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Veterans Administration Benefits Programs in the Philippines Need Reassessment. HRD-78-26; B-133044. January 18, 1978. 34 pp. + appendix (1 pp.).

Report to Sen. William Proxmire, Chairman, Senate Committee on Appropriations: HUD-Independent Agencies Subcommittee; by Elmer B. Staats, Comptroller General.

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Filipino veterans, primarily of World War II, are entitled by law to pensions, educational benefits, and other compensation as American veterans. However, they receive much higher benefits because the level of income in the Philippines is lower than in the United States. The situation causes many abuses of the programs in the Philippines and payments to American veterans in the United States that are disproportionate to their Filipino counterparts. Recommendations: The Subcommittee on HUD and Independent Agencies of the Senate Committee on Appropriations should reassess the benefits programs and study the following alternatives to curtail program abuses and to better equate benefit payments with the prevailing level of income in the Philippines: retain the present level of benefits but do not increase them in the future, move Veterans Administration functions to the United States, change the basis used to compute benefits, and set up a trust fund or negotiate a lump-sum settlement with the Republic of the Philippines to cover costs of all remaining benefits. The subcommittee should also consider rescission of the authority which permits Filipinos to enlist in the U.S. Armed Forces so that they will no longer be eligible to receive benefits. Since a reassessment of the program will probably take considerable time, the Administrator of Veterans Affairs should take the necessary actions in the interim to insure that payments are being made only to eligible beneficiaries. (Author/SC)

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*REPORT OF THE  
COMPTROLLER GENERAL  
OF THE UNITED STATES*

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**Veterans Administration Benefits  
Programs In The Philippines  
Need Reassessment**

Filipino veterans, primarily of World War II, are entitled by law to pensions, educational benefits, and other compensation as American veterans. However, they receive much higher benefits because the level of income in the Philippines is lower than in the United States. The situation causes many abuses of the programs in the Philippines and payments to American veterans in the United States that are disproportionate to their Filipino counterparts.

GAO discusses ways to better equate benefit payments with the prevailing level of income in the Philippines and to curtail abuses of the programs there.



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

B-133044

The Honorable William Proxmire  
Chairman, Subcommittee on  
HUD-Independent Agencies  
Committee on Appropriations  
United States Senate

Dear Mr. Chairman:

In response to your request, we are enclosing our report on the Veterans Administration's benefits programs in the Republic of the Philippines.

Since the benefits are so lucrative, many abuses of the program occur. These abuses include fraudulent claims by widows, adopting children and siring illegitimate children to increase benefits, prolonging illness to extend benefits, and attending school for income. The availability of false documents and the use of claims fixers--individuals who prepare and submit claims on behalf of claimants--contribute to these abuses being widespread. Since the programs are authorized by U.S. laws, VA can do little to curb these abuses.

We believe that the Subcommittee should reassess the benefits program. We recommend that it explore the following alternatives to curtail program abuses and to bring the benefit payments more in line with the prevailing level of income in the Philippines.

- Retain the present level of benefits but do not increase them in the future.
- Move VA functions to the United States.
- Change the basis used to compute benefits.
- Set up a trust fund or negotiate a lump-sum settlement with the Republic of the Philippines to cover costs of all remaining benefits.

Additionally we recommend rescission of the authority which permits Filipinos to enlist in the U.S. Armed Forces to eliminate their continued flow into the benefits program.

A reassessment of the program will probably take considerable time to complete. In the interim we recommend that the Administrator of Veterans Affairs take the necessary actions to insure that payments are being made only to eligible beneficiaries.

As you requested we did not get formal written comments from the Veterans Administration on this report. We did, however, discuss it with Veterans Administration officials. The opinion of the State Department, as well as the Veterans Administration, was presented at hearings before your Subcommittee last August and is included in the report.

As agreed with your office, we are sending copies to the Chairmen of the Senate and House Committees on Veterans Affairs, and the House Appropriations Subcommittee on HUD-Independent Agencies; the Secretary of State; and the Administrator of Veterans Affairs.

Sincerely yours,

A handwritten signature in cursive script that reads "Turner B. Stacks". The signature is written in black ink and is positioned to the right of the typed name.

Comptroller General  
of the United States

REPORT OF THE  
COMPTROLLER GENERAL OF  
THE UNITED STATES

VETERANS ADMINISTRATION BENEFITS  
PROGRAMS IN THE PHILIPPINES  
NEED REASSESSMENT

D I G E S T

The Philippines is the only country outside the United States in which the Veterans Administration administers programs for compensation, pension, and educational benefits. These programs primarily serve Filipinos who were in or attached to the U.S. Armed Forces during World War II. During fiscal year 1976 about \$78 million was paid to more than 53,000 beneficiaries.

The Subcommittee on HUD-Independent Agencies, Senate Committee on Appropriations, requested GAO to review the Veterans Administration's benefits programs in the Republic of the Philippines. It directed GAO not to obtain written comments from the Veterans Administration; however, GAO informally discussed the report with Veterans Administration officials. The opinions of the State Department and the Veterans Administration were presented in testimonies before the Subcommittee in August 1977.

BASIS USED TO COMPUTE BENEFITS  
CREATES INEQUITIES

Filipino veterans and their beneficiaries receive benefits which are figured on the basis of the peso equivalent of \$.50 for each dollar paid to U.S. veterans. This basis results in much larger benefits payments to Filipinos than the average income in the Philippines and has the effect of compensating Filipino veterans at much higher levels than their American counterparts in the United States.

