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DEPARTMENT OF VETERANS AFFAIRS

8320-01

38 CFR Part 3

RIN 2900-AP48

Extra-schedular evaluations for individual disabilities.

AGENCY: Department of Veterans Affairs.

ACTION: Proposed rule.

SUMMARY: The Department of Veterans Affairs (VA) proposes to amend its adjudication regulation pertaining to extra-schedular consideration of a service-connected disability in exceptional compensation cases. In a recent decision, the United States Court of Appeals for the Federal Circuit (Federal Circuit) held that VA's regulation, as written, requires VA to consider the combined effect of two or more service-connected disabilities when determining whether to refer a disability evaluation for extra-schedular consideration. VA, however, has long interpreted its regulation to provide an extra-schedular evaluation for a single disability, not the combined effect of two or more disabilities. This proposed amendment will clarify VA's regulation pertaining to exceptional compensation claims such that an extra-schedular evaluation is available only for an individual service-connected disability but not for the combined effect of more than one service-connected disability.

DATES: Comments must be received on or before [Insert date 60 days after date of publication in the FEDERAL REGISTER].

ADDRESSES: Written comments may be submitted through www.Regulations.gov; by mail or hand-delivery to Director, Regulation Policy and Management (02REG), Department of Veterans Affairs, 810 Vermont Avenue, NW, Room 1068, Washington, DC 20420; or by fax to (202) 273-9026. Comments should indicate that they are submitted in response to "RIN 2900-AP48 – Extra-schedular evaluations for individual disabilities." Copies of comments received will be available for public inspection in the Office of Regulation Policy and Management, Room 1068, between the hours of 8:00 a.m. and 4:30 p.m., Monday through Friday (except holidays). Please call (202) 461-4902 for an appointment. (This is not a toll-free number.) In addition, during the comment period, comments may be viewed online through the Federal Docket Management System (FDMS) at www.Regulations.gov.

FOR FURTHER INFORMATION CONTACT: Stephanie Li, Chief, Regulations Staff (211D), Compensation Service, Department of Veterans Affairs, 810 Vermont Avenue, NW., Washington, DC 20420, (202) 461-9700. (This is not a toll-free telephone number.)

SUPPLEMENTARY INFORMATION:

The United State Court of Appeals noted in Menegassi v. Shinseki that Congress has given VA the authority to interpret its own regulations under its general rulemaking authority, citing 38 U.S.C. 501. 638 F.3d 1379, 1382 (Fed. Cir. 2011). Currently, 38 CFR 3.321(b)(1) provides that , "[t]o accord justice . . . to the exceptional case where the schedular evaluations are found to be inadequate," the Under Secretary

for Benefits (USB) or the Director of the Compensation and Pension Service is authorized "to approve . . . an extra-schedular evaluation commensurate with the average earning capacity impairment due exclusively to the service-connected disability or disabilities. The governing norm in these exceptional cases is: A finding that the case presents such an exceptional or unusual disability picture with such related factors as marked interference with employment or frequent periods of hospitalization as to render impractical the application of the regular schedular standards."

In Johnson v. McDonald, the Court explained that the plain language of § 3.321(b)(1) using the plural forms of the "schedular evaluations" and "disabilities" is unambiguous and requires that VA consider the need for extra-schedular review by evaluating the collective impact of two or more service-connected disabilities, in addition to evaluating the effect of a single service-connected disability. 762 F.3d 1362, 1365-66 (Fed. Cir. 2014), that Id. at 1365-66.

The history of 38 CFR 3.321(b)(1) reveals that Federal Circuit's interpretation does not accurately reflect VA's intent in issuing the regulation. Since 1936, VA has interpreted §3.321(b)(1) to provide for an extra-schedular evaluation for each service-connected disability for which the schedular rating is inadequate based upon the regulatory criteria. Section 3.321(b)(1) was originally promulgated as R & PR 1307, instructing that correspondence from a field office to the Director of the Compensation Service alleging that the rating schedule provides inadequate or excessive ratings in an individual case will contain a statement of facts indicating as clearly as possible the extent to which the reduction in actual earnings is due to the service-connected disability and the extent to which this reduction would probably affect the average

worker, in occupations similar to the claimant's preenlistment occupation, suffering a similar disability. R & PR 1307(B) and (C)(1930).

