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100% P&T Veterans

Income Floors, Survivor Engineering, and Structural Risk

A 100% Permanent & Total (P&T) rating from the U.S. Department of Veterans Affairs (VA) creates one of the most durable income floors available in the federal system.

It provides:

- Tax-free disability compensation (26 U.S.C. § 104(a)(4))
- Potential concurrent receipt with retired pay for eligible longevity retirees (DFAS, 2023a)
- Eligibility for additional federal and state benefits

But 100% P&T does not eliminate structural risk.

It strengthens the floor.

It does not design the survivor system, the estate, or the enterprise.

This paper analyzes four veteran profiles and the interaction between:

- VA disability compensation
- Survivor Benefit Plan (SBP)
- Dependency and Indemnity Compensation (DIC)
- Private insurance design
- State domicile strategy

Foundational Legal Interaction

VA Disability Compensation

VA disability compensation:

- Is tax-free (26 U.S.C. § 104(a)(4))

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- Continues for the life of the veteran
- Terminates at death
- Does not function as a survivor annuity (VA, 2024a)

When the veteran dies, the VA payment stops.

Concurrent Retirement and Disability Pay (CRDP)

Military retirees rated 50% or higher may receive military retired pay concurrently with VA disability compensation under CRDP (10 U.S.C. § 1414; DFAS, 2023a).

This is relevant in all active-duty retirement cases discussed below.

Survivor Benefit Plan (SBP)

Administered through the Defense Finance and Accounting Service, SBP is governed by 10 U.S.C. §§ 1447–1455.

Key features:

- Replaces up to 55% of elected retired pay base
- Premium deducted from retired pay
- Payments taxable to surviving spouse
- Indexed for inflation
- Generally elected at retirement with limited modification windows

SBP replaces pension income only.

It does not replace VA disability compensation.

Dependency and Indemnity Compensation (DIC)

DIC is a tax-free monthly benefit paid by the VA to eligible survivors (38 U.S.C. §§ 1310, 1318).

Eligibility may arise if:

- Death is service-connected; or
- The veteran was rated totally disabled for certain statutory periods prior to death

DIC:

- Is tax-free

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- Is separate from SBP
- Is conditional and fact-specific
- Should not be assumed in baseline planning

The prior SBP–DIC dollar-for-dollar offset has been phased out (DFAS, 2023b).

Case Study 1

Col. Michael “Mack” Donovan — Retiring Senior Officer

Profile

- 28-year O-6
- Longevity retiree
- 100% P&T
- Married

Mack qualifies for CRDP (DFAS, 2023a).

His income stack:

- Military retired pay
- VA disability compensation

The Survivor Problem

If Mack dies:

- VA disability terminates (VA, 2024a)
- Retired pay continues only if SBP elected (10 U.S.C. § 1448)
- SBP replaces at most 55% of elected base
- SBP income is taxable
- DIC may apply depending on cause-of-death criteria (38 U.S.C. § 1310)

Even with maximum SBP:

- 45% of pension disappears
- 100% of VA disability disappears

The income shock can exceed 40–60% of household cash flow.

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SBP vs Insurance: Engineering the Replacement

SBP Strengths

- Government-backed
- Inflation-adjusted
- No medical underwriting

SBP Limitations

- Replaces only pension
- Taxable
- Does not replace VA
- Partially irrevocable

Insurance Design Options

Life insurance (26 U.S.C. § 101(a)) may:

- Replace lost VA disability income
- Replace pension gap
- Provide tax-free liquidity
- Be term-based (bridge years) or permanent

The strategic decision is not binary.

It is coordinated layering:

SBP + insurance + asset design + DIC evaluation.

Case Study 2

MajGen Sarah Whitaker — GO/FO Retiree

Profile

- 32-year General Officer
- 100% P&T
- Corporate board member
- Second marriage

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- Seven-figure portfolio

Income Complexity

Sarah's income stack includes:

- Military retired pay
- VA disability compensation
- Board retainers
- Equity compensation

If she dies:

- VA disability terminates
- Board income terminates
- Equity may accelerate or lapse
- SBP replaces only pension (max 55%)

For GO/FO retirees, SBP is typically:

- A longevity hedge
- Not a comprehensive survivor plan

DIC Nuance at GO/FO Level

DIC may apply under statutory criteria (38 U.S.C. §§ 1310, 1318).

However:

- DIC eligibility is fact-specific
- DIC amount may not fully replace VA income
- DIC should not substitute for structured survivor design

In second marriages:

- Divorce decrees may mandate SBP elections
- Trust structures must align with SBP beneficiary
- Estate liquidity must be coordinated

The risk here is structural, not mathematical.

