-grade enlisted servicemember, such as an Army sergeant. Overall, the most common DIC recipient was a woman over the age of 50 with no minor children who was the widow of a totally disabled veteran.<sup>37</sup> In this most common case, the totally disabled veteran would have received \$2,823 per month in VA compensation in 2009 and, after his death, the surviving spouse would have received \$1,154 per month—the basic flat-rate DIC payment—for a replacement rate of 41 percent.

Under DIC, survivors receive benefits without regard to the veteran's or servicemember's prior income. This prior income can include VA disability compensation and military pay, which cease upon the death of the veteran or servicemember. Because DIC benefits are generally paid at the same flat rate, the replacement rate depends upon the amount of prior income. While survivors of 6 out of 10 veterans and servicemembers received 35 percent to 55 percent of prior compensation, there are examples of DIC recipients at both ends of the replacement scale (see fig. 3).<sup>38</sup>

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<sup>35</sup>Children up to age 19 qualify if they are attending elementary or secondary school full time. Also, children can receive benefits at any age if they were disabled before age 22 and remain so. Benefits may also be paid to stepchildren, grandchildren, stepgrandchildren, and adopted children.

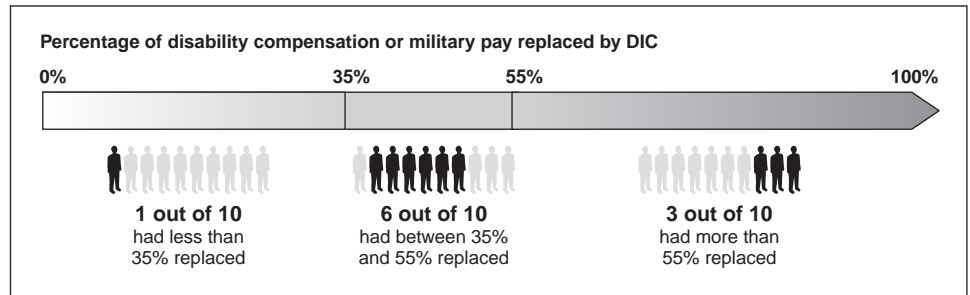
<sup>36</sup>For purposes of this analysis, when referring to survivors, we mean one or more persons (family members) surviving an individual veteran or servicemember.

<sup>37</sup>VA defines totally disabled veterans as those whose disabilities it rates at 100 percent or who it considers unemployable because of the nature of their disability.

<sup>38</sup>In reporting these percentages, we did not take into account any other income the veteran, servicemember, or their survivors may receive, such as monthly payments from private pensions or Social Security, or lump sum death benefits, both public and private.



**Figure 3: Percentage of VA Disability Compensation or Military Pay Replaced by DIC for Survivors of Veterans and Servicemembers**



Source: GAO analysis.

Note: Because there was no prior benefit for comparison with DIC, we excluded from our analysis deceased veterans who had not been receiving VA disability compensation. We estimated military pay based on the servicemembers' ranks.

