



Fiscal Analysis of Veterans' Funeral and Burial Benefits

Ottawa, Canada
November 4, 2013
www.pbo-dpb.gc.ca

Key Points of this Note:

- The mandate of the Parliamentary Budget Officer (PBO) is to provide independent analysis to Parliament on the state of the nation's finances, the government's estimates and trends in the Canadian economy and, upon request from a committee or parliamentarian, to estimate the financial expenditure of any proposal for matters over which Parliament has jurisdiction.
- This report responds to a request made by the Member of Parliament for Charlottetown for an analysis of the fiscal impact of the spending plan for the Last Post Fund announced as part of Budget 2013. Funding totaling \$65 million over two years was provided on an accrual basis to support an increase in the maximum funeral service amount payable to beneficiaries and a broadening of expense items eligible for reimbursement.
- The PBO estimates that changes resulting from Budget 2013 will increase Last Post Fund expenses by \$3.6 million in 2013-14. Over the next five years, the changes are projected to result in additional \$18.4 million cumulative benefits paid. This amount would represent approximately 29 per cent of the \$65 million in incremental monies earmarked for the Last Post Fund in Budget 2013.
- Overall, the incremental funding is adequate to meet the expansion of program benefits over the medium-term.

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1 Introduction

The mandate of the Parliamentary Budget Officer (PBO) is to provide independent analysis to Parliament on the state of the nation's finances, the government's estimates and trends in the Canadian economy and, upon request from a committee or parliamentarian, to estimate the financial expenditure of any proposal for matters over which Parliament has jurisdiction.¹

This report responds to a request of the Member for Charlottetown for a fiscal analysis the Last Post Fund (the Fund), announced as part of Budget 2013.

2 Background

The Government of Canada provides financial assistance to the families or estates of eligible veterans who do not have the financial means for a dignified funeral and burial, and veterans who die from a condition related to military service.² Financial assistance is provided through Veterans Affairs Canada's (VAC) Funeral and Burial Program.

In 2006, the delivery of this program was wholly devolved to the Last Post Fund, a non-profit charitable corporation that solely administers funeral, burial and grave-marking services on behalf of VAC in accordance with the *Veterans Burial Regulations*.³

Veterans Affairs Canada indicates that in 2012-13, the Fund provided over \$5.9 million in total disbursements to families and estates of deceased veterans', with an average contribution of \$4,800 dollars.⁴

Budget 2013 proposed "to simplify the Funeral and Burial Program and more than double its reimbursement rate".⁵ The announcement triggered two regulatory changes:⁶

1. The maximum reimbursable amount for funeral services was increased from \$3,600 to \$7,376.
2. Eligible expenses, previously defined by eight specific categories are now defined by five broader categories, which include some newly eligible expense items.⁷

The federal government is the sole financial contributor to the Last Post Fund, and as such, is responsible for the full financial cost delivering the Funeral and Burial Program.⁸ To support program changes, Budget 2013 provided \$65 million over two years, beginning in 2013-14.⁹ These funds are provided on an accrual basis and are incremental to the \$9.6 million (cash basis) already appropriated to the Last

⁴ Veterans Affairs Canada.

⁵ <http://www.budget.gc.ca/2013/doc/plan/budget2013-eng.pdf>. p. 232. Accessed October 2013.

⁶ <http://gazette.gc.ca/rp-pr/p2/2013/2013-06-19/html/sor-dors110-eng.php>.

⁷ Veterans Affairs Canada indicates that the newly eligible expense categories will be clarified in the Program's policy. The author contacted Last Post Fund and VAC officials to detail newly eligible expense items but was unsuccessful defining a complete list. For the purposes of this analysis, expenses for flowers, clergy and death notices are assumed to be eligible under the new regulations. <http://gazette.gc.ca/rp-pr/p2/2013/2013-06-19/html/sor-dors110-eng.php>.

⁸ As a registered charity, the Last Post Fund is eligible to receive donations. However, since 2002, donations have constituted 0.6 per cent of Last Post Fund total revenues and are considered immaterial for the purposes of this analysis.

⁹ Funding is provided on an accrual basis.