In 1936, R & PR 1307 was recodified as R & PR 1142, requiring a submitting agency to provide a recommendation concerning service connection and evaluation of every disability, under the applicable schedules as interpreted by the submitting agency. Then in 1954, this sentence was deleted from the regulation but later incorporated in the Department of Veterans Benefits Veterans Administration (VBA) Manual 8-5 Revised, para. 47.j. (Jan. 6, 1958). Thus, for 28 years following promulgating R & PR 1307(B) and (C), the VA predecessor regulations to §3.321(b)(1) and the Manual provided for an extra-schedular evaluation based upon the effects of a single "disability," not "disabilities".

In 1961, VA recodified R & PR 1307(B) and (C) as 38 CFR 3.321(b)(1) and added a sentence authorizing an extra-schedular evaluation commensurate with the average earning capacity impairment due exclusively to the service-connected disability or disabilities. The VBA Manual provision regarding extra-schedular evaluations remained virtually the same from 1992 through June 30, 2015, when it was revised to implement Johnson. In 1992, the Manual was revised by adding the word "individual" before the word "disability(ies)" in paragraph 3.09, Submission For Extra-Schedular Consideration. M21-1, Part VI, para. 3.09 (Mar. 17, 1992). As amended, paragraph 3.09 required preparation of a memorandum to be submitted to Central Office whenever the schedular evaluations are considered to be inadequate for an individual disability(ies).

VBA Manual M21-1, Part III, Subpart iv, chpt. 6, § B, para. 4 (Aug. 3, 2011),
stated in pertinent part:

a. Extra-Schedular Evaluations in Compensation Claims

Consider the issue of entitlement to an extra-schedular evaluation in
compensation claims under

- 38 CFR 3.321(b)(1) only where

* * * * *

- there is evidence of exception or unusual circumstances indicating that the rating
schedule may be inadequate to compensate for the average impairment of
earning capacity due to disability (for example, marked interference with
employment or frequent periods of hospitalization)

* * * * *

c. Submitting Compensation Claims for Extra-Schedular Consideration

Submit compensation claims to C&P Service for extra-schedular consideration
under 38 CFR 3.321(b)(1) or 38 CFR 4.16(b) if

- the schedular evaluations are considered to be inadequate for an individual
disability

* * * * *

See Thun v. Shinseki, 572 F.3d 1366, 1369 (Fed. Cir. 2009) (referring to this Manual
provision as VA's interpretation of 38 C.F.R. § 3.321(b)(1)), aff'd 22 Vet. App. 111
(2008). Thus, VA's interpretation of section 3.321(b)(1) as manifested by the VBA
Manual was consistent for 22 years, until the Johnson decision

In addition, a 1996 General Counsel precedent opinion regarding the applicability
of the regulation reads that "[s]ection 3.321(b)(1) applies when the rating schedule is
inadequate to compensate for the average impairment of earning capacity from a

particular disability." VAOPGCPREC 6-96, para. 7, Add. 7. The opinion instructs that "when a claimant submits evidence that his or her service-connected disability affects employability in ways not contemplated by the rating schedule, the Board should consider the applicability of section 3.321(b)(1)." Id.

In 2013, VA published a proposed revision to 38 CFR 3.321(b)(1) as part of its Regulation Rewrite Project. 78 Fed. Reg. 71,042, 71,217 (Nov. 27, 2013). Consistent with VA's long-standing interpretation, that revision proposes to clarify that extra-schedular evaluations may be assigned for a specific service-connected disability, as distinguished from the combined effects of multiple disabilities. Id. However, that proposed rule was published before the Johnson decision. We are therefore proposing a version of § 3.321(b)(1) in this rulemaking that differs from the 2013 proposed rule in order to respond specifically to the Federal Circuit's analysis of the plain language of the current regulation. VA proposes to amend §3.321(b)(1) to clarify that § 3.321(b)(1) provides an extra-schedular evaluation for an individual service-connected disability that is so exceptional or unusual due to factors such as marked interference with employment or frequent periods of hospitalization as to render evaluation under the rating schedule impractical.

