

GAO

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Report to the Chairman, Committee on
Veterans' Affairs, U.S. Senate

December 1991

VETERANS' BENEFITS

Savings From Reducing VA Pensions to Medicaid-Supported Nursing Home Residents



Human Resources Division

B-246372

December 27, 1991

The Honorable Alan Cranston
Chairman, Committee on Veterans' Affairs
United States Senate

Dear Mr. Chairman:

This is our second report in response to your request of May 24, 1990, that we study certain issues involving the veterans' and survivors' pension program administered by the Department of Veterans Affairs (VA).¹ We focus on

- reductions to pensions paid to veterans without dependents who receive Medicaid-supported nursing home care, expected to result from provisions of the Omnibus Budget Reconciliation Act (OBRA) of 1990 (P.L. 101-508);
- estimates of additional reductions if the law is amended to include survivors; and
- our assessment of VA's implementation of the 1990 law.

Background

Under title 38 of the U.S. Code, VA provides monthly benefits through its "Improved Law" pension program² to financially needy wartime veterans who have become permanently and totally disabled by non-service-connected impairments. Their survivors also may qualify for pensions based on financial need. In fiscal year 1990, VA paid about \$3.4 billion to about 694,000 Improved Law beneficiaries.

Many veterans and survivors use their monthly pension benefits to help pay for nursing home care. Because of financial need, many also are eligible for the Medicaid program. Medicaid is a federally aided, state-administered, medical assistance program whose costs are shared by the federal and state governments. The federal government pays from 50 to 79 percent of the Medicaid costs for medical services, depending on the state's per capita income. The Department of Health and Human Services (HHS) has overall responsibility for administering the Medicaid program at the federal level.

¹In our first report, Veterans' Benefits: VA Needs to Verify Medical Expenses Claimed By Pension Beneficiaries (GAO/HRD-91-94, July 29, 1991), we recommended that VA establish procedures for verifying the accuracy of medical expenses claimed by pension beneficiaries.

²This program, authorized under P.L. 95-588, became effective Jan. 1, 1979. VA provides additional pension benefits under two older programs not affected by OBRA 1990 legislation and not addressed in this report.

In general, Medicaid-supported nursing home residents must apply all their income (including VA pension, if applicable), except amounts for personal needs, toward the cost of their care. Medicaid then pays the difference between the approved charges and what the beneficiary contributes.

In a 1987 report, Veterans Administration: VA Pensions to Medicaid Nursing Home Residents Should Be Reduced (GAO/HRD-87-111, July 10, 1987), we recommended that the Congress amend title 38 to require that pensions be reduced for veterans and their survivors who are supported by Medicaid in a nursing home. OBRA 1990 reduced VA pensions to \$90 a month for veterans without dependents who receive Medicaid-supported nursing home care. Under the law, no part of this pension may be used to reduce Medicaid nursing home expenses. In November 1991, the Senate approved and sent to the House of Representatives legislation (S. 775) to reduce pensions in the same manner for survivors.

Results in Brief

As a result of OBRA 1990, VA should be able to reduce pensions by about \$174 million annually for veterans receiving Medicaid-supported nursing home care. If a pending legislative proposal to include survivors passes, VA could reduce pensions by an additional \$296 million. The combined \$470 million cost would be transferred from VA to HHS and the states under the Medicaid program, resulting in a net federal savings of about \$202 million annually. Passage of the pending legislation would treat veterans and survivors in the same manner.

VA has not fully implemented the OBRA 1990 legislation. By not adequately controlling the case review process, VA did not reduce all affected veterans' pensions. VA is planning changes that eventually should identify all veterans' cases where pensions should be reduced. If the proposed legislation reducing survivor benefits passes, significant potential savings can occur. Thus, VA should revise its procedures to better ensure that survivor cases are reviewed and pensions reduced in a timely manner. VA also needs to improve its explanation of pension reductions to persons affected.