¹ <http://laws-lois.justice.gc.ca/PDF/P-1.pdf>. Accessed October 2013.

² A summary of eligibility criteria is provided in Annex B.

³ <http://laws.justice.gc.ca/PDF/SOR-2005-200.pdf>. Accessed October 2013.

Post Fund through the Main Estimates 2013-14.^{10,11}

Information provided to the PBO by VAC indicates that the anticipated incremental cash contribution stemming from Budget 2013 is approximately \$4.3 million in 2013-14 (Figure 2-1).

Figure 2-1

Government of Canada Cash Contributions to the Last Post Fund

millions of dollars, cash basis

	Actual			Estimated	
	2009-10	2010-11	2011-12	2012-13	2013-14
Base	9.9	10.1	9.6	11.0	9.6
Increment					4.3
Total	9.9	10.1	9.6	11.0	13.9

Sources: Main Estimates, Public Accounts of Canada, Veterans Affairs Canada

3 Fiscal Analysis

To evaluate the future fiscal impacts of the changes to Last Post Fund eligibility criteria, the PBO developed a cost model to estimate Fund expenditures from 2013-14 to 2018-19.

Future program costs are driven by three key factors:

- i. demographics
- ii. the reimbursement limit for funeral services expenses
- iii. the breadth of eligible expenses

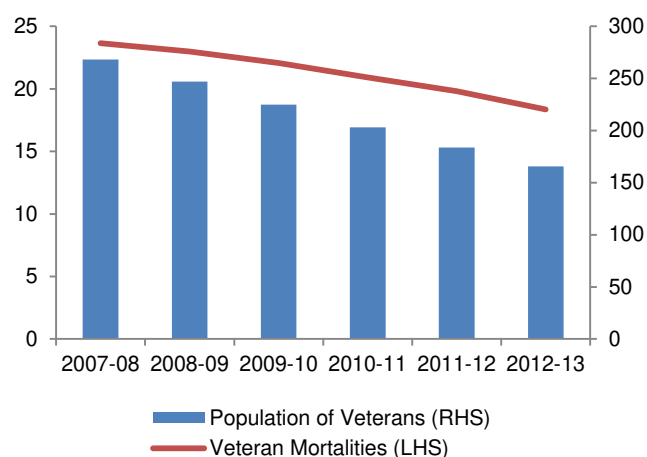
Demographics

Funeral and Burial Program costs are primarily influenced by the number of mortalities of Canadian veterans.¹² Canada's population of veterans has trended downward in recent years, as have total veteran mortalities (Figure 3-1). As the eligible veteran population ages, the declining trend in total annual veteran mortalities is anticipated to continue through 2017-18.¹³

Figure 3-1

Canadian Veteran Population and Mortalities

thousands of persons



Sources: Veterans Affairs Canada and PBO calculation

These demographic trends have led to a decrease in the number of both benefits applications and approvals in recent years. The financial consequence has been lower costs to the Last Post Fund, all else equal (Figure 3-2).

¹⁰ <http://www.tbs-sct.gc.ca/est-pre/20132014/me-bpd/me-bpd-eng.pdf>. Accessed October 2013.

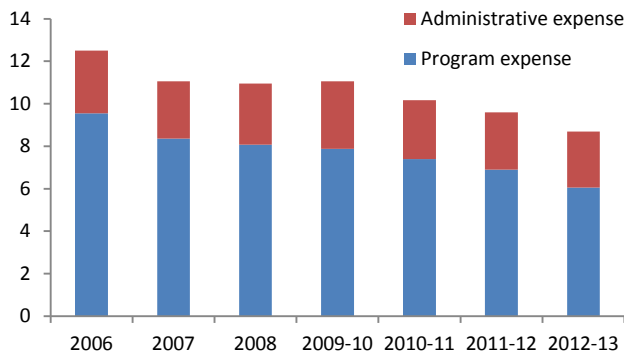
¹¹ Annex A describes differences between cash and accrual accounting concepts

¹² This report refers to 'veterans' as defined by the Funeral and Burial Program and the *Funeral and Burial Regulations*. See Annex B for a summary description of eligibility criteria.