VA proposes to retain the first sentence of current § 3.321(b)(1), which states that ratings will be based on the average impairments of earning capacity and that the Secretary shall periodically readjust the rating schedule, because it explains the limited scope of section 3.321(b)(1). Pursuant to 38 U.S.C. 1155, VA is authorized to "adopt and apply a schedule of rating of reductions in earning capacity from specific injuries or combination of injuries. The ratings shall be based, as far as practicable, upon the

average impairments of earning capacity in civil occupations," rather than consideration of a veteran's actual wages or income. Based upon section 1155, the United States Court of Appeals for Veterans Claims (Veterans Court) rejected the argument that an inadequacy in the rating schedule for purposes of 38 CFR 3.321(b)(1) can be established solely by showing an asserted gap between a veteran's income and the income of similarly qualified workers in the same field. Thun v. Peake, 22 Vet. App. 111, 116 (2008). The Veterans Court explained that extra-schedular consideration cannot be used to undo the approximate nature that results from the rating system based on average impairment of earning capacity authorized by Congress. Id. Consistent with section 1155 and Thun, VA's proposed rule is not intended to authorize personalized ratings as a routine matter but only to provide for limited discretion in cases where the schedule is inadequate to compensate for average impairment of earning capacity.

VA proposes to revise the second sentence of 38 CFR 3.321(b)(1) to specify that extra-schedular consideration is available if "the schedular evaluation is inadequate to rate a single service-connected disability." We have added this language to explain that section 3.321(b)(1) would apply only to a single disability rather than upon consideration of multiple service-connected disabilities as the Federal Circuit held in Johnson. We have also deleted the phrase "or disabilities" at the end of the second sentence for the same purpose. VA also proposes to revise the last sentence of the regulation to clarify that the governing norm is a finding that "application of the regular schedular standards is impractical because the referred disability is so exceptional or unusual due to such

related factors as marked interference with employment or frequent periods of hospitalization."

Other parts of the current § 3.321(b)(1) have been rewritten for clarity, including the heading of § 3.321(b), but the concepts remain unchanged. VA proposes to delete the reference to the Under Secretary for Benefits (USB) in current § 3.321(b)(1).

Although the regulation has long allowed for referral for USB extra-schedular consideration, in practice VA service centers refer these claims to the Director of the Compensation Service. This revision brings authority in line with actual practice. The Director of the Compensation Service may delegate to other Compensation Service personnel the authority to approve extra-schedular ratings and, currently, such authority has been given to certain personnel in the Policy Staff of the Compensation Service. This is consistent with the established principle that VBA personnel are authorized to carry out such functions as may be assigned to them for purposes of administering VA benefits. See 38 CFR 2.6(b)(1), 3.100(a).

VA's proposed rule is logical and consistent with the regulatory scheme for evaluating disabilities. Individual disabilities are evaluated under criteria in VA's rating schedule describing the effects of specific diseases and injuries. See 38 CFR 4.71-4.150. The ratings assigned for individual conditions are combined into a single "combined evaluation" under a uniform formula set forth in a table. 38 CFR 3.323(a), 4.25. There is plainly a difference between the application of the diverse schedular criteria relating to specific conditions, and the application of a uniform formula for combining individual disability ratings. VA's proposed revision to §3.321(b)(1), clarifying that that the regulation pertains to a single disability, is consistent with this distinction.

With respect to evaluation of individual conditions, the rating schedule criteria identify the predominant disabling features of the condition. For example, if VA determines that the condition produces significant disabling effects that are not contemplated by the rating-schedule criteria for that condition, VA may find that the rating-schedule criteria are inadequate in that case. In contrast, no criteria in the rating schedule provide for determining the "adequacy" of an overall combined evaluation that derives from several disabilities and their associated symptoms.

