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DISABILITY BENEFIT PROCESSING AT VETERANS AFFAIRS CANADA



OFFICE OF THE PARLIAMENTARY BUDGET OFFICER
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The Parliamentary Budget Officer (PBO) supports Parliament by providing economic and financial analysis for the purposes of raising the quality of parliamentary debate and promoting greater budget transparency and accountability.

This report was prepared at the request of MP Rachel Blaney regarding the service standards of Veterans Affairs Canada (VAC) for processing disability benefit applications.

Lead Analyst:
Caroline Nicol

This report was prepared under the direction of:
Xiaoyi Yan, Director

Nancy Beauchamp, Carol Faucher, Jocelyne Scrim and Rémy Vanherweghem assisted with the preparation of the report for publication.

For further information, please contact pbo-dpb@parl.gc.ca.

Yves Giroux
Parliamentary Budget Officer

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Executive Summary

This report was prepared at the request of MP Rachel Blaney regarding the service standards of Veterans Affairs Canada (VAC) for processing disability benefit applications.

In March 2017, the number of pending applications was 20,693, but by March 31, 2020, it had reached 49,216. Of these, 22,138 were considered complete and were waiting only for a decision from the department. While the resources allocated to processing applications for disability benefits provided by VAC have increased in recent years, the influx of applications has consistently outpaced the department's capacity, leading to the growing backlog.

In June 2020, it was announced that the department planned to retain 160 temporary employees already working at VAC, and to hire an additional 300 temporary employees. Our projections show that, with these additional resources, the department will reduce the backlog by about 10,000 applications by March 2022.

However, we estimate that, to fully eliminate the backlog and then maintain the service standards going forward, it would mean retaining most of these additional employees beyond 2021–22. With this extension, we project that the backlog would be eliminated in the first quarter of 2023. The cost associated with this scenario is \$103 million in total from now until the end of fiscal year 2024–25.

Alternatively, to eliminate the backlog within 12 months and maintain the service standards from that point on, we estimate that the department would have to hire an additional 392 full-time employees for 2020–21, on top of the hires already announced. The cost associated with this scenario is \$33 million for 2020–21 and a total of \$128 million from now until the end of fiscal year 2024–25.

1. Introduction

This report is in response to the request from MP Rachel Blaney about the service standards for processing applications for disability benefits at Veterans Affairs Canada (VAC).

According to its service standards, VAC believes that, in normal circumstances, 80% of decisions should be made within 16 weeks for first applications and reassessments, or within 12 weeks for departmental reviews. In 2018–19, only 37% of applications were processed within the time frame laid out in the VAC service standards.¹

In March 2017, the number of pending applications was 20,693, while this number had reached 49,216 by March 31, 2020. Of these, 22,138 were considered complete applications waiting for a decision from the department.

In Budget 2018, the government allocated \$42.8 million in funding over two years, beginning in 2018–19, to increase service delivery capacity at Veterans Affairs Canada. While the resources allocated to processing applications for disability benefits provided by VAC have increased in recent years, the influx of applications has consistently outpaced the department's processing capacity.

In June 2020, an additional \$192 million in funding was allocated to help the department process pending applications for disability benefits. The department plans to use part of the funding to retain 160 temporary employees already working at VAC, and to hire an additional 300 temporary employees.

The purpose of this report is to assess the impact of human resources on the evolution of the backlog of disability benefit applications and on maintaining service standards once the backlog has been addressed.

2. Methodology

In our analysis, the changes to the backlog were projected using a stock-flow model. For each month, the number of applications received is added to the backlog and the number of applications completed is subtracted. According to VAC service standards, it could take up to 16 weeks to complete an application, but we assumed that VAC would be able to respect this time frame if the number of applications completed every month and the number of applications received every month were equivalent.

Our analysis is primarily based on the impact of human resources on the backlog of applications for disability benefits. Therefore, the number of employees, expressed in full-time equivalents (FTEs), is the primary variable influencing the volume of applications processed by VAC on a monthly or annual basis.

The other variable is a ratio measuring productivity based on historical data regarding the number of VAC FTEs directly involved in the approval process and the number of requests processed by VAC each month.²

While our analysis assumes that the approval process for disability benefit applications will remain largely similar³ in the years ahead, this ratio has been adjusted to take into account certain realities, such as improvements to the approval process implemented by VAC, or delays due to the COVID-19 pandemic. Section 4 of this report provides a sensitivity analysis of how this ratio affects our projections.

The projection of applications received monthly is based on projections provided by VAC.

The calculation of costs associated with human resources is based on the average salary per FTE. We assumed that the ratios between the various employee classifications would remain the same, regardless of the number of employees projected. The average salary per FTE is a weighted average of the various classifications of employees directly involved in the approval process.