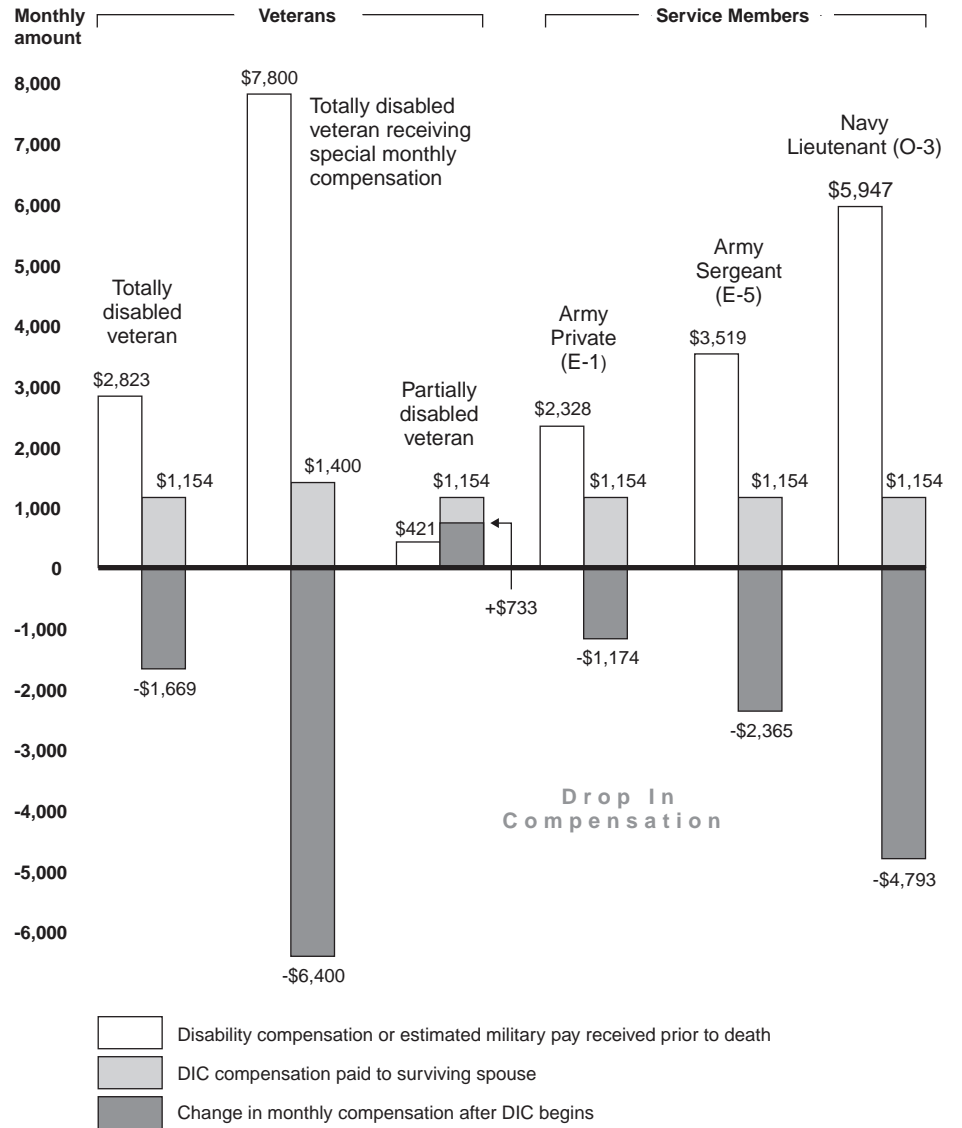
On the low end of the replacement scale, for about 1 of 10 survivors DIC replaced less than 35 percent of the veteran's prior disability compensation or the servicemembers' military pay. Many were survivors of veterans who received special compensation in addition to disability compensation due to the seriousness of the disability, for example, the loss of a limb. Some of the survivors of these veterans experienced a large drop in monthly compensation. For example, a severely disabled veteran could receive as much as \$7,800 per month in disability and special compensation prior to death, but the surviving spouse would receive \$1,400<sup>39</sup> per month in DIC, or 18 percent of the prior amount (see fig. 4).<sup>40</sup> Another group which sees a large drop is survivors of higher ranked servicemembers, such as officers. DIC's flat rate replaces less of their military pay than it does for servicemembers in lower pay grades. A Navy lieutenant, for example, earned about \$6,000 per month in 2009.<sup>41</sup> If the lieutenant died on active duty, the surviving spouse would receive the basic DIC benefit—\$1,154—which replaces about 19 percent of the lieutenant's pay.

<sup>39</sup> Assuming the veteran was totally disabled for a period of eight years, the surviving spouse would receive \$246 per month, in addition to the basic rate of \$1,154.

<sup>40</sup> The lowest replacement rate for a surviving spouse is 15 percent. In this case, the veteran received the maximum amount of special monthly compensation and the surviving spouse received the basic DIC benefit.

<sup>41</sup> We estimated pay using the midpoint of basic pay for each paygrade and added allowances for housing and subsistence. A Navy lieutenant is at DOD paygrade level O-3.

