

DOCUMENT RESUME

03665 - [A2553685]

Veterans Administration Benefits Programs in the Republic of the Philippines. August 31, 1977. 40 pp.

Testimony before the Senate Committee on Appropriations: HUD-Independent Agencies Subcommittee; by Gregory J. Ahart, Director, Human Resources Div.

Issue Area: Income Security Programs (1300).

Contact: Human Resources Div.

Budget Function: Veterans Benefits and Services (700).

Organization Concerned: Veterans Administration.

Congressional Relevance: Senate Committee on Appropriations: HUD-Independent Agencies Subcommittee.

Authority: National Service Life Insurance Act of 1940, as amended (P.L. 79-301). P.L. 89-641. P.L. 91-376. P.L. 80-865. P.L. 85-857. P.L. 89-612. P.L. 93-82. 38 U.S.C. 110.

The Philippines is the only foreign country in which the Veterans Administration (VA) operates a comprehensive benefits program. VA is responsible for administering and monitoring both the monetary and medical benefits programs in the Philippines. The present formulae for computing monetary benefits for eligible Filipino veterans needs to be reassessed, since the present lucrative benefits structure provides incentives for program abuse. If the Senate Appropriations Committee Subcommittee on HUD-Independent Agencies believes that it is now time for the Philippine Government to assume greater responsibilities for providing medical care to Filipino veterans, it should take appropriate steps not to fund the program as authorized in current legislation due to expire on September 30, 1978. However, because of U.S. commitment to provide medical treatment to Filipino veterans for service-connected illnesses, the Subcommittee should take action to change the program from a reimbursable contract basis to a fixed-sum grant basis to provide annual funding for only service-connected care at the Veterans Memorial Medical Center. The fixed-sum grant could be determined using the cost experience over the past several years for treating service-connected illnesses at the Center. (SC)

3685
03665

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D. C. 20548

FOR RELEASE ON DELIVERY EXPECTED
AT 10:00 A.M., EST., AUGUST 31, 1977

STATEMENT OF
GREGORY J. AHART, DIRECTOR
HUMAN RESOURCES DIVISION
BEFORE THE
SUBCOMMITTEE ON HUD-INDEPENDENT AGENCIES
COMMITTEE ON APPROPRIATIONS
UNITED STATES SENATE
ON
VETERANS ADMINISTRATION BENEFITS PROGRAMS
IN THE
REPUBLIC OF THE PHILIPPINES

Mr. Chairman and members of the Subcommittee, we are pleased to be here today to discuss our review of the VA benefits programs in the Republic of the Philippines. The review was undertaken at your request and as you know we issued our report on the medical program on May 20, 1977.^{1/} A report on our review of other VA benefits programs is now being prepared.

BACKGROUND

The Philippines is the only foreign country in which VA operates a comprehensive benefits program. Since 1946, about \$2 billion has been provided under the program. During fiscal year 1976, \$80 million in benefits were distributed to various categories of eligible veterans and beneficiaries. This program resulted from:

^{1/}"Potential For Real
Involvement In Medical
(HRD-77-95, 5/20/77).

Financial Support And Ending VA
Program For Filipino Veterans"

- the Philippines being a U.S. possession from 1898 until its independence in 1946,
- Filipinos serving in and with the U.S. Armed Forces since the Spanish American War, but mostly during World War II, and
- continually recruiting several hundred Filipinos each year to serve in the U.S. Armed Forces.

Filipinos with service in the regular components of the U.S. Armed Forces, including those who served before and during World War II as Philippine Scouts, called Old Scouts, are considered U.S. veterans. Approximately 50,000 of these veterans reside in the Philippines.

In addition three other groups of Filipino veterans totaling about 452,000 also are entitled to benefits:

- Filipinos who served in the Philippine Commonwealth Army, which was inducted into the U.S. Armed Forces of the Far East in July 1941 (about 110,000).
- Those who fought during World War II in guerrilla units recognized by the U.S. Army as part of the U.S. Armed Forces (about 312,000).
- Philippine Scouts, called New Scouts, enlisting in the U.S. Armed Forces under provisions of the Armed Forces Voluntary Recruitment Act of 1945 (about 30,000).

It should be noted, however, that although the number of potential beneficiaries total 502,000, only about 56,000 are currently receiving benefits.

VA activities

VA is responsible for administering and monitoring both the monetary and medical benefit programs in the Philippines. VA has maintained an office in the Philippines since 1921; before World War II the office was staffed by 13 employees and served approximately 7,500 veterans. However, VA operations have expanded greatly due to the large increase in potential beneficiaries created by legislation providing benefits to World War II Filipino veterans and by continually expanding these benefits over the years. As of March 1977, VA employed 254 persons in the Philippines, including 14 Americans. The VA outpatient clinic employed 64 of these persons, including 2 Americans. Annual operating costs averaged over \$1.8 million for the monetary and medical benefits programs over the last five fiscal years. Annual operating costs for the outpatient clinic were about \$460,000 of the \$1.8 million.

Special legislation which permits VA to operate in the Philippines has been extended in increments by legislation

through September 30, 1978, 56 years since it was initially established.

- - - -

We would like to address the monetary benefits programs first.

