Comparative Evaluation of

the *Pension Act* with the "New Veterans Charter"

prepared by

Louis-Félix Molgat-Mirecki

(Canadian Veterans Advocacy)

January 27th, 2014

Mr. Molgat-Mirecki was a Canadian Forces Reservist from 2003 to 2009 (3rd Field Engineer Squadron and 33rd Combat Engineer Regiment). He is educated at Dalhousie University, the University of Ottawa and worked at Statistics Canada.

As a member of the Canadian Veterans Advocacy Team he creates reports and analyses of governmental documents including Governmental Audit Conclusion Reports. He conducts investigations of DND and WSIB compliance with OHS related legislation, regulations and Bill C-45 regarding Reservists.

He conducted a statistical analysis of Veteran`s Affairs Canada office closures. He monitors, evaluates, and reviews websites, newspapers and posts information on the Canadian Veterans Advocacy ``Information Repository``.

PURPOSE:

The purpose of this document is to understand the monetary value differences between the *Pension Act* and the New Veterans Charter.

The tables in this document represent an estimated monetary value of the benefits provided by the *Pension Act* in comparison to the estimated monetary value of the New Veterans Charter.

All figures come from the "**Evaluation of Disability Pensions and Awards"** document provided by Audit and Evaluation Division of Veterans Affairs Canada. (Annex 1, page 12-13). The documents were sourced from Veterans Affairs Canada (VAC) website.

> Table 1: Canadian Veterans Advocacy (CVA) identifies the elements for which there may be payments.
>
> Tables 2 and 3: Veterans Affairs Canada (VAC) include some of the elements for which there may be payments.

The case scenario is used in the tables comparing the value of the *Pension Act* benefits and the value of the New Veterans Charter benefits.

Case scenario

"98 %+ disability. In this scenario, a CF client has assessed disabilities totaling 98%. As a CF member, the client's indexed monthly salary as a corporal as of March 31, 2010, was $4,663. The Veteran is married and both he and his spouse are 28 years of age and, two kids, at the time the application for disability benefits and other programs is made. The life expectancy of the Veteran is 72, while his wife is expected to live to age 79. The Veteran has one year of service and is not in receipt of Canadian Forces Superannuate." (The Audit and Evaluation Division, 2010)

OBSERVATIONS:

Looking at the corrected numbers, it is inconceivable to come to the same conclusion as Veterans Affairs Canada (VAC) that states the New Veterans Charter is preferable to the *Pension Act*. In fact, the opposite is true.

Questions exist regarding the quality of the audit conducted by the Audit and Evaluation Division from Veterans Affairs Canada on the Evaluation of Disability Pensions and Awards document. It is difficult to comprehend why there are so many different inflation rates used for the same table. There should never be a mix of inflation rates when comparing the same type of data in a table. The reader should understand that none of the calculations were adjusted to fit the needs of, in this case, Veterans Affairs Canada.

This audit should have corrected deflation rates. The 'Present Value' column should indicate amounts without inflation. If it was important for VAC to indicate inflated amounts in the table, they should have used a column with the title 'Future Value'. Amounts calculated with an inflation rate should be clearly marked and should have indicated the inflation rate used (or show the type of calculation used for the inflation rate.

Comparative Evaluation Outcome:

The following table represents the differences in percentages and dollars of the net loss veterans experience when the *Pension Act* is replaced by the New Veterans Charter.

	New Veterans Charter
	Net Loss ($/%)
CVA's Table 1. (without inflation)	$2,118,380.54
	41.18%
VAC's Table 3. (without inflation)	$33,079.54
	1.27%

These tables summarize differences between the Pension Act and the New Veterans Charter.

TABLE 1.A

Canadian Veterans Advocacy – *with rehabilitation values* (without inflation) Summary

Pension Act	**New Veterans Charter**
Present Value ($)	
With Rehabilitation Values (these rehabilitation values are not indicative of money the veteran receives in pocket, they are part of the maximum of services received through VAC Services)	
$5,574,916.56	**$3,456,585.50**

TABLE 1.B

Canadian Veterans Advocacy – *without rehabilitation values* (without inflation) Summary

Pension Act	**New Veterans Charter**
Present Value ($)	
Without Rehabilitation Values (Actual amounts the Veteran receives in Pocket)	
$5,144,762.04	**$3,026,381.50**

TABLE 2

Veterans Affairs Canada (with inflation) Summary

Pension Act	**New Veterans Charter**
Present Values ($)	
Veterans Affairs Canada does not add the *Rehabilitation Values* in this Version of their comparitive evaluation of the Pension Act and the New Veteran Charter	**With Rehabilitation Values** (these rehabilitation values are not indicative of money the veteran receives in pocket, they are part of the maximum of services received through VAC Services)
$2,895,092.90	**$2,614,714.53**