The average annual compensation payment in fiscal year 1976 was about \$1,080, but the average annual wage in the Philippines for that year was only \$455. A totally disabled Filipino veteran with a wife and two children receives \$4,794 per year--

745 percent of the median family income in the Philippines. If this were figured at the same ratio to median family income in the United States, a totally disabled U.S. veteran with a wife and two children would receive about \$102,750 per year in benefits.

### PROGRAM ABUSES

Because the benefits are so lucrative, many abuses of the programs occur, such as fraudulent claims by widows, adopting and siring illegitimate children to increase benefits, prolonging illness to extend benefits, and attending school for income. The availability of false documents and the use of claims fixers--individuals who prepare and submit claims on behalf of claimants--contribute to these abuses being widespread. Since the programs are administered under U.S. laws, VA can do little to curb these abuses.

### RECOMMENDATIONS TO THE SUBCOMMITTEE

GAO believes that the Subcommittee should reassess the benefits programs. We recommend that the Subcommittee study the following alternatives to curtail program abuses and to better equate benefit payments with the prevailing level of income in the Philippines.

- Retain the present level of benefits but do not increase them in the future.
- Move VA functions to the United States.
- Change the basis used to compute benefits.
- Set up a trust fund or negotiate a lump-sum settlement with the Republic of the Philippines to cover costs of all remaining benefits.

GAO also recommends rescission of the authority which permits Filipinos to enlist in the U.S. Armed Forces so that they will no longer be eligible to receive benefits.

## ACTIONS BY THE SUBCOMMITTEE

On August 31, 1977, hearings were conducted by the Subcommittee on the veterans benefits programs in the Philippines. In these hearings, the Deputy Assistant Secretary of State for East Asian and Pacific Affairs stated that caution should be used before reducing or eliminating programs affecting the Philippines. However, he stated that the matters we found in our review indicated that a review of the veterans benefits programs was very much in order. He said that the Department of State would cooperate fully in the development of proposals on how to meet our obligations to veterans who are genuinely entitled to benefits.

VA's Deputy Administrator stated that GAO's review had raised some valid questions concerning the desirability of continuing or modifying VA's current programs in the Philippines.

As a result of these hearings, VA was directed, in cooperation with the Department of State and GAO, to provide the Subcommittee with legislative and administrative proposals, by January 1, 1978, for making needed changes in the program. VA officials told GAO in December 1977 that a committee had been appointed to study each of the areas discussed in our report. A report, coordinated with the Department of State and GAO, is expected to be forwarded to the Subcommittee in early January 1978.

## RECOMMENDATION TO THE ADMINISTRATOR OF VETERANS AFFAIRS

A reassessment of the program will probably take considerable time to complete. In the interim GAO recommends that the Administrator take the necessary actions to insure that payments are being made only to eligible beneficiaries.

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ABBREVIATIONS

DIC	Dependency and Indemnity Compensation
GAO	General Accounting Office
PVAO	Philippine Veterans Affairs Office
VA	Veterans Administration

## CHAPTER 1

### INTRODUCTION

In a letter dated February 21, 1977, the Chairman, Subcommittee on HUD-Independent Agencies, Senate Committee on Appropriations requested us to review the veterans' benefits programs (compensation, pension, and education) and medical programs administered by the Veterans Administration (VA) in the Republic of the Philippines.

This report is concerned with the veterans' benefits programs. A report 1/ covering the medical program was issued on May 20, 1977.

### BACKGROUND

The Philippines is the only foreign country in which VA administers comprehensive benefits programs. These programs resulted from

- 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, mostly during World War II, and
- continuing recruitment of Filipinos each year for service in the U.S. Armed Forces.

Two groups of Filipinos are U.S. veterans. There are approximately 20,000 Philippine Scouts, called Old Scouts, who served before and during World War II. Another 30,000 Filipinos have been recruited into the U.S. Navy since World War II. The Navy recruitment program still continues on a limited scale. Both groups are entitled under law to the same monetary benefits as American veterans and are referred to as "U.S. veterans" throughout this report.

In addition to the 50,000 U.S. veterans, three groups of Filipinos, referred to as "Filipino veterans" throughout this report, are also entitled to benefits as a result of military service during and immediately following World War II.

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1/"Potential for Reducing U.S. Financial Support and Ending VA Involvement in Medical Program for Filipino Veterans" (HRD-77-95, May 20, 1977).

--Filipinos who served in the Philippine Commonwealth Army, which served with the U.S Armed Forces of the Far East.

--Those who fought during World War II in guerilla units recognized by the U.S Armed Forces.

--Filipinos enlisting in the Philippine Scouts, called New Scouts, under provisions of the Armed Forces Voluntary Recruitment Act of 1945.

Filipino veterans are paid 50 cents in Philippine pesos for every dollar of VA benefits authorized to be paid to U.S. veterans.

VA reported in 1977 that approximately 110,000 Commonwealth Army veterans, 312,000 recognized guerrillas, and 30,000 New Scouts, or a total of 452,000 Filipino veterans, resided in the Philippines.

### Legislative history

Many laws have been passed by the Congress to provide benefits for veterans. Several laws relate specifically to Philippine veterans and provide them with most of the benefits received by American veterans.

VA operations in the Phillipines have expanded greatly due to increases in potential beneficiaries created by these laws and by continually expanding benefits over the years.

Public Law 79-301, approved February 18, 1946, authorized the payment of monetary benefits to eligible Filipino veterans and their dependents. This law stated that service in the organized military forces of the Government of the Philippines was not deemed to be or to have been service in the military or naval forces of the United States for the purpose of any U.S. law conferring rights, privileges, or benefits upon any person for service in the U.S. Armed Forces. Specifically, the law limited benefits to

--benefits under the National Service Life Insurance Act of 1940 and

--benefits administered by VA for the payment of pension on account of service-connected disability or death.