When VA assigns disability ratings for two or more individual disabilities, those ratings are combined by applying a standard formula provided in 38 CFR 4.25. There are no provisions in the rating schedule describing impairments that would be associated with a particular combination of disabilities determined by using this formula. Accordingly, there are no applicable standards to determine whether the combined rating is adequate to compensate for the combined effects of those disabilities. Indeed, in view of the vast number of potential combinations of disabilities that could arise, it is not feasible to formulate standards. In the absence of any applicable objective standards for evaluating the "adequacy" of an overall combined rating for multiple disabilities, requiring adjudicators to consider the adequacy of combined ratings would lead to inconsistent and highly subjective determinations. Accordingly, consistent with our long-standing interpretation, VA has determined that consideration of extra-schedular ratings is most logically done only at the level of individual disabilities. Any extra-schedular ratings assigned for individual disabilities may then be combined under the standard formula for combining ratings. The proposed language for section 3.321(b)(1) requiring consideration of the adequacy of the

schedular evaluations in VA's rating schedule is consistent with the evaluation of individual conditions.

In addition, statutes and VA's implementing regulations provide additional compensation for the combined effect of more than one service-connected disability. Under 38 U.S.C. 1114(k) – (s), a veteran is entitled to special monthly compensation, in addition to the compensation payable under the VA rating schedule, for certain combinations of disabilities, e.g., anatomical loss or loss of use of both buttocks, both feet, or one hand and one foot, deafness in both ears or blindness in both eyes. See 38 CFR 3.350. In addition, 38 U.S.C. 1160(a) provides that if a veteran has suffered loss of certain paired organs or extremities as a result of service-connected disabilities and non-service-connected disabilities, VA must assign and pay the veteran the applicable rate of compensation as if the combination of disabilities were the result of service-connected disability. See 38 CFR 3.383. Accordingly, in cases where Congress or VA has determined that special rating consideration is warranted based on the combined effects of multiple disabilities, they have expressly specified the manner of considering these combined effects.

Finally, VA regulations authorize a rating of total disability based on individual unemployability for veterans whose disabilities meet certain criteria. Under 38 CFR 4.16(a), an adjudicator may assign a total disability evaluation based upon individual unemployability rating for compensation purposes, without referral to any other official, if, in cases of multiple service-connected disabilities, a veteran has one service-connected disability rated at least 40-percent disabling and a combined rating of at least 70 percent and is unable to secure or follow a substantially gainful occupation as the

result of such disability or disabilities. Under 38 CFR 4.16(b), if a veteran's service-connected disabilities do not meet the percentage requirements of section 4.16(a), but the veteran is unable to secure and follow a substantially gainful occupation by reason of such service-connected disability, the rating board must submit the case to the Director of the Compensation Service for consideration of entitlement to a total disability based on individual unemployability rating. VA has thus prescribed a uniform standard for considering whether the combined effects of multiple disabilities produce total impairment of earning capacity. However, in instances where the inability to secure and follow a substantially gainful occupation is not shown, VA believes that, to ensure fair and consistent application of rating standards, consideration of extra-schedular ratings should be conducted with respect to individual disabilities rather than the combined effects of multiple disabilities.

Executive Orders 12866 and 13563

Executive Orders 12866 and 13563 direct agencies to assess the costs and benefits of available regulatory alternatives and, when regulation is necessary, to select regulatory approaches that maximize net benefits (including potential economic, environmental, public health and safety effects, and other advantages; distributive impacts; and equity). Executive Order 13563 (Improving Regulation and Regulatory Review) emphasizes the importance of quantifying both costs and benefits, reducing costs, harmonizing rules, and promoting flexibility. Executive Order 12866 (Regulatory Planning and Review) defines a "significant regulatory action," requiring review by the Office of Management and Budget (OMB), unless OMB waives such review, as "any

regulatory action that is likely to result in a rule that may: (1) Have an annual effect on the economy of \$100 million or more or adversely affect in a material way the economy, a sector of the economy, productivity, competition, jobs, the environment, public health or safety, or State, local, or tribal governments or communities; (2) Create a serious inconsistency or otherwise interfere with an action taken or planned by another agency; (3) Materially alter the budgetary impact of entitlements, grants, user fees, or loan programs or the rights and obligations of recipients thereof; or (4) Raise novel legal or policy issues arising out of legal mandates, the President's priorities, or the principles set forth in this Executive Order."