TABLE 3

Veterans Affairs - inflation removed from 'Present Value' column Summary

Pension Act	**New Veterans Charter**
Present Values ($)	
Veterans Affairs Canada does not add the *Rehabilitation Values* in this Version of their comparitive evaluation of the Pension Act and the New Veteran Charter	**With Rehabilitation Values** (these rehabilitation values are not indicative of money the veteran receives in pocket, they are part of the maximum of services received through VAC Services)
$2,604,864.24	**$2,571,784.70**

TABLE 4

Summary of inflation rates used by Veterans Affairs Canada Summary

Pension Act	**New Veterans Charter**
Average Inflation rates (%)	
12.72%	**-12.92%**

The reason for using a comparative table of the inflation rates is because when it was attempted to recreate the calculations from the original numbers it was impossible to obtain the same figures that were given by VAC's, Audit and Evaluation Division in the Audited document: **Evaluation of Disability Pensions and Awards**.

We conclude that VAC had employed an inflation rate calculation. Some present values were completely miscalculated. The Veterans Ombudsman confirmed that all calculations use inflation rates but that any differences that show more than .3 % difference are significant and should be reported.

The table shows the differences between the Calculated Averages of inflation rates used by Veterans Affairs Canada, Audit and Evaluation Division for the Audit document: **Evaluation of Disability Pensions and Awards**. Average inflation rates are indicative that there is an issue.

Table 4 shows the individual inflation rates for each monetary program under the *Pension Act* and the New Veterans Charter. Some numbers are using the same inflation rates but some are completely different and some even show deflation rates which should never appear. The inflation rates were used by calculating:

Present Values of Table 2 *(Minus)* **Present Values of Table 3** *(Divided by)* **Present Values of Table 3** *(Multiplied by)* **100**

The following tables were used to calculate the differences between the *Pension Act* and the New Veterans Charter.

TABLE 1

Canadian Veterans Advocacy (without inflation)

Pension Act			**New Veterans Charter**		
	Payment ($)	***Present Value ($)***		***Payment ($)***	***Present Value ($)***
Disability Pension (98%)	2,397.83		Disability Award (98%)	276,079.70	
Paid over 45 years		1,294,828.20	*One time lump-sum*		276,079.70
Additional Pension for Spouse	599.46		Additional Pension for Spouse	0.00	
Paid over 45 years		323,708.40	*Paid over 45 years*		0.00
Additional Pension for Child 1	311.72		Additional Pension for Child 1	0.00	
Paid over 25 years		93,516.00	*Paid over 25 years*		0.00
Additional Pension for Child 2	227.79		Additional Pension for Child 2	0.00	
Paid over 25 years		68,337.00	*Paid over 25 years*		0.00
Attendance Allowance grade 3	952.02		Attendance Allowance grade 3	0.00	
Paid over 45 years		514,090.80	*Paid over 45 years*		0.00
Permanent Impairment Allowance (PIA)			Permanent Impairment Allowance (PIA)		
+ PIA Supplement	2,163.00		+ PIA Supplement	2,163.00	
Paid over 45 years		1,168,020.00	*Paid over 45 years*		1,168,020.00
Survivor Pension	1,798.37		Survivor Pension	0.00	
Paid over 6 years in 45 years		129,482.64	*Paid over 6 years in 45 years*		0.00
Earnings Loss	3,497.25		Earnings Loss	3,497.25	
Paid over 37 years		1,552,779.00	*Paid over 37 years*		1,552,779.00
Supplementary Retirement Benefit	0.00		Supplementary Retirement Benefit	29,502.80	
Paid at age 65		0.00	*Paid at age 65*		29,502.80
Total *(no medical rehab cost)*		***$5,144,762.04***			***$3,026,381.50***
Indicate none economical values					
Rehabilitation – medical/psychosocial*	9,620.00		Rehabilitation – medical/psychosocial*	9,620.00	
44 years		423,280.00	*44 years*		423,280.00
Rehabilitation – vocational for spouse*	3,462.00		Rehabilitation – vocational for spouse*	3,462.00	
2 years		6,924.00	*2 years*		6,924.00
Total		**$5,574,966.04**			**$3,456,585.50**

Note: Under the *Pension Act*, both SISIP 75% and Earning Loss are available. Both are calculated the same way, such as 75% of yearly salary. Only one or the other can be applied at one time.