At the time the benefits programs in the Philippines were established in 1946, Public Law 79-301 provided that

payments be made on the basis of one peso for every dollar paid to U.S. veterans. Although legislative history does not specifically explain how this dollar/peso ratio was determined, it indicates congressional intent that the level of benefits in the Philippines should not be the same as it is in the United States because the two economies differ. For example the provision in Public Law 79-301 for payment of benefits on a one peso per dollar basis was intended to reverse a previous VA decision that payments were to be identical--but paid in pesos--to those paid to veterans who had served in the U.S. Armed Forces.

Subsequent legislation included additional categories of benefits for Filipino veterans such as:

- Medical benefits to Filipino veterans with service-connected and nonservice-connected illnesses.
- Benefits under the Missing Persons Act.

Public Law 89-641 (38 U.S.C. 107), approved October 11, 1966, increased payments from one peso for each dollar authorized to a rate equivalent to \$0.50 for each dollar. The 89th Congress also authorized educational assistance for children of Filipino veterans who died or who were permanently disabled from service-connected causes and expanded the medical program to include care for nonservice-connected illnesses.

In addition to authorizing additional benefits for Filipino veterans, the Congress has periodically increased monthly benefit rates for all veterans since 1946. The most recent laws increasing benefit rates are outlined below.

- Public Law 94-432, approved September 30, 1976, provided a 7-percent increase, effective January 1, 1977, in rates of payment for nonservice-connected disability and death pensions payable to veterans, widows, and children.
- Public Law 95-117, approved October 3, 1977, increased the rate for service-connected disability compensation to veterans and Dependency and Indemnity Compensation (DIC) for spouses and children by approximately 6.6 percent.
- Public Law 94-502, approved October 15, 1976, and effective October 1, 1976, increased the educational allowance for veterans and eligible wives, widows, and children of veterans by 8 percent and extended entitlement from 36 to 45 months.

--Public Law 95-202, approved November 23, 1977, increased, effective October 1, 1977, the allowance by 6.6 percent.

In addition special legislation is required to authorize VA to maintain an office in the Philippines. The current authority extends through June 30, 1978--57 years since it began.

### VA activities

VA has maintained an office in the Philippines since 1921. Before World War II the office was staffed by 13 employees serving approximately 7,500 U.S. veterans. However, VA operations have expanded greatly and as of March 1977, VA employed 254 persons in the Philippines, including 14 Americans. Annual operating costs averaged more than \$1.8 million for the last 5 fiscal years.

### MONETARY BENEFITS

The largest portion of VA activity is directed toward the payment of monetary benefits. During fiscal year 1976 53,553 persons in the Philippines received monetary benefits. The types and amounts of expenditures in fiscal year 1976 were as follows.

	<u>No. of beneficiaries</u>	<u>Benefits (note a)</u> (millions)
Compensation	12,639	\$17.8
Disability pension	3,622	7.7
Dependency and indemnity compensation	27,375	35.5
Death pension	5,032	6.3
Education	<u>4,885</u>	<u>11.1</u>
	<u>53,553</u>	<u>\$78.4</u>

a/Does not include expenditures for insurance, burial, and clothing allowance.

Although the number of beneficiaries has declined, annual expenditures have steadily increased since 1946. From World War II to fiscal year 1976, a total of 30 years, VA benefits, including the medical program and operating costs, total about \$1.9 billion. For the last 4 years expenditures for

compensation and pension total about \$248 million. Beneficiaries decreased by about 3,000 from fiscal year 1973 to fiscal year 1976; however, annual expenditures steadily increased from \$57 million to \$67 million. VA attributed the increase to such factors as

- legislative increases in rate payment,
- increases in number of dependents, and
- increases in degree of disability.

Excluding any additional legislative rate increases, VA estimates that the costs for the compensation and pension program will total about \$277 million from fiscal years 1977 to 1980 and that 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 for this period.

### Compensation

Compensation is payable to eligible veterans for service-connected disabilities. Veterans eligible for compensation are entitled to monthly payments determined by the extent of disability, which ranges from 10 percent to 100 percent. The rate for each degree of disability is set by law and, as of October 1, 1977, ranged from \$41 monthly for a 10-percent disability to \$754 monthly for total disability. Certain additional compensation benefits may be paid for specific disabilities, for example, loss of limb and eyesight. Additional compensation for dependents is authorized when a veteran's disability is 50 percent or more. Compensation is authorized for both U.S and Filipino veterans.

### Disability pension

Disability pensions are paid to eligible veterans because of service, age, or nonservice-connected disabilities. Specifically, pensions are provided to wartime veterans with limited incomes, who are permanently and totally disabled for reasons not traceable to military service. Veterans 65 years of age or older are considered totally disabled.

Benefits are provided on a sliding scale according to income and family status--the lower the income, the higher the pension. Basic monthly pension payments, as of January 1, 1978, ranged from \$197 for single veterans in the lowest income bracket to \$5 for the highest income brackets, with a maximum

income limitation of \$3,770 for a single veteran. Unlike compensation, pensions are authorized only for U.S. veterans.

### Dependency and Indemnity Compensation (DIC)

DIC is paid to surviving spouses, children, and dependent parents of veterans if the veteran's death was determined to be service-connected. The grade or rank of the deceased veteran is considered in determining the amount of benefits to a surviving spouse. As of October 1, 1977, the minimum amount of benefits for the widow of a veteran who attained the lowest enlisted grade is \$277 monthly, ranging upward to \$708 monthly for the top officer grade. An additional monthly allowance is payable for each child under age 18.