¹³ Veteran mortality projections used in this analysis were generated by the Office of the Superintendent of Financial Institutions and were shared with the PBO by Veterans Affairs Canada.

Figure 3-2**Last Post Fund Expenditures**

millions of dollars



Source: Last Post Fund Corporation Annual Financial Statements

Note: In 2009, the Last Post Fund switched from a January-December to an April-March fiscal year. The January-March 2009 period is omitted from this graphic. Annual expenditures are presented on an April-March FY basis from 2009-10 onward.

Reimbursement limit for funeral services expenses

Historically, funeral services have been the largest single expense category for fund beneficiaries, as these costs comprise 73 per cent of beneficiaries' total funeral and burial claims. Funeral services are the only expense type with an upper reimbursement limit under the *Funeral and Burial Regulations*.

In 2013, the maximum amount eligible for reimbursement for funeral services was increased from \$3,600 to \$7,376.

Between 2008-09 and 2012-13, approximately 21 per cent of Last Post Fund beneficiaries received total benefits of less than \$3,600. Payments to these beneficiaries would not be affected by the proposed increase in the

maximum amount of funeral services expenses that would be eligible for reimbursement.^{14, 15}

Beneficiaries with funeral services expenses in excess of \$3,600 should expect an increased reimbursement limit by an amount between \$0 and \$3,776 (the difference between the new \$7,376 threshold and the prior \$3,600 limit). These cases are expected to have a fiscal impact on the Last Post Fund.

For the purposes of developing a fiscal estimate, the PBO categorized past claims in two ways: those anticipated to claim the maximum funeral services benefits of \$7,376, and those claiming more than the prior \$3,600 limit, but less than newly implemented the maximum allowable claim.

Approved beneficiaries filing funeral services expenses of \$7,376 or greater are expected to receive the maximum allowable reimbursement. The fiscal impact of the increase to the upper threshold can be estimated at \$3,776 per beneficiary. However, a segment of fund beneficiaries are anticipated to register funeral services expenses greater than the prior \$3,600 limit, but less than the new \$7,376 limit. The estimated size of each category of beneficiaries is uncertain, but will influence the Last Post Fund's net fiscal position due to the change in the reimbursable limit.

Veterans Affairs Canada provided the PBO with historical frequency distribution data in thousand dollar increments on total benefits paid. These figures included several non-funeral services expenses.¹⁶

¹⁴ Veterans Affairs Canada and PBO calculations.

¹⁵ All analysis in this report assumes that there are no induced behavioural changes on the part of prospective program beneficiaries.

¹⁶ Summary funeral and burial expense data included expenses related to funeral services, burial, cremation, grave marker, transportation and

The number of beneficiaries anticipated to register claims in excess of \$3,600 can be predictably forecast using OSFI veteran mortality projections and historic data of the Last Post Fund. However, the relative share of beneficiaries claiming funeral services expenses between \$3,600 and \$7,376 is not as easily forecast, and was estimated by the PBO using a series of assumptions.

The PBO assumes that approximately the same proportion of beneficiaries would register funeral services expenses of between \$0 and \$3,600 as between \$3,600 and \$7,376 (Figure 3-3).

It is also assumed that total payments to claims less than \$3,600 are used exclusively for funeral services.¹⁷ These assumptions are required due to data limitations on historic funeral services payment distributions.

Figure 3-3

Funeral Services Expense: Reimbursement Categories

Funeral Services Expense	Share of Beneficiaries	Reimbursement	
		Pre-amendment	Post-amendment
<\$3,600	21%	\$0-\$3,600	\$0-\$3,600
\$3,601-\$7,376	21%	\$3,600	\$3,601-\$7,376
>\$7,376	57%	\$3,600	\$7,376

Sources: Veterans Affairs Canada and PBO calculations
Figures may not sum due to rounding.

The PBO estimates that in 2013-14, 411 beneficiaries, or 43 per cent of the projected total number beneficiaries, will have lower funeral services costs than the maximum reimbursement

threshold. The remaining 599 beneficiaries, or 57 per cent, are anticipated to incur funeral services costs equal to, or in excess of, the \$7,376 program limit.