**Figure 4: Examples Showing the Difference Between Disability Compensation or Military Pay and the DIC Benefits Received by Surviving Spouses**



Source: GAO analysis.

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On the high end of the replacement scale, about 3 out of 10 survivors received DIC payments that replaced more than 55 percent of previous disability compensation or military pay, with many receiving 100 percent or more of the prior compensation.<sup>42</sup> Many were survivors of veterans who received relatively low VA compensation prior to their death because they were considered partially disabled. For example, a veteran with a spouse and a 30 percent rated disability received \$421 per month in VA disability compensation in 2009. Upon the veteran's death, the surviving spouse received the DIC basic payment of \$1,154 per month, which represented well over 200 percent of the prior compensation (see fig. 4). Some survivors of active duty servicemembers also fell into this group. Generally, these were servicemembers in lower pay grades whose survivors received additional DIC benefits to support children or parents.

While DIC serves to replace some of the financial support lost due to a service-connected death, the law does not define a specific percentage of income that DIC should replace. In contrast, laws governing some other types of survivor benefits establish set replacement rate percentages. For example, a provision in federal law stipulates that most employment-based pensions must provide surviving spouses with 50 percent of the deceased's pension payment, unless both the employee and spouse opt out.<sup>43</sup> However, DIC is not a pension program, and there is no consensus among experts on an adequate or ideal replacement ratio for survivors.

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<sup>42</sup>In most cases, for DIC to replace 100% of VA disability compensation, the veteran's compensation must be equal to the basic DIC rate of \$1,154. There is no VA compensation rate exactly equal to this, but it would fall between the compensation rates for 60 percent and 70 percent disabled veterans.

<sup>43</sup>29 U.S.C. § 1055(a)(2) and (e)(2).

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## DIC Benefits Are Generally Higher Than Survivor Benefits Paid by Federal Retirement Programs, but Are Usually Lower Than Federal Workers' Compensation Survivor Benefits

The amount paid by DIC to survivors of disabled veterans and servicemembers is generally higher than the amount paid by CSRS and FERS retirement programs to survivors of comparably paid federal employees. Such comparisons are difficult, however, because DIC provides a flat rate payment while CSRS and FERS survivor payments are determined by the salary and years of employment of the deceased employee. As a result, there is a range of payment amounts for survivors of federal employees. The monthly payment to a survivor of a federal employee with more years on the job and a higher salary will be larger than that to a survivor of a federal employee with fewer years or a lower salary. When we looked at veterans/servicemembers and federal employees with comparable pay and experience, we found that for most survivors, DIC provides higher benefits than the federal retirement programs because it gives more money to survivors of lower-paid individuals. About 82 percent of veterans or servicemembers whose survivors receive DIC were lower ranked during their time of service.<sup>44</sup> Personnel in these lower ranks made less than \$63,000 a year in 2009, and their survivors would have fared better under the DIC program than they would have under the federal retirement survivor programs.<sup>45</sup>

The following examples illustrate how DIC generally provides higher payments to the survivors of those who die after a period of disability than CSRS for a majority of its recipients. Under DIC, the surviving spouse of an Army sergeant<sup>46</sup> who was disabled for a prolonged period before dying in 2009 would be eligible for a monthly payment of \$1,400.<sup>47</sup> In contrast, the surviving spouse of a federal employee, also disabled before his or her death and with the same years of experience and salary as the Army sergeant, would be eligible for a monthly CSRS payment of \$606. The surviving spouses of a private first class, a sergeant first class, and a captain would also receive higher payments under DIC than would the surviving spouses of federal employees with comparable pay and experience under CSRS. Although they represent a small portion of DIC recipients, survivors of higher-paid servicemembers would likely receive

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<sup>44</sup>We refer to lower-ranked pay levels as paygrades E-1 to E-7 for enlisted servicemembers and W-1 to W-2 and O-1 to O-2 for officers.






<sup>45</sup>Assuming personnel began their careers at age 18 and worked 20 or fewer years.