As of January 1, 1978, basic monthly payments for DIC parents ranged from \$152 for a sole surviving parent in the lowest income bracket to \$5 for the highest income bracket.

### Death pension

The surviving spouse and children of a war veteran who died of nonservice-connected causes are eligible for death pension benefits, subject to the income limitations. As of January 1, 1978, monthly payments for a surviving spouse alone ranged from \$133 in the lowest income bracket to \$5 in the highest income bracket. Additional payments are provided for children under 18. Only dependents of U.S. veterans are eligible for death pension benefits.

### Education

Educational benefits are payable to U.S. veterans. They are also payable to children, spouses, and survivors of U.S. veterans if the death of the veteran was service-connected or if the veteran was totally disabled as a result of service-connected illness or injury. Educational benefits are also available to children of Filipino veterans who died or were rated totally disabled from service-connected causes.

Each eligible person is entitled to educational assistance up to 45 months. The amount of monthly benefits depends on the program enrolled in, whether full or part time, and the number of dependents of the veteran. Effective October 1, 1977, eligible children, spouses, and survivors of U.S. veterans received a maximum of \$311 per month; eligible children of Filipino veterans received a maximum of \$156 per

## PHILIPPINE GOVERNMENT VETERAN PROGRAMS

The Philippine Veterans Affairs Office (PVAO) is the counterpart agency of VA which administers all programs for veterans recognized by the Philippine Government but not recognized by the United States. PVAO was established in 1972 and took over all the veteran programs previously performed by a number of independent Philippine Government agencies. PVAO is patterned after and its organization parallels that of VA. It employs about 700 persons. The program costs in fiscal year 1976 were about \$6.5 million for 56,385 beneficiaries.

The benefit programs are not unlike that of VA, and PVAO provides for disability and death pensions, and pays for education and medical care.

### Disability pension

Veterans, wives, and unmarried children under 18 receive pension payments. The payments vary for veterans of World War II, the Korean War, and the Philippine Armed Forces. The monthly payments for a 25-percent disability range from \$4 to \$8, while payments for a 100-percent disability are from about \$15 to \$27. Pension rates are increased for anatomical loss.

### Death pension

Widows, unmarried children below 18, and indigent parents of veterans who died during World War II or of service-connected disabilities, receive monthly pensions as follows.

Widow	\$13.40
Minor child	1.30
Indigent parents	
One surviving	18.40
Both surviving	6.70 (each)

### Education

Free tuition is provided for veterans and their widows and children for the length of wartime service plus 1 year. Payments are made directly to the schools; veterans do not receive stipends.

### Medical benefits

The medical benefits are the same as VA's--care and treatment for service- and nonservice-connected disability

is provided at the Veterans Memorial Medical Center in the Philippines. In addition veterans recognized by the Philippine Government who are not eligible under the U.S. program can use other hospitals operated by the Philippine Government in various sections of the country.

#### SCOPE OF REVIEW

Our review included discussions with U.S. officials of VA's central office and the Department of State in Washington, D.C.; VA's Manila Regional Office and the U.S. Embassy; and Filipino officials of PVAO. We reviewed records and other documents at the U.S. VA's Manila office and the U.S. Embassy in Manila.

## CHAPTER 2

### BASIS FOR COMPUTING VA BENEFITS

#### CREATES INEQUITIES

The rate for benefits payments to Filipino veterans and beneficiaries is based on one-half that paid to U.S. veterans. Since there are significant differences in income levels of the United States and Philippines, this method results in benefits to Filipinos being considerably greater than average Filipino wages. The disparity becomes even greater when comparing benefits received by U.S. veterans in the Philippines to local income levels. The method also has the effect of compensating Filipino beneficiaries at much higher levels than their American counterparts in the United States.

When the benefits programs were established in 1946, a Filipino veteran was paid one peso for every dollar paid to a U.S. veteran. At that time the exchange rate was about two pesos per dollar. By 1965, however, the exchange rate had increased to almost four pesos to the dollar, but benefits were still being paid at the rate of one peso to the dollar.

As a result of a Joint Republic of the Philippines-U.S. Commission study of Philippine veterans' problems, Congress authorized a change in the computation of benefits by enacting Public Law 89-641 in 1966. The basis was changed to the peso equivalent of \$.50 for each dollar paid to U.S. veterans. The law intended to restore Filipino veterans to approximately their situation in 1946. Since the law was enacted, however, devaluations of the peso and legislative increases have resulted in Filipino veterans receiving considerably more in monetary benefits than U.S. veterans in the United States.

The following schedule shows how the change in the basis for payments has contributed to Filipino veterans receiving more than their American counterparts, using as an example, disability compensation payments to a 100-percent disabled veteran with a wife and two children.

<u>Dates</u>	<u>Exchange rate</u>	<u>Monthly payments</u>	
		<u>Filipino veteran</u>	<u>U S. veteran</u>
	(peso per \$1)	(pesos to dollars)	
November 1966	3.9	355/\$ 91	\$355
December 1966	3.9	694/ 178	355
December 1971	6.4	1,638/ 256	511
December 1976	7.4	2,960/ 400	799

As shown above changing the basis for computing benefits, devaluations of the peso, and legislative increases had the effect of increasing Filipino veterans' disability benefits by more than 700 percent--from 355 pesos to 2,960 pesos. The comparable American veterans, however, have had benefits increased by only 125 percent--from \$355 to \$799--primarily as a result of legislative increases.