Case Study 3

Jason Ramirez — Veteran Airline Pilot

Profile

- Retired O-5
- 100% P&T
- Widebody First Officer at a major carrier
- Married, two young children
- Peak earnings phase approaching Captain upgrade

Jason qualifies for Concurrent Retirement and Disability Pay (CRDP) under 10 U.S.C. § 1414 (DFAS, 2023a). His military retired pay and VA disability compensation are received concurrently.

The Dominant Risk: Career Fragility

Jason's largest financial exposure is not his VA rating.

It is his FAA medical.

Under 14 C.F.R. Part 67, medical certification is required to exercise airline privileges, and VA-rated conditions must be disclosed during the certification process overseen by the Federal Aviation Administration (FAA, 2023).

Important nuance:

- Orthopedic conditions may be manageable with documentation.
- Cardiac, neurological, or psychological ratings may require special issuance review.
- Some conditions introduce monitoring obligations.
- A denial or delay can suspend airline income immediately.

If Jason loses his medical:

- Airline W-2 income stops.
- Military pension continues.
- VA disability continues.
- Total household income may drop 50–70%.

VA disability compensation (VA, 2024a) is tax-free and durable, but it does not replicate airline earnings.

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The Survivor Overlay for a Pilot

If Jason dies:

- VA disability terminates immediately (VA, 2024a).
- Airline income terminates.
- Pension continues only via SBP election (10 U.S.C. § 1451).
- SBP replaces at most 55% of elected retired pay base.
- SBP is taxable.
- DIC eligibility depends on cause-of-death or statutory duration criteria (38 U.S.C. §§ 1310, 1318).

In a peak-earning airline household, SBP alone rarely replaces total income needs.

The layered approach often includes:

1. SBP as a lifetime longevity hedge.
2. Term insurance sized to replace:
 - Lost airline income during dependency years.
 - Lost VA disability at death.
3. Aggressive asset accumulation during peak earning years.
4. Liquidity planning in case of early medical loss.

Upgrade and Seniority Risk

Jason also faces sequencing risk:

- Upgrade to Captain increases earnings but may change domicile.
- A late-career medical event prior to upgrade could permanently reduce lifetime earnings.
- Seniority systems are binary — one failed medical at the wrong time changes the trajectory.

100% P&T gives Jason income stability.

It does not eliminate aviation-specific fragility.

Case Study 4

Angela Thompson — Veteran Business Owner (Guard/Reserve)

Profile

- 100% P&T
- 20-year Reserve retirement eligible
- Continues Guard service
- Founder of a \$4M logistics firm
- Married, two children

Personal Income Floor vs Enterprise Value

Angela's income stack includes:

- VA disability compensation (tax-free) (VA, 2024a)
- Potential Reserve retired pay at eligibility
- Current Guard drill/active duty compensation
- Business distributions

The critical distinction:

VA disability and military pay stabilize **household income**.

They do not stabilize **enterprise value**.

If her business revenue declines:

- VA continues.
- Drill pay may continue.
- Household cash flow is supported.

But:

- Company valuation may decline.
- Contracts may be lost.
- Key employees may leave.
- Debt covenants may trigger.

Her VA rating does not increase enterprise multiple.

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It protects personal baseline cash flow.

Guard & VA Coordination Mechanics

Under 38 U.S.C. § 5304:

- A veteran may not receive VA disability compensation and military pay for the same period.

Practically:

- Drill and annual training days require waiver or recoument of VA compensation.
- Active-duty mobilization suspends VA compensation during active service.

Angela can serve while rated 100% P&T.

But VA compensation must be reconciled for overlapping pay periods.

If Angela Dies

At death:

- VA disability terminates.
- Business income may destabilize.
- Pension continues only via SBP election (if applicable to her retirement structure).
- SBP replaces up to 55% of retired pay.
- DIC eligibility depends on statutory criteria (38 U.S.C. §§ 1310, 1318).

Unlike the pilot case, Angela's largest asset is her business.

SBP does not replace enterprise value.

VA does not replace enterprise value.

DIC does not replace enterprise value.

Business owners typically require:

- Key person insurance
- Buy-sell funding
- Succession roadmap
- Estate liquidity
- Operational redundancy

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The Stabilizer Effect

Where 100% P&T matters profoundly for Angela:

If the business experiences a downturn:

- VA disability provides predictable tax-free income.
- Reserve income (if serving) supplements cash flow.
- Household baseline remains intact even if distributions decline.

This stabilizer effect:

- Reduces forced asset liquidation risk.
- Increases runway during economic cycles.
- Improves personal stress tolerance during business volatility.

But it does not protect equity value.

State-Level Strategy: The Long-Term Multiplier

Domicile decisions materially affect long-term wealth. Several states have special considerations for 100% P&T veterans. Some benefits include homestead exemptions, property tax waivers, and education benefits for dependents.