MONETARY BENEFITS PROGRAMS

The Congress has enacted several laws that provide Filipino veterans most of the benefits received by American veterans.

In 1946, Public Law 79-301 authorized the payment of monetary benefits to eligible Filipino veterans and their dependents. The law limited benefits under the National Service Life Insurance Act of 1940, and for the payment of pensions on account of service-connected disability or death.

The law required that benefits be paid at the rate of one Philippine peso to each dollar for a veteran who was a member of the U.S. Armed Forces. This provision recognized that the average income, living costs, and other related economic factors in the Philippines were different from those in the U.S. The concept was that one peso would obtain for the Philippine veterans the equivalent of \$1 for the American veteran in the American economy.

Subsequent legislation included additional categories of benefits for Filipino veterans. The 89th Congress

authorized educational assistance for children of Filipino veterans who died or were permanently disabled from service-connected causes. However, legislation which had the greatest impact was Public Law 89-641 which increased payments from one peso for each dollar authorized to a rate in Philippine pesos equivalent to \$0.50 for each dollar.

In addition to authorizing additional benefits for Filipino veterans, the Congress since 1946 has periodically increased monthly benefits rates for all veterans.

Program expenditures have steadily increased from \$8.1 million in calendar year 1947 to \$78.4 million in fiscal year 1976. The types of program expenditures are:

- compensation which is payable to eligible veterans for service-connected disabilities or their dependents.
- disability pensions which are paid to eligible veterans because of war time service, age, or nonservice-connected disabilities. Unlike compensation, pensions are authorized only for U.S. veterans.

- death pensions which are paid to the dependent spouse and children of U.S. veterans.
- education benefits which are payable to all veterans who served in the regular components of the U.S. Armed Forces, including Old Philippine Scouts, and in certain instances are also payable to widows, wives, and children of veterans. Eligible persons are entitled to educational assistance up to 45 months. Dependents of U.S. and Filipino veterans are paid at half rate.

FORMULA FOR COMPUTING VA BENEFITS
CREATES INEQUITIES

The present formula for computing benefits does not adequately consider differences between income levels of the U.S. and the Philippines and has the effect of compensating Filipino veterans at higher levels than their American counterparts in the U.S.

At the time the benefit program for Filipino veterans was established in 1946, it was generally accepted that one U.S. dollar was worth two Philippine pesos and that one peso would

obtain for the Filipino veteran in the Philippine economy the equivalent of \$1 for the American veteran in the American economy. Thereby, Filipino veterans were placed on a level equal to American veterans considering the differences in the economies of the two countries.

As a result of a Joint Republic of the Philippines - U.S. Commission study of Philippine veterans' problems, Congress in 1966 authorized a change in the compensation formula.

Adjustment of payment formula
provides windfall to Filipino veterans

Public Law 89-641, changing the formula for benefit payments to Filipino veterans, had the immediate effect of doubling benefit payments to Filipino veterans, and has provided them with additional windfall benefits due to subsequent currency devaluations.

The intent of the 1966 law was to restore Philippines beneficiaries to approximately their situation in 1946, taking into account the changes occurring in the economies and living standards in the Philippines and the U.S. since 1946. Since the law was enacted, however, devaluations of the peso have provided

Filipino veterans with undue increases in benefits and has resulted in Filipino veterans achieving much higher levels of benefits than their counterparts in the U.S.

Over the period 1966-1977, benefits for American veterans have been increased by legislation by about 125 percent. However, Filipino veterans receive the same percentage increase as American veterans. As a result of peso devaluation over this period, Filipino veterans have received about a 700 percent increase in benefits.

Both U.S. and Filipino veterans in the Philippines receiving VA benefits have gained significantly from exchange rate adjustments. This is in addition to benefit increases granted by the Congress apparently to offset inflation or cost-of-living increases in the U.S. Since most expenses borne by VA beneficiaries in the Philippines are in the local currency, exchange rate fluctuations do not necessarily relate to the cost of living in the Philippines.

Although the amounts differ, these windfall increases apply to all categories of VA benefits paid to Filipino veterans and their beneficiaries.

VA's Internal Audit Service (IAS) in 1973, after its review of the programs, concluded that benefits in the Philippines, even at 50 cents to the dollar, represented a substantial source of income based on the local economy and relatively low standard of living. The study recommended that a relatively simple formula for computation of benefits should be developed with periodic updating to reflect a reasonable average cost of the service or benefit the laws were originally intended to provide

IAS recommended changing legislation to provide for computing benefits conforming to the original intent of the applicable laws.

A VA committee established to consider the recommendations of the IAS study did not concur with the recommendation. In a March 5, 1976, letter, it stated that VA benefits provided a substantial income for most recipients and that most of the beneficiaries had been on the VA rolls for thirty years and their standard of living has been upgraded accordingly. The committee stated that reduction of benefits at this date would drastically affect the standard of living to which the beneficiaries had become accustomed.

Compensation and pension -- in general, compensation payments are provided to U.S. and Filipino veterans or their dependents for the loss of earning power resulting from service-connected disability or death. Pensions are paid to U.S. veterans who are unable to work because of a nonservice-connected disability and dependents of deceased veterans to provide a measure of security. In the Philippines, however, compensation and pension payments more than compensate the veteran for loss of earning power, and in many cases, provide veterans with income levels higher than they could have possibly achieved had they not been disabled.