Scope and Methodology

To determine the number of pension beneficiaries who were receiving Medicaid-supported nursing home care, we reviewed a nationwide sample of VA pension cases and examined VA data that identified beneficiaries in nursing homes. To learn the Medicaid status of the individuals

in our sample, we obtained information from VA records and state Medicaid offices. From these results, we estimated the reductions in VA pensions for veterans and survivors. We applied the average 1990 federal/state Medicaid cost-sharing ratio (see p. 4) for medical services to arrive at federal savings. See appendix I for further details on our sampling methodology.

We interviewed officials at VA's central office and 3 of 58 regional offices (those in Chicago, Indianapolis, and New York) to determine the policies and procedures followed to reduce pensions for veterans. At the three offices, we reviewed cases to test the adequacy of VA's efforts to reduce pension benefits.

In the three VA regional office cities, we also interviewed veterans' service organization officials to obtain their views on how the reductions would impact veterans. Additionally, we examined laws and regulations pertinent to the VA and Medicaid programs.

Our review was performed between April 1990 and August 1991 in accordance with generally accepted government auditing standards.

We requested comments from VA on a draft of this report, but they were not provided in time to include in the final report. However, in preparing the report, we did consider VA's views provided during an exit conference.

Federal Savings From Reduced VA Pensions

As a result of OBRA 1990, VA is reducing pension costs for veterans who receive Medicaid-covered nursing home care. Additional federal budget reductions would be realized if similar legislation is passed to reduce survivors' pension benefits. Table 1 summarizes the reductions in VA pensions³ and the amounts to be paid by HHS and the states as a result of reducing the pensions of about 63,000 veterans and survivors⁴ and shifting the cost of nursing home care totally to Medicaid.

³As of August 1991, the maximum annual VA pension was \$7,133 for a single veteran without dependents and \$4,780 for a survivor without dependents. A veteran or survivor entering a nursing home becomes eligible for an additional \$4,276 or \$2,866, respectively, to help defray the costs of nursing home care. These latter amounts are known as aid and attendance supplements.

⁴There is a 95-percent chance that the number of pensions lies between 55,000 and 71,000.

Table 1: Annual Effects of Reducing VA Pensions and Shifting Costs to HHS and State Governments

Beneficiary	Reduced VA pension cost	Increased medical costs, paid by	
		HHS	State governments
Veterans ^a	\$174	\$99	\$75
Survivors ^b	296	169	127
	\$470	\$268	\$202 ^c

^aPer OBRA 1990 (P.L. 101-508).

^bPer S. 775 (1991).

^cThere is a 95-percent chance that the federal savings lie between \$174 million and \$230 million.

The federal savings from the VA pension reductions would be partially offset by the increased amount to be paid by HHS. Our estimates are based on HHS paying 57 percent of the costs shifted from VA and the state Medicaid agencies paying 43 percent.⁵

Due to other changes in the law, individual veterans should be better off financially after their VA pensions are reduced. Previously, the only money for personal needs kept by the veteran was \$30 to \$75 per month, depending on the state's Medicaid rules. But OBRA 1990 allows veterans who have their pensions reduced to keep \$90 per month in VA pension money to spend as they wish. The pending legislation provides the same higher monthly allowance to survivors.

VA's Administration of Pension Reductions Needs Improvement

VA did not reduce pensions for all affected veterans in a timely manner nor give them clear and informative payment reduction notices. If the pending legislation passes, VA should correct these two problems before it attempts to reduce survivors' pension claims.

Veterans' Pensions Not Reduced in a Timely Manner

As VA could not identify from its data base which veterans were receiving Medicaid-supported nursing home care, it initiated a one-time review of 33,657 pension cases considered likely candidates for pension reduction. VA central office sent individual data sheets for these cases to the regional offices and asked each region to determine the Medicaid status of the veterans and, if required, reduce pension benefits.

⁵This is the average sharing ratio in fiscal year 1990 for all states for payment of medical costs under Medicaid.

But by not giving each region a master list of the cases that needed review, VA central office lost control of the cases. Regions received a stack of data sheets without knowing which ones they should have. This lack of control was compounded when regional offices failed to keep logs of the cases they reviewed.