The economic, interagency, budgetary, legal, and policy implications of this proposed rule have been examined, and it has been determined not to be a significant regulatory action under Executive Order 12866. VA's impact analysis can be found as a supporting document at <http://www.regulations.gov>, usually within 48 hours after the rulemaking document is published. Additionally, a copy of this rulemaking and its impact analysis are available on VA's Web site at <http://www.va.gov/orpm/>, by following the link for "VA Regulations Published From FY 2004 Through Fiscal Year to Date."

Regulatory Flexibility Act

The Secretary hereby certifies that this proposed rule will not have a significant economic impact on a substantial number of small entities as they are defined in the Regulatory Flexibility Act (5 U.S.C. 601-612). This proposed rule would directly affect only individuals and will not directly affect small entities. Therefore, pursuant to 5

U.S.C. 605(b), this rulemaking is exempt from the initial and final regulatory flexibility analysis requirements of sections 603 and 604.

Unfunded Mandates

The Unfunded Mandates Reform Act of 1995 requires, at 2 U.S.C. 1532, that agencies prepare an assessment of anticipated costs and benefits before issuing any rule that may result in the expenditure by State, local, and tribal governments, in the aggregate, or by the private sector, of \$100 million or more (adjusted annually for inflation) in any one year. This proposed rule would have no such effect on State, local, and tribal governments, or on the private sector.

Paperwork Reduction Act

This proposed rule contains no provisions constituting a collection of information under the Paperwork Reduction Act of 1995 (44 U.S.C. 3501-3521).

Catalog of Federal Domestic Assistance

The Catalog of Federal Domestic Assistance number and title for the program affected by this document is 64.109, Veterans Compensation for Service-Connected Disability.

Signing Authority

The Secretary of Veterans Affairs, or designee, approved this document and authorized the undersigned to sign and submit the document to the Office of the Federal

Register for publication electronically as an official document of the Department of Veterans Affairs. Robert D. Snyder, Chief of Staff, approved this document on April 11, 2016, for publication.

List of Subjects in 38 CFR Part 3

Administrative practice and procedure, Claims, Disability benefits, Veterans.

Dated: April 13, 2016.

Jeffrey Martin,
Office of Regulation Policy &
Management, Office of the General Counsel,
Department of Veterans Affairs

For the reasons set out in the preamble, the Department of Veterans Affairs proposes to amend 38 CFR part 3 as follows:

PART 3 – ADJUDICATION

Subpart A – Pension, Compensation, and Dependency and Indemnity Compensation

1. The authority citation for part 3, subpart A, continues to read as follows:

Authority: 38 U.S.C. 501(a), unless otherwise noted.

2. Amend § 3.321 by revising the heading of paragraph (b)., revising paragraph (b)(1), and adding an authority citation at the end of paragraph (b).

The revisions and additions read as follows:

§ 3.321 General rating considerations.

* * * * *

(b) Extra-schedular ratings in unusual cases. (1) Disability compensation.

Ratings shall be based, as far as practicable, upon the average impairments of earning capacity with the additional proviso that the Secretary shall from time to time readjust this schedule of ratings in accordance with experience. To accord justice to the exceptional case where the schedular evaluation is inadequate to rate a single service-connected disability, the Director of the Compensation Service or his or her delegatee, upon field station submission, is authorized to approve on the basis of the criteria set forth in this paragraph (b), an extra-schedular evaluation commensurate with the actual impairment of earning capacity due exclusively to the referred disability. The governing

norm in these exceptional cases is a finding by the Director of the Compensation Service or delegatee that application of the regular schedular standards is impractical because the referred disability is so exceptional or unusual due to such related factors as marked interference with employment or frequent periods of hospitalization.

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(Authority: 38 U.S.C. 501(a), 1155)

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