In fiscal year 1976 VA distributed approximately \$67 million in compensation and pension payments to over 48,000 beneficiaries in the Philippines. The average payment was \$1,382 a year -- \$2,069 for a U.S. veteran and \$1,080 for a Filipino veteran receiving limited benefits. In comparison, the average annual earnings of all employed wage and salary workers, according to Republic of Philippine statistics, was only about \$455 in 1975 -- less than one-third of the average compensation

and pension payment. As shown by a recent Philippine Government salary and wage survey, veterans in the Philippines generally receive more in benefits than they could earn in some trades and professions.

For example, a 50 percent disabled Filipino veteran would receive more compensation than he could expect to earn in many civilian occupations. As the degree of disability increases, the disparity become even more pronounced. A Filipino veteran who is 100 percent disabled would receive \$4,794 annually, or more than double the average annual salary of a physician in the Philippines.

In comparison, the Philippine Veterans Affairs Office (PVAO) -- a counterpart agency of VA which administers all programs for Filipino veterans recognized by the Philippine Government, but not recognized by the U.S. -- pays its 100 percent disabled veterans up to \$320 a year which is about 30 percent less than the average annual earnings in the Philippines. This disparity in benefits is obviously even greater when comparing U.S. veterans' benefits to local income levels.

In addition to disability compensation, VA provides pensions to U.S. veterans and their dependents for nonservice-connected disability and death. In fiscal year 1976, VA distributed \$14 million in pensions to 8,654 beneficiaries in the Philippines. Pensions averaged \$2,117 for veterans and \$1,255 for dependents. The PVAO does not provide pensions for World War II veterans. In contrast, however, the Philippine Social Security System paid its recipients an average annual payment of \$240 for disability pension and \$163 for retirement pension in 1975.

Educational benefits -- the educational assistance program established by the Congress aids veterans and children in attaining the educational status they might not have otherwise aspired to and to better enable wives and widows to support their families. Educational payments are intended to help meet, in part, the cost of obtaining an education which includes tuition, fees, books, supplies, and subsistence. In the Philippines, however, because educational costs are so low, students need only a small percentage of their allowance payments to defray educational expenses.

From 1946 to 1976, the education program has cost nearly \$145 million. The annual cost has increased from about \$300,000 in calendar year 1946 to over \$11 million in fiscal year 1976.

In the Philippines, U.S. veterans are entitled to full educational benefits, whereas eligible dependents of U.S. and Filipino veterans are limited to half rate. At current levels, VA educational benefits in the Philippines provide students with sizable incomes after deducting expenses associated with obtaining an education.

Almost one-half of all VA student beneficiaries attend 11 college level institutions and one vocational school in the Philippines. At four of these institutions monthly tuition averaged only about \$11 at the colleges and was less than \$4 at the vocational school. A Philippine Government survey published in 1974 estimated that total educational costs including subsistence were about double the cost of tuition.

In fiscal year 1976 the average veteran retained about \$331 per month and dependents \$113 per month for full-time college study after deducting educational expenses.

In the Philippines, veterans' dependents earned about as much from their educational assistance payments as the average college professor with a master's degree (\$118 per month), and a veteran earns almost twice as much as college deans (\$179 per month).

On an annual basis veterans and dependents would obtain an average of about \$3,972 and \$1,356 -- after educational expenses -- respectively, from educational benefits which is more than the average VA compensation payment and also more than could be earned in many occupations in the Philippines.

Additionally, most dependents receiving educational assistance payments are also direct or indirect beneficiaries of other VA monetary benefits, such as death or disability compensation.

Some dependents' families received an average of three checks per month and their annual income from VA benefits averaged \$6,083 during fiscal year 1976. In one family, eight members received VA payments during the year

totaling over \$17,000. Also, a substantial percentage of veteran students are Navy retirees receiving retirement pay of over \$300 per month.

- - - - -
We would now like to discuss abuses to the benefits programs.

PROGRAM ABUSES

As presently structured, VA monetary benefits are so relatively high to the Philippine levels of income that they provide an incentive for certain individuals to try every conceivable ploy to obtain VA benefits.

Because VA has never accomplished a complete file search to insure that only eligible beneficiaries are receiving benefits, and does not maintain records which readily identify the incidence of program abuses, we were unable to determine the full extent of these abuses. We are, therefore, presenting examples and information available illustrating the various types of program abuses and problems encountered by VA in administering benefits programs in the Philippines, along with actions taken by VA to remedy these problems.

Fraudulent claims under widows' restoration program

Although the VA office in Manila cannot estimate the number of fraudulent cases in the Philippines, it reported that such claims acted upon locally number in the thousands. The

VA Widows' Restoration Program clearly illustrates this problem in the Philippines.

In 1970, Public Law 91-376 provided for the restoration of VA benefits to widows. Because of the high potential for fraud under this law, VA's Manila office in 1971 initiated a program requiring field investigations for all widows' restoration claims. Through April 1977 more than 5,000 widows applied for restoration of benefits under the provisions of the law. However, after investigation, only 2,613, or about 50 percent, had their benefits restored. Of the remainder, 1,910 claims were determined to be fraudulent and resulted in forfeiture of benefits, and another 640 were disallowed for other reasons.