COMPENSATION AND PENSION BENEFITS

In general compensation payments are provided to Filipino and U.S veterans or their dependents for the loss of earning power resulting from service-connected disability or death. Pension benefits were designed to provide income to veterans and dependents for nonservice-connected disability and death. According to the legislative history of the U.S. Veterans Pension Act of 1959,

"\* \* \* A reasonable rule should relate the amount of pension paid to the extent of the pensioner's need. Pension is not and never has been intended to support those who receive \* \* \* [it] on a standard above similarly situated persons who work and pay taxes."

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 possibly have achieved had they not been disabled.

As shown below, VA paid about \$67 million in compensation and pension benefits to more than 48,000 beneficiaries in the Philippines in fiscal year 1976.

<u>Category of veteran</u>	<u>Compensation</u>		<u>Pension</u>	
	<u>No. of cases</u>	<u>Benefits</u>	<u>No. of cases</u>	<u>Benefits</u>
U.S.	6,235	\$16,833,000	8,654	\$13,978,000
Filipino	33,779	36,470,000	-	-
Total	<u>40,014</u>	<u>\$53,303,000</u>	<u>8,654</u>	<u>\$13,978,000</u>

The average compensation payment was \$1,332 a year--\$2,700 for a U.S. veteran and \$1,080 for a Filipino veteran. The average pension payment was \$1,615 a year. In comparison, the average annual earnings of all employed wage and salary workers, according to Republic of the Philippines' statistics, was only about \$455--about two-fifths of the average

compensation payment for a Filipino veteran and less than one-fifth of the average compensation payment for a U.S. veteran. When one considers the average annual salaries of several occupations, as shown below, it is apparent that veterans in the Philippines generally receive more in benefits than they could earn in numerous occupations.

<u>Occupation</u>	<u>Average annual salary of selected occupations throughout the Philippines (note a)</u>
Carpenter	\$ 698
Medical technician	809
X-ray technician	814
Clerk	823
Mechanic	829
Nurse	863
Pharmacist	924
Clinical Physician	2,267

a/1976 Salary and Wage Survey in the Philippines, Philippine Budget Commission.

Analysis of disability compensation paid in the Philippines further illustrates how lucrative VA benefits are relative to the Philippine average annual salaries shown above.

Compensation rates by degree  
of disability  
(Rate effective 10-1-76) (note a)

	<u>50%</u>	<u>60%</u>	<u>70%</u>	<u>80%</u>	<u>90%</u>	<u>100%</u>
Filipino veteran	\$1,494	\$1,869	\$2,196	\$2,544	\$2,856	\$4,794
U.S. veteran	2,988	3,720	4,392	5,088	5,712	9,588

a/Payments for veteran, wife, and two children.

As the degree of disability increases, the disparity between benefits and prevailing wages and salaries becomes even more pronounced. A Filipino veteran who is 100-percent disabled with a wife and two children would receive \$4,794, or more than double the average annual salary of a clinical physician in the Philippines. In comparison PVAO pays its 100-percent disabled veterans up to \$320 a year, which is about 30 percent less than average annual earnings of \$455 in the Philippines.

## EDUCATION BENEFITS

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

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 more than \$11 million in fiscal year 1976.

In fiscal year 1976 about 2,934 veterans received educational assistance averaging \$353 per month, and 1,951 dependents received benefits up to \$135 per month. In October 1976 the payment for veterans and dependents enrolled in education programs on a full-time basis was increased by 8 percent per month.

### Educational assistance provides income to recipients

At current levels VA educational benefits in the Philippines provides students with sizable incomes after deducting expenses. Furthermore, educational assistance payments, when added to other VA monetary benefits being received, often provide recipients with lucrative incomes which are out of line with the levels of income in the Philippines.

Almost one-half of all VA student beneficiaries in the Philippines attend 11 college-level institutions and one vocational school. A sample of four of these institutions showed that monthly tuition averaged only about \$11 at the college level 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. Using this basis, we estimate total monthly educational expenses to be about \$22 for college level institutions. Based on these costs, in fiscal year 1976 the average veteran earned about \$331 per month and dependents earned \$113 per month for full-time college study after deducting educational expenses. As shown below, dependents in the Philippines earned almost as much from their educational assistance payments as the average college

professor with a master's degree, and a veteran can earn almost twice as much as a college dean.

	Average monthly salary ( <u>note a</u> )
Vocational instructor	\$ 62
Librarian	64
Guidance counselor	74
College instructor with bachelor's degree	72
Registrar	93
College professor with master's degree	118
College dean	179

a/A 1976 survey of prevailing wages in the private schools industry, Philippine Department of Labor.

On an annual basis veterans and dependents would obtain an average of about \$3,972 and \$1,356, respectively, from educational benefits, which is more than the average VA compensation payment of \$1,332 (see p. 10) and also more than could be earned in certain occupations. (See p. 11.)

In addition most dependents receiving educational assistance payments are also direct or indirect beneficiaries of other VA monetary benefits, such as Dependency and Indemnity Compensation or disability compensation. To determine the full effect of educational benefits on recipients' family income, we sampled 56 veteran dependents who received educational assistance payments between June and December 1976. Our review showed that the dependents' families received an average of three VA checks per month and that their annual income from these benefits averaged about \$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 U.S. Navy retirees receiving retirement pay of over \$300 per month.

VA officials acknowledged that educational benefits paid in the Philippines are overly generous compared to the cost of education and encourage enrollment for the income provided.

#### PVAO MONETARY BENEFITS LOW COMPARED TO VA BENEFITS

Like VA the Philippine Veterans Affairs Office provides monetary benefits to veterans and their dependents. However, the amounts of PVAO monetary benefits are extremely low when compared with VA benefits.