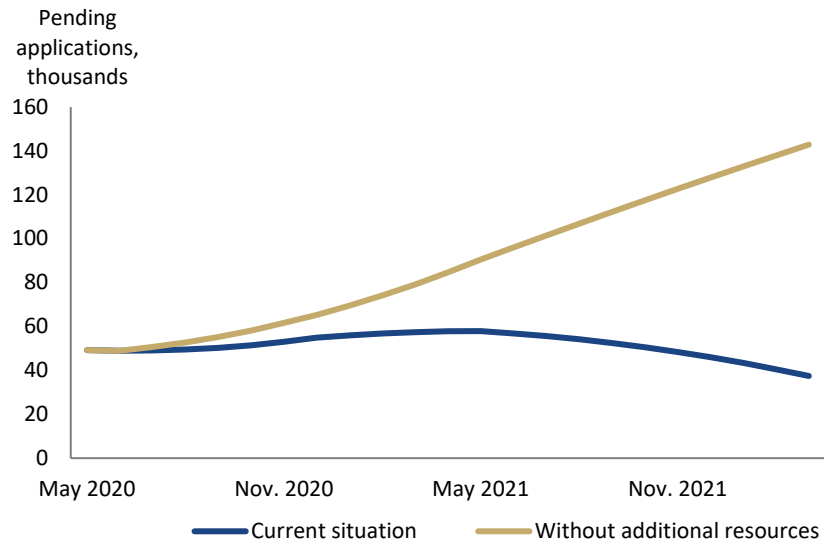
Another important underlying assumption in our analysis is the feasibility of hiring additional employees. While hiring several hundred employees is a significant challenge for VAC, our analysis does not take into account any difficulties the department may face. However, our projections assume that employees will be hired gradually.

3. Analysis

3.1. Current Situation

In June 2020, an additional \$192 million in funding was allocated to help the department reduce the backlog of applications for disability benefits. With part of this funding, the department plans to retain 160 temporary employees already working for VAC, and to hire an additional 300 temporary employees. Figure 3-1 shows how this announcement affects our projection of the backlog.

Figure 3-1 Projection of pending applications for disability benefits with and without additional resources



Sources: Parliamentary Budget Officer and Veterans Affairs Canada

We foresee that the backlog will be approximately 40,000 applications by the end of fiscal year 2021–22. Our projections show that, without these additional resources, the number of pending applications for disability benefits would have reached approximately 140,000 by that time.

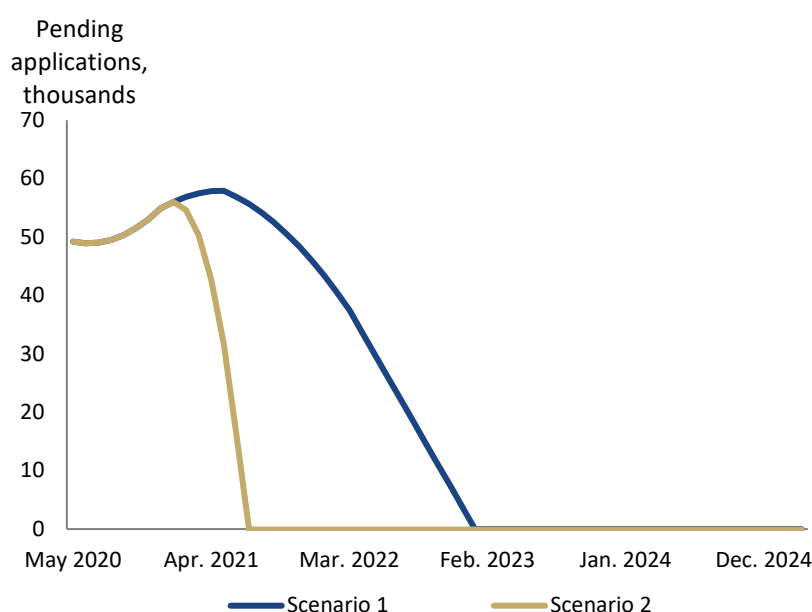
We foresee that, with these additional hires, the backlog will stop increasing and the number of pending applications will be reduced by approximately 10,000 applications by the end of 2021–22.

3.2. Solutions to the backlog of disability benefit applications

With the human resources currently allocated to processing applications at VAC, the backlog should stop growing, but it will not be eliminated by March 2022. In addition, if all the FTEs hired with the additional funding are not retained, the backlog will start to increase again.

Therefore, we project that additional resources on top of those already allocated will be necessary beyond March 2022 to eliminate the backlog of applications for disability benefits and to ensure that VAC's service standards can be met going forward. While a number of scenarios could lead to eliminating the backlog, we have examined two options here. The first is to extend the additional funding recently announced, while the second considers what is needed to eliminate the backlog within 12 months. (Figure 3-2)

Figure 3-2 Change in total pending applications for scenarios 1 & 2



Sources: Parliamentary Budget Officer and Veterans Affairs Canada

Scenario 1: Extension of current resources

Our projections show that, if the total planned FTEs for 2021–22 are retained for an additional 12 months, the number of pending applications could reach zero in the first quarter of 2023.