Adoptions and illegitimate children

Philippine adoptions for the purpose of gaining additional benefits have long been recognized as a problem by VA. The VA, however, has not studied the potential abuse resulting from illegitimate children being entitled to VA benefits in the Philippines.

Adoptions -- In 1972, VA's Manila office recommended to VA central office that a more stringent statutory requirement be instituted for Philippine adoptions. VA reported numerous instances of aged and disabled

veterans adopting children for the sole purpose of qualifying them for benefits. Several examples reported by VA are shown below:

--A 70-year-old single veteran adopted his 6-year-old great grandnephew, even though the natural parents were still alive and living with the veteran,

--A single veteran, age 69, adopted two great grandnieces ages 4 years and 8 months. The children remained in the custody of their natural parents, and

--A married veteran, 68 years old adopted four great grandnieces and grandnephews, even though two of the children never lived with the veteran.

Since the adoptions were granted by Philippine courts, VA recognized them as valid and awarded increased benefits because of the children. The children can often continue receiving benefits through age 23, and in some cases can receive education benefits thereafter. A VA official informed us that the Manila office processes about 50 adoption cases each year, but because of recently liberalized adoption laws -- permitting persons with natural children to adopt -- this number could increase in the future.

In March 1976, the VA committee considering VA's IAS recommendations concurred that a more stringent statutory requirement was needed for Philippine adoptions, and recommended that the VA General Counsel formulate appropriate guidelines for a change in legislation. As of August 1977, VA has not implemented this recommendation.

According to a former director of VA's Manila office, the practice of allowing veterans, who receive sizable benefits from VA, to adopt children of relatives solely for the purpose of providing financial support for these children and their natural parents defeats the philosophy, both in law and in intent, of providing benefits to children legitimately adopted by veterans.

Illegitimate children -- A VA official informed us that in the Philippines, married veterans frequently sire illegitimate children. These illegitimate children, so long as the veteran acknowledges paternity, are entitled to the same benefits as the veteran's legitimate children. VA officials acknowledged that the recognition of illegitimate children in the Philippines has potential for abuse, particularly for veterans with a disability rated at 50 percent or more (comprising more than 25 percent of Filipino veterans receiving disability compensation) since increased benefits are paid for each child.

VA's Manila office maintains no statistics on illegitimate children, nor has it studied potential abuses associated with their entitlement to VA benefits. Probably the most blatant example in VA files is the case of

--a veteran, who was shot by a guard while returning from being absent without leave, was rated 100 percent disabled with additional compensation for loss of use of extremities. Since incurring his disability, the veteran fathered 26 children; 11 by his wife and 15 illegitimately by his wife's sister. The last illegitimate child was born in December 1976. The veteran, formerly a farmer, receives \$627 per month at half benefits plus an additional \$204 per month for 18 children under 23 years old. Since the veteran incurred his disability in 1947, the VA has paid him \$89,100 in benefits, and to his children \$9,900 in educational benefits. If the veteran lives to his life expectancy, we estimate that at current rates, VA will pay him an additional \$192,000 in benefits and his children up to \$118,000 in education benefits.

Prolonging illness to
extend monetary benefits

A large number of veterans receiving 100 percent disability compensation in the Philippines are either no longer totally disabled or remain disabled by not cooperating with medical treatment plans furnished by VA. These veterans receive disability compensation on account of pulmonary tuberculosis (PTB), a disease which can be arrested or controlled within a short time with proper medical treatment.

A VA official informed us that nearly 600 veterans in the Philippines receive 100 percent disability compensation on account of PTB. This represents about 68 percent of all veterans receiving 100 percent disability. In contrast, only 2.5 percent of all 100 percent disabled U.S. veterans worldwide are disabled due to PTB. According to the VA official, about 70 percent of these veterans have been rated 100 percent disabled for more than 20 years, even though VA has provided the medicine necessary to arrest the disease. Under 38 U.S.C. 110, a rating of total disability which has been continuously in force for 20 or more years cannot be reduced except if the rating was based on fraud.

At our request, VA reviewed a sample of Filipino veterans whose 100 percent disability is protected under 38 U.S.C. 110. In 13 out of 24 cases reviewed, the PTB was arrested at the time of the last examination and the veterans were no longer considered 100 percent disabled. However, since the veterans' disability ratings are protected, VA cannot reduce their compensation accordingly.

In April 1964, VA's Manila office reported to the central office the problem of veterans not cooperating with VA's prescribed treatment. A clinical study performed by VA at that time showed that over 60 percent of PTB patients tested were not taking medicine provided by VA on a regular basis. They attributed this lack of cooperation to the fact that the veterans received more money from VA than they could have possibly earned if they recovered.

VA's central office replied in August 1964 that, short of legislative action, nothing could be done to correct this problem, and that for the time being such action was not appropriate.