PVAO compensation rates have not been adjusted since 1972 and, according to PVAO officials, are no longer in line with the Philippine economy.

Compensation to veterans with service-connected disabilities range from as little as \$4 per month for a 25-percent disabled veteran to a maximum of \$27 per month for a 100-percent disabled veteran. In contrast VA in 1972 paid a minimum of \$14 per month to a 10-percent disabled Filipino veteran and as much as \$248 a month for a 100-percent disabled Filipino veteran.

Similar differences exist between the PVAO and VA pension programs for widows and dependents of veterans who died of service-connected causes. PVAO pays a monthly pension of about \$13 to widows of such veterans and in addition, pays an amount less than \$2 for each minor child. Under the Dependency and Indemnity Compensation program, depending on the grade or rank of the Filipino veteran, in 1972 VA paid widows from \$92 to \$252 per month and an additional \$11.00 for each minor child. Effective October 1, 1976, these benefits increased to \$130 and \$356 per month, respectively; payments for each child increased to \$ 15.50.

The PVAO education program, unlike the VA program, does not make money payments directly to student beneficiaries. PVAO reimburses schools directly for 70 percent of the costs of tuition and fees. Allocating about \$1 million annually to this program, PVAO provides educational benefits to about 12,000 students. VA, in contrast, provides educational benefits to less than 5,000 students in the Philippines at a cost of more than \$11 million.

## CHAPTER 3

### PROGRAM ABUSES

The administration of comprehensive Veterans Administration benefits programs in the Philippines, a country where U.S. laws cannot be enforced, has had undesirable effects. As presently structured VA monetary benefits are so high relative to Philippine income levels that they provide an incentive for certain individuals to try every conceivable ploy to obtain VA benefits. We believe that VA's administering benefits in the Philippines under the same broad interpretations as in the United States has increased this incentive for program abuse.

Because VA has never accomplished a complete file search to insure that only eligible beneficiaries are receiving benefits and does not, in most cases, 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 program abuses and problems encountered by VA in administering benefits programs in the Philippines, along with some actions taken by VA to remedy these problems.

#### FRAUDULENT CLAIMS UNDER WIDOWS' RESTORATION PROGRAM

In 1970 Public Law 91-376, approved August 12, 1970, provided for the restoration of VA benefits to widows who had ceased living in ostensible marital relationships.

Because of the high potential for fraud under this law, VA's Manila office initiated a program requiring field investigations for all widows' restoration claims in 1971.

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 50 percent, had their benefits restored. Of the remainder 1,910 claims were determined to be fraudulent and resulted in forfeiture; another 640 were disallowed for other reasons.

VA estimates that through 1976 these investigations have resulted in savings of more than \$44 million in accrued and future benefits related to the fraudulent claims. The director of VA's Manila office told us that these savings could not have been possible without a large staff of field investigators and close supervision by American personnel. He believes that any drastic reduction in this activity would

increase VA's expenditures in the Philippines as many fraudulent or otherwise ineligible claims would not be uncovered.

Despite other monitoring, a VA study indicated that several widows whose benefits had been restored under Public Law 91-376 were receiving benefits to which they were not entitled. Reinvestigations were conducted in 1976 for 54 restored cases of which 15, or 28 percent, were ineligible and benefits were terminated.

In November 1976 VA's Manila office adjudication officer recommended that a reinvestigation program be initiated to determine whether recipients were entitled to benefits under this program. The director replied in January 1977 that officials in VA's central office's Compensation and Pension Service rejected a reinvestigation program because it had not been done in any other program and the reinvestigation idea had resulted in some criticism.

#### ADOPTIONS AND ILLEGITIMATE CHILDREN

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

#### Adoptions

Since 1972 VA's Manila office has recommended to VA's central office that a more stringent statutory requirement be instituted for Philippine adoptions. The Manila office reported to the central office instances of aged and disabled veterans adopting children for the sole purpose of qualifying them for benefits. Several examples reported by the Manila office 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 69-year-old single veteran adopted two great grandnieces, 4 years and 8 months, respectively. The children remained in their natural parents' custody.
- A 68-year-old married veteran 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. Often the children can continue to receive benefits through age 23, and in some cases, can receive education benefits thereafter. A VA official in Manila 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 a VA committee commenting on recommendations made as a result of a 1973 internal audit of the programs stated that it concurred with an internal audit recommendation that a more stringent statutory requirement was needed for Philippine adoptions and recommended that VA's general counsel formulate appropriate guidelines for a change in legislation. According to VA officials, a legislative proposal to limit the recognition and definition of adopted children was submitted to the Office of Management and Budget in September 1976. As of December 1977 this proposal has not been submitted to the Congress.

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

### Illegitimate children

A VA Manila office official informed us that in the Philippines, it is common for married veterans to sire illegitimate children. These children, so long as the veteran acknowledges paternity, are entitled to the same benefits as the veteran's legitimate children. VA officials acknowledged that this recognition of illegitimate children has potential for abuse, particularly for veterans with a disability rated 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 and has not studied potential abuse associated with their entitlement to VA benefits. The following examples illustrate the type of abuses involving illegitimate children:

--A New Scout 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, plus an additional \$204 in additional benefits for 18 children under 23 years old. Since the veteran incurred his disability in 1947, VA has paid him \$89,100 in monetary benefits, and five of his children have received \$9,900 in education benefits. If the veteran lives his life expectancy, we estimate that at current rates, VA will pay him an additional \$192,000 in monetary benefits and his children up to \$118,000 in education benefits.