<sup>46</sup>An Army sergeant is at pay grade level E-5.

<sup>47</sup>The \$1,154 base payment and an additional \$246 per month because the veteran was rated 100 percent disabled for more than 8 years.

less compensation than their federal employee counterparts. In 2009, for example, the survivor of an Army lieutenant colonel<sup>48</sup> who was totally disabled for a prolonged period would receive the same DIC payment of \$1,400 per month, but the survivor of a comparable federal employee would receive over \$1,700 per month.<sup>49</sup> (See fig. 5.)

**Figure 5: Comparison of Survivor Payments Under DIC and CSRS for Veterans and Former Federal Employees Who Died in 2009 After a Prolonged Disability (1983-2009)**

|          | Highest Grade/Rank   | Years of service before disability | Monthly DIC benefits to surviving spouse | Monthly benefits <sup>a</sup> to spouse of a federal employee with comparable pay and experience |
|----------|--|------------------------------------|--|--|
| ENLISTED |  Private First Class (E-3)    | 2 years                            | \$1,400                                  | \$0 <sup>b</sup>   |
|          |  Sergeant (E-5)              | 5 years                            | \$1,400                                  | \$606  |
|          |  Sergeant First Class (E-7) | 15 years                           | \$1,400                                  | \$848  |
| OFFICERS |  Captain (O-3)              | 5 years                            | \$1,400                                  | \$1,108  |
|          |  Lieutenant Colonel (O-5)   | 20 years                           | \$1,400                                  | \$1,719  |

Source: GAO analysis.

Note: All the examples are for veterans and federal employees who began their careers prior to 1984 (when CSRS was replaced by FERS). Because the individuals in this example had been disabled for a prolonged period of time, their surviving spouses receive \$246 per month in addition to the basic payment of \$1,154. Army titles are used in this example for illustrative purposes, but DIC payments are the same regardless of the servicemember's branch of service.

<sup>a</sup>DIC benefits are exempt from federal income taxes, whereas CSRS benefits are taxable.

<sup>b</sup>CSRS employees must have 5 years of federal service to receive a disability retirement benefit. As such, an employee with 2 years of service would not receive CSRS disability retirement and would not leave behind a survivor payment.

<sup>48</sup>An Army lieutenant colonel is at pay grade level O-5.

<sup>49</sup>We did not examine examples of employees covered under CSRS who died while still employed in 2009. Any such employees would have started their careers prior to 1984 and, as such, would have over 25 years of service, more than most of those serving in the military.






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The following examples illustrate how DIC generally provides higher payments than FERS for a majority of its recipients. For instance, the spouse of an Army sergeant who died in 2009 after a period of disability would receive the flat DIC payment of \$1,154 a month. The spouse of a federal employee with equal pay and years of employment who died in 2009 would receive \$732 a month under FERS. Similarly, the surviving spouses of a private first class and a sergeant first class would receive higher payments under DIC than the surviving spouses of comparable federal employees would under FERS. This trend generally holds true for both employees who die while employed by the government and those who die after a period of disability: DIC survivor benefits are higher than FERS for the majority of individuals.<sup>50</sup> Although they represent a small portion of DIC recipients, survivors of higher-paid servicemembers may receive lower payments than their federal employee counterparts. While the spouse of a higher-paid Army captain would still receive the basic DIC payment of \$1,154 per month after the captain's death in 2009, the spouse of a federal employee with equal amounts of pay and years of employment would receive nearly \$1,300 under FERS. (See fig. 6.)

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<sup>50</sup>For federal employees who die while employed, they must have 10 years of experience in order for FERS to provide a recurring payment to their survivors. 5 U.S.C. § 8442(b)(1)(B).