In 1973 the VA IAS reported that, for PTB patients refusing to take medication, a statement was being proposed for development to the effect that failure of the patient to respond to treatment over the normal course of the treatment period for such cases was presumptive evidence that the patient was refusing to follow medical advice and therefore grounds existed for reduced compensation.

This procedure was not adopted, and as a result many veterans' 100 percent disability ratings have become protected.

Attending school for
income from VA benefits

VA educational benefits provide students in the Philippines with sizable incomes after deducting educational expenses. As a result, many students often enroll in courses for the income provided. VA officials acknowledge that providing such generous educational benefits in the Philippines encourages abuse of the program.

According to registrars of the two colleges in the Philippines with the largest VA enrollment, few VA students finish their studies and other requirements and graduate.

One registrar explained that by taking the minimum full-time load, 46 months of study are required to graduate and VA benefits are exhausted after 45 months. The registrar informed us that VA students seldom attend the last month in order to graduate -- they simply drop out.

VA performs no followup evaluation of students who have received educational benefits. At our request, VA contacted eight dependents who recently completed training with VA educational assistance. This limited survey indicated that few students had gained employment using skills acquired with the educational assistance and that some students were not even interested in getting jobs. Of the eight dependents contacted, one was self-employed using her skill part-time in her home, five were unemployed (three of whom expressed no intention of seeking employment), and two were employed at jobs unrelated to their training -- one as a sea shell vendor and another as a horse cart driver.

Activities of claims fixers

An acknowledged problem in VA's administration of benefits programs in the Philippines is the acceptance and widespread

use of claims fixers -- individuals who prepare and submit claims on the behalf of the claimants -- by veterans and their beneficiaries. The fixers initiate voluminous numbers of claims which VA is required to act on. The fixers often work on a contingent fee basis, in that if the claim is successful, the fixer receives a share of the benefits paid to the claimant. A VA official said many claims fixers are ruthless extortionists who intimidate their clients into paying a share of their benefits.

Fixer-type claims, lacking any basic merit consume a disproportionate amount of effort on the part of VA's adjudication division, thus impairing its ability to service veterans with legitimate claims. For example, during FY 1976 over 30 years after World War II, VA processed over 1,700 new disability compensation claims. Of these claims only 20, or about 1 percent, were allowed.

The former director of VA's Manila office, summarized this situation in his FY 1974 budget presentation stating, "The activities of claims fixers, operating openly in a foreign country where penalties fixed by U.S. laws are not applicable, and where local laws are not properly enforced, create a continuing problem for this office * * *." The present

director stated that claims fixers are still a problem and that VA efforts to assist Philippine authorities in curbing their activities have been useless.

The Administrator, Philippine Veterans Affairs Office (PVAO), informed us that PVAO has no problem with claims fixers. A VA official attributed this to the significantly lower level of monetary benefits paid by PVAO.

Availability of false documentation

The availability of false documentation compounds VA's problems with claim fixers. According to officials of VA, the Social Security Administration (SSA), and the U.S. Consulate, the use of false documents is widespread in the Philippines. Because of the unsophisticated methods of recordkeeping and other factors, false documents of all types are readily procurable.

The head of the SSA office in Manila informed us that because of this continuing problem, SSA has compiled a list of individuals in some government offices and churches known to issue fraudulent documents and conducts field investigations to authenticate documents issued by these institutions. A VA

official explained that certain false documents can be readily obtained due to the method of recording vital statistics in the Philippines. For example, the recording of deaths requires merely a verbal notification. Death certificates can therefore be issued with no verification that the person had actually died. Additionally there are false or altered medical certificates, military service or disability and school attendance records.

VA informed us that some claims, particularly those submitted by clever claims fixers, are processed undetected and result in unentitled benefits. The director of VA's Manila office stated that although false documentation constitutes a problem for the office, the adjudication staff is well trained and intercepts a large portion of claims based on fraudulent documents.

Lack of jurisdiction inhibits curbing program abuses

VA administers benefits in the Philippines under the same policies as in the U.S. but without availability of the same legal penalties. VA's policy is to administer the law under a broad interpretation and to resolve any reasonable doubt in favor of the claimant. However, in the Philippines legal penalties (fines from \$1,000 to \$5,000 or imprisonment for up to 2 years or both) provided for by Title 38, U.S.C. are not enforceable.

Furthermore, Embassy policy dictates that all U.S. agencies operating in the Philippines avail themselves of the immunity provided by international law. To protect this immunity, the Embassy has directed the agencies not to engage in court actions against Filipinos. As a result, the only deterrent available to VA in preventing program abuses and protecting the interests of the Government is the administrative forfeiture of benefits. This procedure, however, applies only to claimants, and has no effect on the activities of claims fixers.

This lack of jurisdiction also affects VA's ability to recover overpayments made to beneficiaries on the basis of inappropriate and fraudulent claims. According to VA officials, unless there is a continuing award, collection efforts for recovery of overpayments are usually unsuccessful. Therefore, after following established collection procedures, VA generally writes off the overpayments. In the U.S., VA can further pursue collection of overpayments in the courts.

In fiscal year 1976 alone, VA's Manila office established 759 indebtedness accounts for \$865,000 in overpayments and since July 1975, has waived or written off overpayments totaling almost \$800,000.