--A New Scout veteran, rated at 100-percent disabled with pulmonary tuberculosis, receives \$441 per month, including \$92 for six illegitimate children. According to VA records the veteran and his spouse, having no children of their own, had an understanding with a maid hired in 1968 that she would have children by the veteran. From 1969 to 1975 the maid had a child each year except 1972. The veteran now considers the maid his second wife and they all live together in the same household. If the veteran's children elect to continue their education, VA will pay as much as \$39,400 in education benefits at current rates.

We were unable to determine the incidence of illegitimate children in the Philippines and the full effect of payments for these children on VA's program expenditures. However, these individual cases indicate that even if they are not widespread, they can be very costly to the Government.

We noted that prior to Public Law 86-499 (38 U.S.C. 315), approved June 8, 1960, monetary benefits were payable to no more than three children. Limiting the number of illegitimate children eligible for benefits could reduce the incentive for program abuse as well as provide program savings.

The director of VA's Manila office stated that program abuses involving adoptions and illegitimate children can only be effectively curbed through legislation.

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 VA's medical treatment plans. These veterans receive disability compensation because of pulmonary tuberculosis, a disease which can readily 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 tuberculosis. This represents about 68 percent of all veterans receiving 100-percent disability. In contrast, only 2.5 percent of all 100-percent disabled veterans worldwide are disabled due to tuberculosis. According to the VA official, about 70 percent of the 600 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 unless the rating was based on fraud.

At our request VA reviewed a sample of veterans whose 100-percent disabilities are protected under 38 U.S.C. 110. In 13 out of 24 cases reviewed, the tuberculosis 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 VA's 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 tuberculosis 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 for being rated disabled than they could possibly have earned if they recovered.

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

In 1973 VA's Internal Audit Service reported that

"In the case of T.B. [tuberculosis] patients refusing to take medication, a statement is being proposed for development in conjunction with Adjudication Division to the effect that failure of the patient to respond to treatment over the normal course of treatment for such cases is presumptive evidence that the patient is refusing to follow medical advice and therefore grounds exist for reducing compensation. This procedure was adopted in light of reliable statistical data reflecting an almost 100-percent cure rate for T.B. cases."

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

As shown in chapter 2, VA educational benefits provide students in the Philippines with sizable incomes after deducting educational expenses. As a result students often enroll in courses for income provided and have no apparent interest in gaining an education. VA officials acknowledge that providing such generous educational benefits in the Philippines encourages program abuse.

VA's educational counselor in the Philippines provided us with numerous examples of students apparently attending school solely for the income provided. Following are some of the counselor's comments as extracted from students' files:

- A student preferring tailoring because it will permit her 18 months' training, as opposed to 12 months for dressmaking.
- A student rejecting auto mechanics as a second program because it provided only three-quarter benefits.
- A student seeking a course in hair and beauty culture was approved, even though it was doubtful that the beneficiary will have any use for the skills.

--A student was permitted to take a hair culture course simply because he had completed a tailoring course. The counselor's comment was that there was no possible relationship in the background of the two courses.

According to the counselor VA cannot prohibit eligible beneficiaries from enrolling in courses or changing programs even when the students obviously do not intend to use the skills they acquire. Following is an example taken from VA files showing where a student was apparently using educational assistance benefits for the income he would receive.

After teaching school for 4 years, a dependent with a bachelor's degree in education became eligible and applied for VA education benefits. Advised by the education counselor that a master's level program would be difficult, the student enrolled in a bachelor of home economics program and prolonged the course by adding library science subjects. After receiving a second bachelor's degree, the dependent enrolled in a secretarial course, about which the counselor noted "\* \* \* merely trying to use up the entitlement."

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 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 are gaining employment using skills acquired with the educational assistance and that some students are 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 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.

As shown above the primary motive on the part of some students is to obtain maximum use of benefits for the

income derived rather than to acquire knowledge of skills. According to VA officials instead of creating good will on the part of the beneficiaries, the education program has resulted in beneficiaries viewing the United States contemptuously for allowing them to abuse the program so freely.

#### ACTIVITIES OF CLAIMS FIXERS

An acknowledged problem in VA's administration of benefit programs in the Philippines is the acceptance and widespread use of claims fixers--individuals who prepare and submit claims on behalf of the claimants--by veterans and their beneficiaries. The fixers initiate many claims which VA is required to act on. The fixers often work on a contingent fee basis; if the claim is successful, the fixer receives a share of the benefits paid to the claimant. One VA official said that 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 hindering its ability to service veterans with legitimate claims. For example, during fiscal year 1976 (more than 30 years after World War II), VA processed more than 1,700 new disability compensation claims. Of these claims, only 20, or about 1 percent, were allowed.

The Philippine Republic Act No. 145 provides penalties for the solicitation of, or contract for, fees in excess of 20 pesos relative to claims filed with VA. However, VA's efforts to cooperate with Philippine authorities in prosecuting known claims fixers have been unsuccessful. The former director of VA's Manila office summarized this situation in his fiscal year 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 told us that claims fixers are still a problem and that VA's efforts to assist Philippine authorities have been useless. He also said that this problem cannot be rectified by legislation since U.S. laws do not apply to the Philippines.

The Administrator of 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 claims fixers. According to officials of VA, the Social Security Administration, 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.

A Social Security Administration official informed us that because of this continuing problem, they have compiled a list of persons in government offices and churches known to have issued fraudulent documents and have conducted 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.

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. A VA adjudication official informed us, however, that some claims, particularly those submitted by clever claims fixers, are processed undetected and result in unentitled benefits.