For veterans rated 100% Permanent & Total (P&T) by the U.S. Department of Veterans Affairs, federal benefits are uniform nationwide. State-level benefits are not.

While VA disability compensation is governed by federal statute (38 U.S.C. § 1110) and is federally tax-free (26 U.S.C. § 104(a)(4)), property taxation, retirement income taxation, asset protection laws, and dependent education programs are state-driven.

Over a 20–30 year retirement horizon, domicile selection can materially influence:

- Property tax exposure
- After-tax retirement income
- Estate administration
- Intergenerational education costs
- Asset protection outcomes

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Below are representative examples. Veterans should verify eligibility requirements and filing deadlines directly with state and local authorities.

Property Tax Relief and Homestead Exemptions

Texas

Texas provides a **total residence homestead exemption from property taxation** for qualifying 100% disabled veterans (Tex. Tax Code § 11.131). For eligible veterans, this exemption may eliminate local property tax liability on the primary residence, subject to statutory definitions and proper application.

Florida

Florida provides a **total ad valorem tax exemption on homestead property** for veterans with a service-connected total and permanent disability (Fla. Stat. § 196.081). Florida also has no state income tax, amplifying the long-term impact for retirees drawing military retired pay.

Nebraska

Nebraska's Homestead Exemption Category 4V applies to qualifying 100% disabled veterans (Neb. Rev. Stat. § 77-3507).

Key characteristics:

- No income limits
- No homestead value limits
- Annual application required

For Nebraska-domiciled retirees, this exemption can significantly reduce or eliminate residential property tax exposure while maintaining access to Midwestern cost-of-living advantages.

Virginia

Virginia provides a real property tax exemption for the primary residence of veterans rated 100% permanently and totally disabled (Va. Code § 58.1-3219.5). Administration occurs at the local level, and application requirements vary by locality.

South Carolina

South Carolina provides a homestead property tax exemption for qualifying disabled veterans (S.C. Code Ann. § 12-37-220). In certain counties, this may result in full exemption from property taxation on the primary residence.

State Income Tax Considerations

While VA disability compensation is federally tax-free (26 U.S.C. § 104(a)(4)), military retired pay is generally taxable at the federal level and subject to state income taxation unless excluded by state law.

States vary significantly:

- Florida — No state income tax.
- Texas — No state income tax.
- Nevada — No state income tax (Nev. Const. art. 10, § 1).
- South Carolina — Allows deductions for certain retirement income, including military retirement (S.C. Code Ann. § 12-6-1170).
- Virginia — Provides a military retirement income subtraction subject to statutory limits (Va. Code § 58.1-322).

For retirees drawing substantial military retired pay, cumulative state tax exposure over multiple decades can materially impact portfolio longevity.

Education Benefits for Dependents

Some states extend higher-education benefits to dependents of qualifying disabled veterans.

Examples include:

- Texas — Hazlewood Act tuition exemption for qualifying veterans and certain dependents (Tex. Educ. Code § 54.341).
- Florida — Scholarship programs for dependents of certain disabled veterans (Fla. Stat. § 1009.26).
- Virginia — Virginia Military Survivors and Dependents Education Program (Va. Code § 23.1-608).
- Nebraska — Dependents of qualifying 100% permanently and totally disabled veterans may receive a waiver of undergraduate tuition and mandatory fees at Nebraska state colleges and the University of Nebraska system (Neb. Rev. Stat. § 85-2304).

For families with multiple children, these programs can materially reduce education funding burdens.

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Strategic Implications

Because:

- VA disability compensation terminates at death (VA, 2024a),
- SBP replaces up to 55% of retired pay (10 U.S.C. § 1451),
- DIC eligibility is conditional (38 U.S.C. §§ 1310, 1318),

State-level cost structures directly affect survivor income sustainability.

Domicile is not merely lifestyle preference.

It is a long-duration capital allocation decision.

Integrated Strategic Conclusions

Across all four cases:

- VA disability terminates at death (VA, 2024a)
- SBP replaces up to 55% of pension (10 U.S.C. § 1451)
- DIC eligibility is conditional (38 U.S.C. §§ 1310, 1318)
- CRDP allows concurrent receipt for eligible retirees (10 U.S.C. § 1414)
- VA compensation must be waived during overlapping military pay (38 U.S.C. § 5304)
- Private insurance may replace pension and VA income (26 U.S.C. § 101(a))

100% P&T strengthens income stability.

It does not complete survivor design, estate planning, or enterprise continuity.

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38 U.S.C. §§ 1110, 1310, 1318, 5304.

Virginia Code § 58.1-3219.5.

Virginia Code § 58.1-322.

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