There were discrepancies between the number of data sheets some regions received and the number VA central office reported sending them. Of VA's 58 regions, 25 reported at least five discrepancies. Some reported receiving more data sheets than VA central office sent, but most reported receiving fewer. In analyzing overall numbers, we listed cases for the two regions reporting the largest discrepancies (497 and 341) and asked regional officials to determine whether they reviewed each case. Both regions identified cases that had been overlooked and needed to be reviewed. Their review was continuing at the completion of our field work.

Because of the lack of control by VA, we examined cases on a test basis at each of the three regional offices that we visited to determine whether pension cases that should have been reduced had been overlooked. Each region had one or more errors, as shown in table 2.

Table 2: Results of Testing VA Pension Cases That Should Have Been Reduced
(Three VA Regions)

Region	Cases reviewed by GAO	Cases VA regions did not reduce
A	29	4
B	31	1
C	17	1

Officials at the three regions could not explain why the cases had been overlooked, but said that a master list of cases that needed to be reviewed would have helped prevent the problem.

To better insure that any "missed" cases are identified and ultimately reduced, VA plans to implement a two-stage process. It will (1) change its annual eligibility verification form⁶ to require veterans to report whether Medicaid pays for their nursing home costs and (2) identify in its data base all veterans whose benefits have been reduced to \$90 a

⁶The form on which pension beneficiaries report their income and expenses annually in order for VA to determine whether they remain eligible for pension benefits.

month. Thus, a veteran in a nursing home who reports being on Medicaid should be receiving only \$90 a month—otherwise VA will be alerted to take corrective action.

VA Pension Reduction Notices Were Unclear

In its letter to affected veterans proposing to reduce their pensions (see app. II), VA does not explain that Medicaid will pay their nursing home costs and that their personal needs allowance actually will increase. These issues were not mentioned, VA officials said, because they did not want to appear to be administering an HHS program.

Officials in all three VA regional offices that we visited told us that they received inquiries regarding pension reduction action noted in the letter. Veterans' service organization officials in one regional office city also said that they spent considerable time responding to veterans' questions about the impact of the proposed reduction and that many veterans were confused when they received the VA letter. Veterans affected by the pension reduction provisions should receive a more informative letter that describes the full impact of the changes affecting them, rather than only the reductions in their pensions. Unless these veterans are told that their nursing home costs will be paid by Medicaid, they could wonder who will continue to pay such costs. The veterans also should be told that the change will result in their receiving a higher personal needs allowance than they had been receiving in the past.

Conclusions

If Congress amends title 38 of the U.S. Code to reduce pensions for survivors in the same manner they are being reduced for veterans, significant federal savings will be realized as costs are shifted to the state Medicaid programs.

VA's lack of controls over the veterans' cases resulted in an unknown number of cases in which the pension reductions should have been reduced but were not. In time, these cases will be identified through additional controls in VA's annual eligibility verification process. To maximize savings, VA needs to control the cases so that survivors' pensions are reduced in a timely manner if the pending legislation passes. Also, VA should provide more informative letters on the reductions to the survivors whose pensions are reduced.

Recommendations to the Secretary of Veterans Affairs


To improve the implementation of pension reduction legislation for survivors if their pensions are reduced, we recommend that the Secretary

- provide VA regional offices with a control listing of cases to be reviewed for pension reduction and require the regional offices to use the listing to record the results of the review of each case and
- prepare and send notification letters that will clearly explain the impact of the pension reduction.

We are sending copies of this report to appropriate congressional committees, the Secretary of Veterans Affairs, the Director of the Office of Management and Budget, and other interested parties.

Please call me at (202) 275-5365 if you or your staff have any questions concerning this report. Other major contributors are listed in appendix III.