**Figure 6: Comparison of Survivor Payments Under DIC and FERS for Veterans and Former Federal Employees Who Died in 2009 after Being Disabled (2005-2009)**

|          | Highest Grade/Rank   | Years of service before disability | Monthly DIC benefits to surviving spouse | Monthly benefits <sup>a</sup> to spouse of a federal employee with comparable pay and experience |
|----------|--|------------------------------------|--|--|
| ENLISTED |  Private First Class (E-3)  | 2 years                            | \$1,154                                  | \$553  |
|          |  Sergeant (E-5)             | 5 years                            | \$1,154                                  | \$732  |
|          |  Sergeant First Class (E-7) | 15 years                           | \$1,154                                  | \$1,058  |
| OFFICERS |  Captain (O-3)              | 5 years                            | \$1,154                                  | \$1,291  |
|          |  Lieutenant Colonel (O-5) | 20 years                           | \$1,154                                  | \$2,021  |

Source: GAO analysis.






Note: All the examples are for federal employees who began their careers after 1984 and are, thus, covered by FERS. Army titles are used in this example for illustrative purposes, but DIC payments are the same regardless of the servicemember's branch of service.

<sup>a</sup>DIC benefits are exempt from federal income taxes, whereas FERS benefits are taxable.

In contrast to CSRS and FERS, DIC survivor payments are generally lower than payments to survivors of comparably paid federal employees under the federal workers' compensation program known as FECA. FECA provides survivor benefits to the families of federal employees who die as a result of injuries sustained on the job. FECA survivor payments are generally higher than those under CSRS or FERS and, like DIC, are not subject to federal income tax. A surviving spouse receives the equivalent of half the federal employee's salary at the time of death. This payment would be larger than the basic DIC payment if the employee had an ending salary of at least \$27,697 in 2009. Almost all servicemembers earn more than this salary in military pay, so their survivors would receive less under DIC than their civilian federal counterparts would receive under FECA. For example, under DIC, the surviving spouse of an Army sergeant who died while on active duty would receive DIC's basic payment of \$1,154 per month. The surviving spouse of a comparably paid federal employee would receive \$1,722 under FECA for a death due to a work-related injury. Similarly, the spouse of a federal employee with pay comparable to an

Army captain<sup>51</sup> would receive over \$3,000 per month under FECA compared to DIC's \$1,154. (See fig. 7.)

**Figure 7: Comparison of Survivor Payments Under DIC and FECA for Servicemembers and Federal Employees Who Died in Service in 2009**

|          | Highest Grade/Rank   | Years of service before death | Monthly DIC benefits to surviving spouse | Monthly benefits to spouse of a federal employee with comparable pay |
|----------|--|-------------------------------|--|--|
| ENLISTED |  Private First Class (E-3)  | 2 years                       | \$1,154                                  | \$1,356  |
|          |  Sergeant (E-5)             | 5 years                       | \$1,154                                  | \$1,722  |
|          |  Sergeant First Class (E-7) | 15 years                      | \$1,154                                  | \$2,500  |
| OFFICERS |  Captain (O-3)            | 5 years                       | \$1,154                                  | \$3,010  |
|          |  Lieutenant Colonel (O-5) | 20 years                      | \$1,154                                  | \$4,696  |

Source: GAO analysis.

Note: Army titles are used in this example for illustrative purposes, but DIC payments are the same regardless of the servicemember's branch of service.

Survivors of both veterans/servicemembers and civilian federal employees may draw on other government benefits and additional sources of income concurrently. For example, Social Security may allow spouses of veterans, servicemembers, and federal employees to collect survivor benefits based on the deceased's employment earnings, and also may provide survivor payments to the deceased's unmarried children.<sup>52</sup> In addition, past reports on DIC indicate that some DIC benefit recipients also receive survivor payments from the Survivor Benefit Plan, a survivor benefit available to

<sup>51</sup>An Army captain is at pay grade O-3.

<sup>52</sup>Survivors of FERS employees may be eligible because FERS employees pay into the Social Security system. In contrast, CSRS employees do not pay into Social Security and are generally not eligible for Social Security benefits based on their CSRS employment.



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those collecting a military pension.<sup>53</sup> Military survivors may also receive burial assistance, and health and education benefits. Finally, survivors of both military personnel and civilian federal employees may draw income from their own employment and receive life insurance payments.

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## Agency Comments

We provided a draft of this report to VA for its review and comment. The agency provided comments that were technical in nature and we incorporated them as appropriate.