TABLE 2

Veterans Affairs Canada (with inflation)

Pension Act			New Veterans Charter		
	Payment ($)	***Present Value ($)***		***Payment ($)***	***Present Value ($)***
		(B)			(B)
Disability Pension (98%)	2,397.83		Disability Award (98%)	276,079.70	
Paid over 45 years		1,432,319.81	*One time lump-sum*		276,079.70
Additional Pension for Spouse	599.46		Earnings Loss	3,497.25	
Paid over 45 years		358,088.95	*Paid over 37 years*		1,686,049.51
Attendance Allowance grade 3	952.02		Supplementary Retirement Benefit	29,502.80	
Paid over 45 years		568,691.55	*Paid at age 65*		17,319.58
Exceptional Incapacity Allowance grade 4	634.73		Permanent Impairment Allowance grade	536.40	
paid over 45 years		379,157.57	*Paid over 44 years*		312,570.17
Survivor Pension	1,798.37		Rehabilitation – medical/psychosocial*	9,620.00	
Paid over 6 years in 45 years		156,835.02	*44 years*		315,821.05
			Rehabilitation – vocational for spouse*	3,462.00	
			2 years		6,874.52
Total		**$2,895,092.90**			**$2,614,714.53**

Source: (The Audit and Evaluation Division, 2010)

TABLE 3

Veterans Affairs Canada - inflation removed from *'Present Value'* column

Pension Act			New Veterans Charter		
	Payment ($)	***Present Value ($)***		***Payment ($)***	***Present Value ($)***
		(A)			(A)
Disability Pension (98%)	2,397.83		Disability Award (98%)	276,079.70	
Paid over 45 years		1,294,828.20	*One time lump-sum*		276,079.70
Additional Pension for Spouse	599.46		Earnings Loss	3,497.25	
Paid over 45 years		323,708.40	*Paid over 37 years*		1,552,779.00
Attendance Allowance grade 3	952.02		Supplementary Retirement Benefit	29,502.80	
Paid over 45 years		514,090.80	*Paid at age 65*		29,502.80
Exceptional Incapacity Allowance grade 4	634.73		Permanent Impairment Allowance grade	536.40	
paid over 45 years		342,754.20	*Paid over 44 years*		283,219.20
Survivor Pension	1,798.37		Rehabilitation – medical/psychosocial*	9,620.00	
Paid over 6 years in 45 years		129,482.64	*44 years*		423,280.00
			Rehabilitation – vocational for spouse*	3,462.00	
			2 years		6,924.00
Total		**$2,604,864.24**			**$2,571,784.70**

Table Legend	
Calculation with inflation	
Not money in pocket	*

Nota Bene: TABLE 2. '*Present Values'* column actually reflects future values, except for the Disability Award (98%).

There is no mention anywhere in VAC's Table that the *'Present Values'* column has inflation calculations included.

TABLE 4

Representation of inflation rates used by Veterans Affairs Canada

Pension Act			New Veterans Charter		
	Payment ($)	*Inflation (%)*		*Payment ($)*	*Inflation (%)*
Disability Pension (98%)	2,397.83		Disability Award (98%)	276,079.70	
Paid over 45 years		10.62%	*One time lump-sum*		0.00%
Additional Pension for Spouse	599.46		Earnings Loss	3,497.25	
Paid over 45 years		10.62%	*Paid over 37 years*		8.58%
Attendance Allowance grade 3	952.02		Supplementary Retirement Benefit	29,502.80	
Paid over 45 years		10.62%	*Paid at age 65*		-70.34%
Exceptional Incapacity Allowance grade 4	634.73		Permanent Impairment Allowance grade	536.40	
paid over 45 years		10.62%	*Paid over 44 years*		10.36%
Survivor Pension	1,798.37		Rehabilitation – medical/psychosocial*	9,620.00	
Paid over 6 years in 45 years		21.12%	*44 years*		-25.39%
			Rehabilitation – vocational for spouse*	3,462.00	
			2 years		-0.71%
Average		**12.72%**			**-12.92%**

Table Legend (refer to Table 2. and Table 3.)	
Calculation with inflation	
Inflation Calculation	((B-A)/A)x100
Not money in pocket	*

Source: (How to Calculate inflation rate, 2013)

Nota Bene: The average inflation percentage should not be used as a comparative tool. It is included here to bring attention to the issue of inflation rates.

RECOMMENDATIONS:

Canadian Veterans Advocacy would like Veterans Affairs Canada to create a table incorporating every option available for veterans so individual veterans would be able to create their own personal comparative tables.

The issue with these tables is that they do not reflect all the different veteran classifications. Veteran Reservist have been excluded from these comparative tables.

It would be interesting to know how much difference exists between the same injury for a member of the Regular Forces and a member of the Reserve Forces.

Veterans Affairs Canada should remember that all services are applicable to the *Pension Act* and the New Veterans Charter equally when they construct their tables. The only difference is that some services are not paid out in the New Veterans Charter.