Sincerely yours,



Gregory J. McDonald
Associate Director,
Income Security Issues

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Abbreviations

HHS	Department of Health and Human Services
OBRA	Omnibus Budget Reconciliation Act
VA	Department of Veterans Affairs

Sampling Methodology

VA provided us with a 5-percent nationwide sample of "Improved Law" pension cases from its files, as of January 26, 1990. From this sample, we randomly selected 200 of 5,602 cases in which pension beneficiaries claimed medical expenses. Of the 200 cases, we included 183 in our review; VA did not provide sufficient documentation for analysis of the other 17. For all of our sample cases, VA regional offices sent us copies of eligibility verification reports that would have been used to support the data in VA's files.

Among the 183 cases reviewed, 103 pension beneficiaries were receiving Medicaid-covered nursing home care. For these beneficiaries, we computed the annual pension payment according to rates in effect on January 26, 1990. We then subtracted the reduced annual pension of \$1,080 (12 X \$90 a month) that VA would continue to pay beneficiaries. The difference in each case was the net reduction in VA pensions. After estimating these reductions to the universe of all pension beneficiaries, we increased the estimated savings by 5.4 percent to account for the cost-of-living increase in VA pensions that took effect in December 1990.

Because our estimates are based on a sample, each is subject to a sampling error. We computed sampling errors for our estimates at the 95-percent confidence level. Thus, the chances are 95 out of 100 that the actual number being estimated falls within the range of our estimates, as discussed on pages 3 and 4.

VA Pension Reduction Letter

VA Regional Office
123 XXXXX XXXXXX
XXXXXXXX XX XXXXX

XXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXX

Dear XXXXXXXXXX:

You have been a patient in a Medicaid-approved nursing home and covered by a Medicaid plan for services since (date). Because you have no dependents and are receiving Improved pension, the law (PL 101-508) requires that we limit your pension to \$90.00 monthly while you are receiving this type of care.

For that reason, we propose to reduce your benefits from (date). No overpayment will be created.

This \$90.00 monthly payment is for your incidental needs, such as toilet articles, snacks, etc., and no part of this payment should be used by Medicaid to cover your medical expenses. You should notify your state Medicaid office that your Improved pension is being reduced.

SUBMISSION OF EVIDENCE. Your payments will continue at the present rate for 60 days following the date of this notice so that you may, if you wish, submit evidence to show that the proposed action should not be taken. You may submit evidence in person, through the mail or through your accredited representative.

If you wait more than 60 days to submit evidence, we will carefully consider whatever you submit, but the adjustment of benefits described above will already have gone into effect and your benefits will continue in that status while we review the additional evidence.

PERSONAL HEARING. If you wish a personal hearing to present evidence or argument on any point of importance in your claim, notify this office and we will arrange a time and place for the hearing. If you desire, you may bring witnesses who have personal knowledge of the circumstances and their testimony will be entered in the record. VA will furnish the hearing room,

Appendix II
VA Pension Reduction Letter

provide hearing officials, and prepare the transcript of the proceedings. VA cannot pay any other expenses of the hearing, since a personal hearing is held only upon your request.

If, within 30 days from the date of this notice, you request a hearing, payments will continue at the present rate until the hearing is held and the testimony is reviewed.

If we do not hear from you within 60 days, we must assume you have no additional evidence to submit and do not desire additional time for presentation of your case. A decision will be made on the basis of the evidence of record.

REPRESENTATION. You may be represented, without charge, by an accredited representative of a veterans organization or other service organization recognized by the Secretary of Veterans Affairs. You may also be represented by an agent or an attorney; for example, an attorney in private practice or a legal aid attorney. However, under 38 U.S.C. 3404(c), an agent or attorney may only charge you for services performed on or after the date of a final decision by the Board of Veterans Appeals. If you desire representation, let us know and we will send you the necessary forms. If you have already designated a representative, no further action on your part is required.

It is VA policy to assist a claimant in developing the pertinent facts and to render a decision which grants every benefit that can be supported in law while protecting the interest of the Government. You may be assured that we will try to help you in every reasonable way.

Sincerely yours,

XXXXXX XXXXXXXX
Adjudication Officer

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