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We are sending copies of this report to relevant congressional committees, the Secretary of Veterans Affairs, and other interested parties. In addition, the report will be available at no charge on GAO's Web site at <http://www.gao.gov>.

If you or your staff have any questions regarding this report, please contact me at (202) 512-7215 or at [bertonid@gao.gov](mailto:bertonid@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix II.



Daniel Bertoni  
Director, Education, Workforce, and  
Income Security

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<sup>53</sup>SBP payments are offset by any DIC payment. However, DOD provides payments to survivors to partially make up for this offset. Survivors of servicemembers who die on active duty may also receive SBP.

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# Appendix I: Objectives, Scope, and Methodology

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Our review focused on (1) the extent to which Dependency and Indemnity Compensation (DIC) replaces Department of Veterans Affairs (VA) disability compensation or active duty military pay lost due to the death of a veteran or servicemember, and (2) how DIC benefits compare to benefits for survivors of civilian federal employees. To address these objectives, we obtained and analyzed data on DIC benefits, VA disability compensation, and military pay. We also obtained information on programs that provide survivor benefits to federal employees and compared these survivor payments to DIC payments. To obtain additional context, we reviewed past evaluations of DIC and interviewed officials at VA and several organizations representing veterans, servicemembers, and their survivors.

We conducted this performance audit from February 2009 to November 2009, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings based on our audit objectives.

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## Analysis of VA Data on DIC Recipients

We obtained and analyzed data from VA's Benefits Delivery Network (BDN) data system on all survivors who received DIC payments in September 2008, the last month of fiscal year 2008. These data included information on individual DIC recipients, such as the recipient's age and the level of DIC payments the recipient received. To determine the extent to which DIC benefits replaced prior VA disability compensation, we obtained additional data on survivors who began receiving DIC payments during a 5-year period: fiscal years 2004-2008. Specifically, we obtained data on the amount of monthly VA disability compensation received by the disabled veteran prior to death. We focused on those who recently began collecting DIC benefits due to VA's limited historical data on disability compensation payments to veterans. For these recent recipients, we compared their monthly DIC payments with the amount of VA disability compensation received by the veterans. To determine the extent to which DIC replaces military pay lost due to the death of a servicemember on active duty, we estimated the pay of the servicemember prior to death. VA's data included the servicemember's last military grade, but not his or her last military pay rates. To estimate pay rates, we obtained military pay information from DOD and used the midpoint in the pay ranges for the servicemember's grade in the year he or she died, including the basic pay and housing and subsistence allowances applicable to the servicemember's grade. We compared this estimated pay with the actual

amount of DIC benefits received by the servicemember's survivors. For purposes of this analysis, when referring to survivors, we mean one or more persons (family members) surviving a single veteran or servicemember.

We assessed the reliability of the VA data we used and judged them to be sufficiently reliable for our purposes. We identified data limitations that did not significantly impact the results of our data analysis, or our findings. For example, 314 of the cases were missing from our data because VA is transitioning from BDN to a new data system. Additionally, we found 31 cases where the recipient's award amounts were incorrect. According to VA officials, this was likely due to data entry errors. We excluded these 345 records—about 1/10 of 1 percent of the entire September 2008 beneficiary file—from our analysis.

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### Comparison with Federal Employee Survivor Benefits

Our comparisons of DIC with survivor benefits for federal employees focused on three programs: the Civil Service Retirement System (CSRS), the Federal Employees' Retirement System (FERS), and the federal workers' compensation program established by the Federal Employees' Compensation Act (FECA). We chose these programs because they cover the majority of federal employees and, like the DIC program, provide ongoing survivor benefits in the event of the employee's death. Additionally, these programs provide disability benefits to federal employees who suffer an injury or illness, mirroring, to an extent, VA compensation for veterans with disabilities related to their military service.