If the use of inflation rates is important for Veterans Affairs Canada, the column indicating ‘Present Value’ should be transferred to ‘Future Value’.

Canadian Veterans Advocacy believes that numbers speculation for any number of years is dangerous. It would be safer to keep the ‘Present Value’ column and not to calculate inflation rates. It is very easy for individuals to manipulate numbers when inflation rates are added.

Bibliography

How to Calculate inflation rate. (2013). Retrieved from Rate Inflation: http://www.rateinflation.com/inflation-information/calculate-inflation

The Audit and Evaluation Division. (2010). *Evaluation of Disability Pensions and Awards.* Charlottetown: Veterans Affairs Canada. Retrieved in 2013.

Annex A

Appendix F – Case Scenarios

Case Scenario 1 – Severely Disabled Client

1a - 98 %+ disability

In this scenario, a CF client has assessed disabilities totaling 98%. As a CF member, the client's indexed monthly salary as a corporal as of March 31, 2010, was $4,663. The Veteran is married and both he and his spouse are 28 years of age at the time the application for disability benefits and other programs is made. The life expectancy of the Veteran is 72, while his wife is expected to live to age 79. The Veteran has one year of service and is not in receipt of Canadian Forces Superannuate.

Pre-NVC

The purpose of the disability pension is to compensate for service-related disability or death. The monthly pension rate for a single pensioner at 98%+ is $2,397.83. The present value of a pension paid over a 45 year period is $1.432M (assuming life expectancy to age 72). The present value of additional pension for the spouse amounts to $358K. The present value of Attendance Allowance paid at grade 3 amounts to an additional $569K. Similarly, the present value of the Exceptional Incapacity Allowance amounts to $379K. The present value of the survivor pension paid for 6 years, beginning in year 45 amounts to $157K. Prior to the NVC, the Rehabilitation Program was not available to assist the client and his family in adjusting to their new life circumstances.

NVC

The lump sum disability award is paid to provide recognition and compensation for the non-economic effects of service related disability or death. The rate for a 98%+ disability award is $276,079.70.

In addition to this payment, the Veteran may receive medical and psychosocial rehabilitation for life (determined to be $9,620/year). Vocational rehabilitation services are available to the spouse, determined to be $3,462/year for 2 years. Participation in the Rehabilitation Program opens the door to the Financial Benefits Program, which compensates for the economic impact a service-related injury has on the Veteran's ability to earn income. The present value of the Earnings Loss benefit paid over a 37-year period to age 65, amounts to an additional $1.686M after which time a $29K lump sum, the Supplementary Retirement Benefit, is paid. The present value of this benefit is $17K. The Permanent Impairment Allowance is an economic benefit to compensate for lost opportunities resulting from a severe impairment. The present value of a Grade 3 allowance paid over a 44 year period is $313K.

In this case we have made the assumption that the client will not benefit from vocational rehabilitation with the goal of returning to the workforce. His spouse may receive vocational assistance to restore the earnings capacity of the family to a reasonable extent given

her education, skills and experience. If there is a need related to the client's rehabilitation plan, the spouse and children may also receive psychosocial rehabilitation services.

It is expected that, as a result of these services, the family is benefiting from a better quality of life and increased household income in addition to the disability and financial benefits paid. However, from a purely financial perspective, the married client of this scenario was better off pre-NVC, while the single client would be better off with NVC benefits.

Pre-NVC			NVC		
	Payment	*Present Value*		*Payment*	*Present Value*
Disability Pension (98%)	$2,397.83		Disability Award (98%)	$276,079.70	
Paid over 45 years		$1,432,319.81	*One time lump-sum*		$276,079.70
Additional Pension for Spouse	599.46		Earnings Loss	3,497.25	
Paid over 45 years		358,088.95	*Paid over 37 years*		1,686,049.51
Attendance Allowance grade 3	952.02		Supplementary Retirement Benefit	29,502.80	
Paid over 45 years		568,691.55	*Paid at age 65*		17,319.58
Exceptional Incapacity Allowance grade 4	634.73		Permanent Impairment Allowance grade 3	536.40	
Paid over 45 years		379,157.57	*Paid over 44 years*		312,570.17
Survivor Pension	1,798.37		Rehabilitation – medical/psychosocial	9,620	
Paid over 6 years in 45 years		156,835.02	*44 years*		315,821.05
			Rehabilitation – vocational for spouse	3,462	
			2 years		6,874.52
Total		**$ 2,895,122.90**			**$2,614,714.53**

Evaluation of Disability Pensions and Award 46 Final – August 2010

(Source: (The Audit and Evaluation Division, 2010)