Accordingly, the increase to the maximum funeral service amount payable is expected to increase Last Post Fund costs by \$2.8 million in 2013-14, or an average of approximately \$2,620 per beneficiary.^{18,19}

Breadth of eligible expenses

In addition to the increased reimbursement limit for funeral services expenses, under the new program rules, additional expenses can be claimed for reimbursement. This includes expenses related to the preparation of remains, the provision of a casket or urn, ceremonial services, death notices and transportation costs. At the time of the publication of this report, a complete list of eligible program expense items was not available. VAC indicates eligible expense categories will be clarified in the program's policy, yet to be published.²⁰

The PBO assumes three additional expenses items will be eligible (flowers, clergy and death notices). This assumption is based on information from 2009 report from Veterans Affairs Canada pertaining to prospective changes to the Funeral and Burial Program.²¹ The PBO estimates that the wider breadth of allowable expenses will increase

illness. The PBO was unable to segment expense data reliably enough to conduct distributional analysis.

¹⁷ Based on data provided by Veterans Affairs Canada and PBO calculations, it is estimated that 92 per cent of non-funeral services expenses are allocated to beneficiaries receiving a total benefit of \$3,600 or more.

¹⁸ All analysis in this report assumes that there are no induced behavioural changes on the part of prospective program beneficiaries.

¹⁹ The maximum anticipated increase due to the change in the reimbursement limit is \$4.0 million in 2013-14. This would require all beneficiaries increase their funeral services expenses by \$3,776 (the difference between the prior and current reimbursement limits).

²⁰ <http://gazette.gc.ca/rp-pr/p2/2013/2013-06-19/html/sor-dors110-eng.php>. Accessed October 2013.

²¹ <http://www.veterans.gc.ca/eng/department/reports/deptaudrep/funeral-burial-09>. Accessed October 2013.

average benefits paid by approximately \$850 per beneficiary in 2013-14 (Figure 3-4).

Figure 3-4

Newly Eligible Expense Items: Funeral and Burial Program

dollars

Item	Cost
Flowers	344
Clergy	259
Death Notice	243
Total	846

Sources: Veterans Affairs Canada and PBO calculations

The aggregate fiscal impact resulting from the expected increase to breadth of eligible expenses is estimated at \$0.9 million in 2013-14.

Annual program expenditures through 2017-18 are estimated by linearly projecting per-beneficiary program expenses in inflation-adjusted terms. Using this approach, projected mortality rates and inflation are the sole drivers of changes in program expenses year-over-year. A slight increase in the number of projected mortalities is anticipated to increase the incremental costs to the Last Post Fund in 2014-15, followed by a steady decline in veteran mortalities and total costs to the Fund.

4 Conclusion

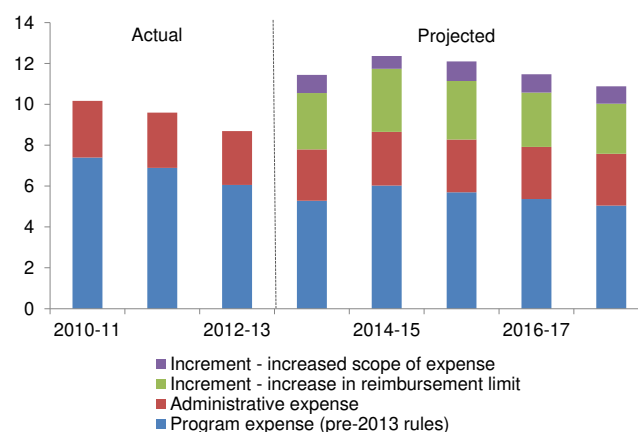
Changes to the Funeral and Burial Program in Budget 2013 are anticipated to have a fiscal impact of approximately \$3.6 million in 2013-14. This incremental increase is comprised of a \$2.8 million cost due to the increased reimbursement limit for funeral services expenses and a \$0.9 million cost due to increased breadth of eligible claims.