It is difficult to compare DIC benefits to survivor benefits under these programs because DIC generally provides flat payments to survivors regardless of their past incomes, while these federal programs base benefit amounts on prior income levels. Additionally for CSRS and FERS, the employee's length of service and age affect benefits calculations. Therefore, to compare benefits, we constructed several scenarios to examine the DIC benefits available to various veterans and servicemembers, and those available to federal employees with pay and experience equivalent to those veterans and servicemembers. For CSRS and FERS, we developed examples in which the individuals started their careers in time periods in which the federal employees would have been

covered by the respective programs.<sup>1</sup> We obtained information on the military pay applicable to a veteran or servicemember in the last year he or she served and assumed that the federal employee would have a high-three average salary<sup>2</sup> equal to this amount. We used these salary amounts to calculate the federal employees' disability benefits to which they were entitled, and used the appropriate cost of living adjustments to determine what their disability benefits would have been in 2009 before dying, and their survivor's benefit after their death in 2009. Similarly, we calculated survivor benefits for servicemembers who died on active duty and for federal employees with comparable years of service and pay at the time of death.

To compare FECA benefits with DIC benefits, we constructed several scenarios in which a servicemember died in 2009 and compared these scenarios to a federal employee with an equivalent salary. We assumed that the federal employee died of a job-related injury that was covered by FECA.

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## Reviews of Past Work and Interviews

To provide context for our analysis of DIC benefits, we reviewed previous evaluations of DIC benefits. These included:

- Past GAO reviews of DIC and other survivor benefits;<sup>3</sup>
- A program evaluation report prepared for VA in May 2001;<sup>4</sup> and
- The CNA Corporation's 2007 report prepared for the Veterans' Disability Benefits Commission on VA disability compensation and DIC benefits.<sup>5</sup>

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<sup>1</sup>For example, CSRS benefits are for federal employees who began their federal service prior to 1984. CSRS employees had the option to switch to FERS, but we did not examine these cases in our examples.

<sup>2</sup>The average of the employee's three highest years of pay.

<sup>3</sup>GAO/HEHS-95-30, and GAO, *Military Personnel: Survivor Benefits for Servicemembers and Federal, State, and City Government Employees*, GAO-04-814 (Washington, D.C.: July 15, 2004.)

<sup>4</sup>System Flow Inc., Economic Systems Inc., Macro International Inc., and Hay Group, *Program Evaluation of Benefits*.

<sup>5</sup>The CNA Corporation, *Final Report for the Veterans' Disability Benefits Commission*.

To gain an understanding of DIC, its benefit levels, and related issues, we interviewed VA officials, and officials of several veterans and military service organizations. The organizations included the American Legion, the Disabled American Veterans, the Iraq and Afghanistan Veterans of America, The Military Officers Association of America, the National Association for Uniformed Services, the National Military Family Association, the Paralyzed Veterans of America, the Retired Enlisted Association, the Society of Military Widows, the Gold Star Wives of America, Inc., The Military Coalition, and the Tragedy Assistance Program for Survivors.

Finally, to provide background on the various disability and survivor benefits identified in this report, we reviewed literature from several agencies' Web sites, including VA, the Department of Defense (DOD), the Social Security Administration (SSA), the Department of Labor, and the Office of Personnel Management. We also reviewed related GAO and Congressional Research Service reports, and relevant federal laws and regulations.

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# Appendix II: GAO Contact and Staff Acknowledgments

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## GAO Contact

Daniel Bertoni, (202) 512-7215 or [bertonid@gao.gov](mailto:bertonid@gao.gov)

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## Staff Acknowledgments

Melissa H. Emrey-Arras (Assistant Director), Paul R. Schearf (Analyst-in-Charge), Daniel R. Concepcion, and Gregory D. Whitney made major contributions to this report. In addition, Kirsten B. Lauber and Walter K. Vance assisted in developing the study's methodology; Beverly Ross analyzed VA data; Kyle C. Adams assisted with the calculation of survivor benefits; Susan L. Aschoff and Charles E. Willson provided writing assistance; James E. Bennett helped develop our graphics; and Craig H. Winslow provided legal support. Joseph Applebaum, Timothy J. Carr, Cynthia C. Heckmann, David E. Moser, and Patricia Owens provided additional support and guidance.

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