VA's Manila office director stated that certain of the ongoing abuses can be curbed through legislation, but that VA problems with claims fixers and false documentation cannot

effectively be dealt with since U.S. laws are unenforceable in the Philippines.

- - - -

We would now like to address the medical benefits program. As you know, this program is under special legislation which is due to expire in September 1978 unless renewed by the Congress.

MEDICAL PROGRAM

In 1948, Congress authorized, through Public Law 80-865, a grant program to provide medical benefits to Filipino veterans with service-connected illnesses. This law also provided authorization for constructing and equipping a hospital in Luzon. The grant was authorized for a 5 year period. The program was to be temporary with the Philippine Government eventually assuming responsibility for funding the program and operating the hospital. The hospital, built and equipped at a cost of about \$9.4 million, now called the Veterans Memorial Medical Center, was turned over to the Philippine Government in 1955.

Although the program was intended to be temporary, it has been extended in 5 year increments by legislation through September 30, 1978, 30 years since it was initially established. After July 1, 1958, Public Law 85-857, enacted in 1958, changed the basis of funding of the program from a grant basis to a reimbursable contract basis.

Renewal legislation which had the greatest impact on the program was Public Law 89-612, enacted September 1966. In addition to extending the program for another 5 year period, this legislation expanded the program to include medical care for nonservice-connected illnesses. This was done in part to supplement the declining patient load at the Center -- at the time running at less than 75 percent of capacity. Until that time, expenditures charged to the program had been declining. Since then, the cost of the program experienced an upward trend increasing from less than \$300,000 in 1966 to approximately \$2 million in 1974. Since 1974, program costs have remained fairly constant.

Public Law 89-612 also authorized \$500,000 for replacing and upgrading equipment and for restoring the physical plant of the hospital. It further authorized a yearly \$100,000 appropriation for 6 years, beginning in 1967, in grants to the Center for medical research and training of health service personnel.

The latest renewal legislation, Public Law 93-82 extended the program through June 30, 1978 -- subsequently changed to September 30, 1978 -- and authorized funds of up to \$2 million annually for medical care. The law also provided for annual grants up to \$50,000 for education and training of health service personnel at the Center and up to \$50,000 for replacing and upgrading equipment and maintaining the physical plant.

The program is administered on a cost reimbursable basis whereby the Center is paid for inpatient care at an all-inclusive per diem rate. The per diem rates are jointly determined by the U.S. and the Philippine Governments.

Center facilities and services

The Center employs over 1,500 personnel and provides a wide range of inpatient and outpatient services to U.S. and Filipino veterans. Its mission was expanded in 1960 from a specialized veterans hospital into a general hospital, offering specialties such as obstetrics-gynecology, pediatrics, and psychiatry. Since then, the Center has established specialized services and programs including nuclear medicine, open heart surgery, radiotherapy, and renal dialysis.

In 1960, the Philippine Government also began using the Center for its own veterans program. Today, the Philippine program includes service- and non-service-connected care, dependent care, and treatment of civilian patients (on a paying basis if beds are available).

To meet the increased demands of the U.S. and Philippine programs, we were informed that the hospital gradually increased its bed capacity from 700 in 1964 to 1,160 in 1975. Located on a 126-acre site, the Center now has a total of 30 buildings, with a variety of recreational facilities including an 18-hole golf course, tennis courts, and a basketball court.

In addition to the Center, the Philippines has at least 13 other Philippine-funded medical facilities which may be used by Filipino veterans under the Philippine Government's program.

POTENTIAL FOR REDUCING MEDICAL PROGRAM FUNDING

Although the medical care program was established almost 30 years ago as a temporary program to provide medical treatment for service-connected illnesses, legislative amendments have continued the program and have expanded it to include nonservice-connected care, currently representing about 96 percent of all patient days charged under the program. Moreover, VA's Manila office which screens both U.S. and Filipino veterans to determine the need for hospitalization at the Center, estimates a substantial portion of the care provided on an inpatient basis under the program could be treated more effectively and economically on an outpatient basis under the Philippine Government's program.

In 1976, the VA central office committee commenting on VA's IAS 1973 findings on problems of unnecessary hospitalization recommended that to avoid unnecessary hospitalization veterans with nonservice-connected conditions be admitted for hospitalization at the Center only when they cannot be treated on an outpatient basis. The committee further concluded that such outpatient treatment should be the responsibility of the Philippine Government. As of August 1977, the committee's recommendation had not been implemented.

Program funds used mostly to treat nonservice-connected illnesses

By limiting U.S. funding of the program to service-connected illnesses, substantial reductions in funding and the role of VA could be achieved.

In fiscal year 1976, almost 96 percent of the patient days charged against the program were for nonservice-connected illnesses. Moreover, about \$1.6 million of the \$1.9 million cost for the program in fiscal year 1976 was attributable to inpatient care -- the only category for which treatment of nonservice-connected illness can be authorized under the program. The program could be reduced by about \$1.9 million if treatment was limited to service-connected illnesses.

As I mentioned before, the Congress authorized nonservice-connected care under the program in 1966. During the period from 1966 to 1976, the number of Filipino veterans receiving care at the Center for service-connected conditions has declined from 100 percent to about 4 percent.