Over a five year period (2013-14 to 2017-18), the Last Post Fund is projected to cumulatively spend an additional \$18.4 million. This amount would represent approximately 29 per cent of the \$65 million in incremental monies provided to Veterans Affairs Canada's Funeral and Burial Program in Budget 2013. As such, the incremental funding is adequate to meet new policy demands over the medium-term.

Figure 4-1

Last Post Fund Expenses

millions of dollars



Sources: Veterans Affairs Canada and PBO calculations

Note: the regulatory change to the Funeral and Burial program is indicated by a dotted line, separating actual expenses from PBO projections.

Figure 4-2**Last Post Fund: Projected Costs**

millions of dollars

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	5 year total
Program Costs	<i>Actual</i>			<i>Projected</i>					
Base program costs	7.4	6.9	6.1	5.3	6.0	5.7	5.4	5.0	27.4
Funeral services limit increase	-	-	-	2.8	3.1	2.9	2.7	2.5	13.8
Broader eligible expenses	-	-	-	0.9	1.0	1.0	0.9	0.8	4.6
Administrative Costs	2.8	2.7	2.6	2.5	2.6	2.6	2.5	2.5	12.8
Total	10.2	9.6	8.7	11.4	12.8	12.1	11.5	10.9	58.7

Sources: Veterans Affairs Canada and PBO calculations

Annex A

The Public Sector Accounting Board contrasts accrual and cash accounting, as follows.²²

*The **accrual basis of accounting** recognizes the financial effects of transactions in the period(s) in which they occur, irrespective of whether cash has been received or paid. For example, revenue would be recognized for all taxes assessed on income earned by taxpayers in the year even if the cash payment of those taxes is received from taxpayers in a future year. Accrual accounting provides information about assets, liabilities, revenues and expenses, as well as changes in them that cannot be obtained by accounting only for cash receipts and payments.*

*In contrast, the **cash basis of accounting** recognizes the financial effects of transactions only when cash has been received or paid. For example, cash payments of taxes received in the current year that are related to taxes assessed on income earned by taxpayers in the prior year would be recorded as revenue in the current year, because that is when the cash was received. Cash information on its own provides insufficient information for decision-making and accountability. It is inadequate for assessing or identifying the assets government controls, the liabilities it is obliged to meet and the revenues and expenses resulting from increases or decreases in those assets and liabilities.*

The Government of Canada commonly provides planning information in the federal budget on an accrual basis, while estimates and appropriations occur on a cash basis.

In the context of the proposed funding increase for the Last Post Fund, the difference between the reported accrual figures in the 2013 Economic Action Plan and the cash figures provided by Veterans' Affairs Canada relates to a timing difference in the cash flows. The overall support is the same, regardless of the basis of accounting.

²² <http://www.frascanada.ca/standards-for-public-sector-entities/resources/reference-materials/item14605.pdf>. Accessed October 2013.

Annex B

To qualify for Fund financial assistance, the deceased must have served in World War I, World War II or the Korean War, or have received a VAC disability benefit, an earnings loss benefit, or a Canadian Forces income support benefit.^{23,24,25,26}

For persons meeting the service-related criteria, eligibility for funeral and burial benefits can be established in one of two ways:²⁷

1. The applicant's financial situation has been determined by an assessment of his or her net value (*i.e.* a means test);²⁸ or
2. The veteran's death is related to military service, for which he or she was receiving a VAC disability benefit (*i.e.* matter of right).

²³ <http://www.veterans.gc.ca/eng/department/reports/deptaudrep/funeral-burial-09#ftnref1>. Accessed July 2013.

²⁴ <http://laws.justice.gc.ca/PDF/SOR-2005-200.pdf>. Accessed July 2013.

²⁵ <http://www.lastpostfund.ca/EN/faq.php>. Accessed July 2013.

²⁶ Veterans of WWI and WWII need not have overseas service in a Theatre of War. Veterans of the Korean War must have seen active duty in Korea or Japan.

²⁷ <http://www.lastpostfund.ca/EN/faq.php>. Accessed July 2013.

²⁸ In cases where the veteran leaves a survivor, the *Funeral and Burial Regulations* allow the survivor to exempt the home, a car and \$12,015 from the means-tested calculation.