Table 3-1 Scenario 1: Cost and additional full-time equivalents

	2020–21	2021–22	2022–23	2023–24	2024–25	Total
Full-time equivalents	0	0	438	297	345	1,080
Cost (\$ millions)	0	0	40	29	35	105

Source: Parliamentary Budget Officer

In order to respect the service standards established by VAC and to prevent a new backlog from developing, most of the employees who were hired or whose contracts were extended using the additional funding allocated in 2020 will have to be retained after their contracts expire (the end of 2021–22). Table 3-1 shows the number of additional full-time equivalents required and the associated cost. We estimate that, from now until the end of fiscal year 2024–25, the total cost would be \$105 million.

Scenario 2: Eliminate the backlog in 12 months

The second scenario calculates the resources required to process all pending applications in one year. Given that the training currently offered by VAC to new recruits lasts several months, a significant number of people would have to be hired to achieve this goal. We estimate that VAC would have to hire 392 FTEs over the course of the 2020–21 fiscal year. Furthermore, most of the additional hires announced in June 2020 would have to be retained to ensure VAC could meet its service standards. We estimate that, by the end of fiscal year 2024–25, the total cost associated with these additional human resources would be \$128 million. (Table 3-2).

Table 3-2 Scenario 2: Cost and additional full-time equivalents

	2020–21	2021–22	2022–23	2023–24	2024–25	Total
Full-time equivalents	392	83	253	297	345	1,370
Cost (\$ millions)	33	7	24	29	35	128

Source: Parliamentary Budget Officer

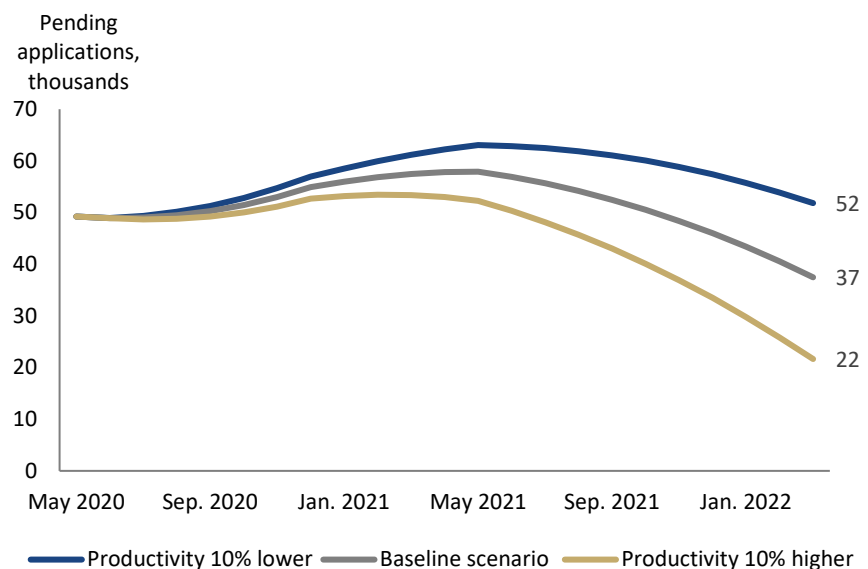
4. Sensitivity analysis

A significant variable that affected our projections was the assumption regarding the productivity of each FTE involved in processing requests. In the current context, it corresponds to the ratio of the total number of applications for disability benefits completed each month divided by the total number of FTEs involved in the approval process. This includes, for example, support staff.

For the scenarios we presented in our analysis, we assumed that, by the end of fiscal year 2021–22, productivity would increase gradually and then plateau at the average monthly productivity observed in 2015–16. This period was prior to the increase in pending applications. In the last five years, the average productivity was the highest in 2015–16, reaching approximately 17 completed applications per FTE per month. This increase in productivity was due to new employees gaining experience, as well as improvements implemented by Veterans Affairs Canada.

However, it is possible that future productivity may be higher or lower than our operating assumption. Figure 4-1 shows the changes to the total number of pending applications based on different levels of productivity.

Figure 4-1 Impact of productivity assumptions on backlog projections



Sources: Parliamentary Budget Officer and Veterans Affairs Canada

If productivity increased by 10% over the baseline scenario for the approval process, the number of pending applications would decrease by 15,000 by the end of 2021–22. In contrast, if productivity dropped by 10%, it would mean the backlog would increase by an additional 15,000 applications compared to our baseline scenario. With this kind of drop in productivity, the backlog would reach 52,000 pending applications by the end of 2021–22, comparable to the current backlog, despite the injection of additional resources.

Notes

1. 2018–19 Service Standards: <https://www.veterans.gc.ca/eng/about-vac/what-we-do/service-standards>.
2. Data provided by VAC on the number of applications received and processed monthly since 2015, as well as the number of FTEs directly involved in the approval process.
3. A policy such as automatic approval for some types of afflictions would drastically affect the number of cases completed, regardless of the number of employees.