Hospitalization can be avoided

Many veterans treated at the Center for nonservice-connected illnesses would not require hospitalization with proper outpatient treatment. VA's Manila office estimated that substantial reductions in hospital costs could have been realized in fiscal year 1977 if these veterans had received proper treatment on an outpatient basis.

Under current legislation, however, outpatient care is authorized only for those Filipino veterans who have service-connected illnesses. Outpatient treatment for nonservice-connected illnesses is available only under the Philippine program.

An indication of the nonservice-connected nature of the program, as it now exists, can be shown by the cost for inpatient care -- the only category for which medical care is authorized for nonservice-connected illnesses. In fiscal year 1976, about \$1.6 million of the \$1.9 million cost of the program was for inpatient care.

In a recent study on unnecessary hospitalization, VA's Manila office sampled 167 patient files related to fiscal year 1976 nonservice-connected treatment. Based on its analyses and projections, it estimated that over \$400,000 in fiscal year 1977 hospitalization charges to the program could have been eliminated if proper treatment was provided on an outpatient basis.

- - - -

WHAT CAN BE DONE?

U.S. policy has been that the medical program was a temporary program and that the Government of the Philippines would eventually be responsible for it. As we stated in our May 20, 1977, report, if the Subcommittee believes that

it is now time for the Philippine Government to assume greater responsibilities for providing medical care to Filipino veterans, we recommended that it

--take appropriate steps to not fund the program as authorized in current legislation due to expire on September 30, 1978. However, because of our commitment to provide medical treatment to Filipino veterans for service-connected illnesses, it should take action to change the program from a reimbursable contract basis to a fixed-sum grant basis to provide annual funding for only service-connected care at the Center. The fixed-sum grant could be determined using the cost experience over the past several years for treating service-connected illnesses at the Center.

As far as the other VA benefits programs in the Philippines go, we believe that the present formulae for computing monetary benefits for eligible Filipino veterans needs to be reassessed. It has not been done since 1966 and the lucrative benefits structure provides incentives for program abuse. The high rate of benefits paid beneficiaries results in attempts to circumvent the intent of the programs to obtain these benefits.

As an example of inequality in benefits, a totally disabled service-connected American veteran with a wife and

two children would have received compensation totaling \$9,588 in 1976 as compared with the median family income in the U.S. of about \$13,700. Therefore, the American veteran received about 70 percent of the median family income. In contrast, the most current information available shows the median family income in the Philippines to be about \$643 a year, and comparable totally disabled U.S. and Filipino veterans received \$9,588 and \$4,794, respectively, or about 15 and 7 1/2 times more than the Philippine median family income.

If American veterans in the U.S. were paid equal benefits on the same ratio to median family income as a Filipino veteran, a totally disabled veteran with a wife and two children would receive about \$102,750 per year.

In comparison, the PVAO pays compensation to its World War II totally disabled veterans, with a similar family, \$465 per year or about 72 percent, of the median family income in the Philippines.

Compensation and pension benefits are basically intended to compensate the veteran or his dependents for the loss of earning power resulting from the veteran's disability or death. Aligning the level of VA monetary benefits to prevailing wage rates in the Philippine economy and PVAO benefits would result in substantial savings. Currently, these payments are more than three times the average wage and more than compensate for the loss of earning power.

Reducing the average compensation and pension entitlement of U.S. and Filipino veterans to 33 percent of that entitled to American veterans would result in an average payment of \$460, which is more than the average Philippine annual wage. Based on fiscal year 1976 compensation and pension costs of \$67 million, the U.S. could save about \$44.6 million a year. Reducing the benefits for Filipino veterans only could save the U.S. about \$20.9 million a year.

This action would align compensation and pension payments with the average Filipino wage and PVAO benefits. It would also eliminate the inequity between Filipino beneficiaries who are able to live much better than many other Filipinos and their American counterparts living in the U.S.

American beneficiaries, including those residing in the Philippines, receive the same VA compensation and pension payment when living in any foreign country as do those residing in the U.S. However, unlike Filipino beneficiaries, they must make social readjustments and leave their homeland to take advantage of the lower cost of living in other countries.

If educational benefits were brought in line with actual costs for an education in the Philippines, program costs could be reduced. Based on fiscal year 1976 enrollment, the U.S. could save about \$10.2 million a year by limiting educational benefits to the average cost of an education in the Philippines.

One factor to be considered in reassessing the programs is the potential for fraud and abuse which have the effect of increasing costs and prolonging the life of the programs.

Both VA and Embassy officials believe the benefits programs to be declining, however, statistics show that costs are increasing.

Although the number of beneficiaries has declined, annual expenditures have steadily increased since 1946. Thirty years after World War II, through fiscal year 1976 VA benefits, including the medical program and operating costs, have amounted to about \$2 billion. From fiscal years 1973 to 1976 compensation and pension expenditures steadily increased by \$10 million, from \$57 million in fiscal year 1973 to \$67 million in fiscal year 1976.

Without provision for legislative rate increases, VA estimates the compensation and pension programs will cost about \$277 million for fiscal years 1977 to 1980, and beneficiaries will decrease by 1,150. Education benefits are estimated to remain relatively stable averaging about \$11 million a year and totaling about \$44 million.

On the basis of current disbursements, without legislative rate increases, costs of the programs for the next 20 years are estimated by us to be about \$1.5 billion.

ALTERNATIVES FOR THE FUTURE

As you know, the Appropriations Committees last month cut the VA Philippine medical program by \$400,000. If the Subcommittee believes that the Government of the Philippines should assume greater responsibility for this program, we recommend that U.S. funding for treatment of nonservice-connected illnesses be phased out; and that an agreement be negotiated with the Government of the Philippines to provide for a lump-sum payment to fund the program for service-connected illnesses.

For the other benefits programs, we believe that the level of benefits needs to be reassessed. Once this is done, the following options would be available.

--Continue the programs in the Philippines but do not increase benefits until the level of benefits to Filipino veterans has been reduced to a comparable level of benefits to American veterans considering the differences in economic conditions of the U.S. and the Philippines. This would require establishing a separate program for veterans in the Philippines. However, this would not solve the problem of abuses to the programs because benefits would still be high for a long period. Also, the inability of VA to

eliminate the high incidence of abuse could perpetuate the life of the programs.

- Another option would be to transfer most of VA functions, such as processing of claims to the U.S. Whether this would result in cost savings is an open question. Some view it as a move which would seriously handicap claims fixers. It is likely that this would result in Filipino veterans receiving a reduced level of service than they are now receiving but on a par with service received by VA beneficiaries in other countries.
- A more viable alternative would be to negotiate a final settlement with the Government of the Philippines to cover costs for all remaining benefits for Filipino veterans residing in the Philippines. This action is not without precedence as the U.S. and the Philippine Government signed an executive agreement in 1967 which provided a lump-sum payment of \$31 million to the Philippine Government for previously unsettled Filipino veteran claims.

A lump-sum payment or the setting up of a type of trust fund would be more politically viable than just reducing benefits. Also it would be consistent with (1) the U.S. objective of eliminating the "special relationship" with the Philippine Government, (2) would aid the Philippine Government toward their goal of self-reliance, and (3) would be in line with the U.S. policy of reducing U.S. presence abroad.

A lump-sum payment would also permit the Philippine Government to adjust its own veterans' programs and perhaps enable it to provide additional benefits to its own veterans thereby treating them more equitably when compared to the Filipino veterans that receive VA benefits.

This concludes my statement Mr. Chairman. We would be happy to respond to any questions you or other members of the Subcommittee may have.

3685

Mr. Chairman:

Before summarizing my prepared statement, I want to briefly qualify it in one major regard; that is, with regard to what the true intent of the Congress was when it considered monetary benefits to Filipino veterans following World War II and subsequently.

Apparently as of the end of the war the Veterans Administration had ruled that these veterans were entitled to the same benefits in terms of U.S. dollars, as Americans who served in the U.S. Armed Forces. This ruling was premised on President Roosevelt's July 26, 1941, order placing all of the organized military forces of the Commonwealth of the Philippines into the service of the Armed Forces of the United States for the period of the then existing emergency.

Public Law 301 of the 79th Congress, approved February 18, 1946, and known as the First Supplemental Surplus Appropriation Recission Bill, 1946, apparently attempted to overcome this ruling by limiting benefits to Filipino veterans to only service connected disability and death benefits and then to only one peso per dollar. In approving this law, President Truman expressed his reservations about the limiting of these benefits while recognizing the practical difficulties of granting full benefits to Filipino veterans. In any event, the main effect of the limiting provision of the bill was apparently to reduce United States liability to these veterans from a then estimated \$3 billion to about \$500 million.

Although it was clear that the differing economies of the United States and the Philippines were considered, it is not clear as to how they were given effect except that at that time the foreign exchange rate was about 2 pesos per dollar. It is probable that in terms of the Philippine standard of living at that time, a one peso per dollar benefit was somewhat liberal. Although we haven't been able to fully research the matter, we did note that pay in the American armed service was about five times the pay in the Commonwealth service.

The circumstances leading up to the 1946 legislation are summarized in testimony by the late Senator Carl Hayden, who served as a member of the Filipino Rehabilitation Commission, in testimony on the Second Supplemental Surplus Appropriation Recission Bill, 1946.

Although we have not yet fully assessed the record as to the intent of the Congress in 1946 or when it enacted subsequent legislation which we will mention today, the theme of our testimony is in line with that of Senator Hayden in 1946 when he said:

"The GI bill of rights is intended to benefit an American who served in the armed forces and who returns to civil life in the United States, where American standards of living prevail. * * * A Filipino veteran does not need 150 pesos a month in order that he may go to school or 40 pesos a week as unemployment compensation. * * *

Whenever any part of the GI bill of rights is extended to Filipino veterans, the cost of living in the Philippines and other economic factors must be given careful consideration." (page 61 of hearings)

Our testimony today will indicate that Senator Hayden's 1946 admonition was not fully heeded. To the extent that it wasn't, any present day reassessment of the benefit programs must of course give due consideration to the long history of how we got to where we are.

Because we have not yet fully considered this history, Mr. Chairman, we may wish to amend our prepared statement before it is entered in full in the record.