#### LACK OF JURISDICTION INHIBITS CURBING PROGRAM ABUSES

VA administers benefits in the Philippines under the same policies as in the United States but without avail of the same legal penalties. VA's policy is to administer the laws and regulations under broad interpretations and to resolve any reasonable doubt in favor of the claimant. However, in the Philippines, legal penalties (fines up to \$2,000 or imprisonment for up to 1 year or both) provided for by Title 38, U.S.C., are not enforceable.

Furthermore the U.S. Embassy has directed the agencies not to engage in court actions against Filipinos. As a result the only deterrent remaining to VA in preventing program abuses and protecting the interests of the U.S. 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 policy also affects VA's ability to recover overpayments made to beneficiaries on the basis of inappropriate and fraudulent claims. According to VA officials, collection efforts for recovery of overpayments are usually unsuccessful unless there is a continuing award. Therefore, after following established collection procedures, VA generally writes-off the overpayments, whereas in the United States, VA further pursues 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 on-going 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.

According to a VA's Internal Audit Service's 1973 study, attempts to fraudulently obtain VA benefits will continue as long as compensation payments remain so lucrative relative to the local economy.

#### VA INTERNAL AUDIT REPORT RECOMMENDED CHANGES IN PROGRAMS

VA's 1973 internal audit study concluded that VA benefits in the Philippines, even at 50 cents to a dollar, represented a substantial source of income based on the local economy and relatively low standard of living. The study report stated 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. The disparity in the formula for computation of benefits for Filipino beneficiaries is well known to the Department of Veterans Benefits."

The Internal Audit Service recommended changing legislation to compute benefits conforming to the original intent of the applicable laws.

The VA committee, appointed to review the internal audit study's recommendations, commented in March 1976 that it did not concur with the recommendation. In responding it stated:

"Because of the relatively low standard of living in the Philippines, VA benefits, even at the rate of \$0.50 to the dollar provide a substantial income for most recipients. However, most of the beneficiaries have been on the VA rolls for thirty years and their standard of living has been upgraded accordingly. Reduction of their benefits at this late date would drastically affect the standard of living to which they have become accustomed. It is important to emphasize that only a very limited number of beneficiaries are being added to the compensation rolls in the Philippines and because of advance age, the number of active accounts continue to show a steady decline." (Underscoring added.)

"Again, the VA would be criticized severely for proposing a further reduction in compensation benefits, and such action may be in conflict with U.S. State Department policy."

## CHAPTER 4

### NEED TO REASSESS PROGRAMS

#### AND ALTERNATIVES FOR THE FUTURE

The VA benefits programs in the Philippines should be reassessed, and alternatives for administering the benefits programs should be considered.

#### NEED FOR REASSESSMENT OF THE BENEFITS PROGRAMS

The basis for computing benefits provides Filipino veterans and beneficiaries with payments which are considerably greater than average Filipino wages and has the effect of compensating Filipino veterans at much higher levels than their American counterparts in the United States.

An example of the disparity between a Filipino veteran and his American counterpart can be illustrated by comparing the benefits to the median family income in the two countries. In 1976 a totally disabled American veteran with a wife and two children would receive annual compensation totaling \$9,588--about 70 percent of the median family income of \$13,700. A comparable Filipino veteran, on the other hand, would receive \$4,794--over 745 percent of the annual median family income of \$643. If U.S. veterans in the United States received benefits at the same ratio to median family income as Filipino veterans, a totally disabled veteran with a wife and two children would receive more than \$102,000 per year instead of the \$9,588 he now receives. The difference between the benefits received by a U.S. veteran in the Philippines and his American counterpart would be about \$205,000 per year.

The Philippine Veterans Affairs Office 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.

Since the benefits are so lucrative when compared to local income levels, many attempts are made--sometimes successfully--to obtain benefits fraudulently. The abuses in the Philippines are unique within VA operations and are compounded by activities of claims fixers and the availability of false documents. Program abuses may continue as long as the United States administers these programs in the Philippines because of VA's inability to prosecute violators in

a country where penalties fixed by U.S. laws are not applicable and local laws are not properly enforced.

We believe VA benefits should be in accord with the economy of the Philippines. The U.S. Government in employing foreign nationals throughout the world generally set wage rates on the basis of local prevailing rates. The Foreign Service Act of 1946, as amended, provides that compensation plans for alien employees, which includes retirement benefits, be based on prevailing wage rates and compensation practices for corresponding positions in the locality to the extent consistent with the public interest.

#### ALTERNATIVES FOR THE FUTURE

There are several alternatives available in reassessing the monetary benefits programs

- retaining the present level of benefits but not increasing them in the future;
- moving VA functions to the United States;
- changing the basis used to compute benefits; and/or
- negotiating a lump-sum settlement or setting up a trust fund to cover costs of all remaining benefits, with the Philippine Government administering the programs.

With the exception of the alternative of moving VA functions to the United States, all of the above courses of action would require legislation. The present authority for maintaining a VA office in the Philippines expires June 30, 1978.

#### Continue program with no future increases

Continuing the programs in the Philippines without any future increases whenever benefits are increased for American veterans would require establishing a separate program for veterans in the Philippines. Not allowing additional increases would probably, over time, bring the benefits in line with the Philippine levels of income.

Legislation would be required to separate the Filipino programs from the U.S. programs. Legislation would also be necessary to allow VA to continue maintaining an office in the Philippines after June 30, 1978.

## Moving VA's functions to the United States

VA's Manila office is the only VA regional office in a foreign country. Except in the Philippines, Federal benefits programs, including the VA program, are included in the operations of the various consular sections. Italy has the next largest VA program with 6,300 beneficiaries, and five other countries have programs of more than 1,000 beneficiaries. Except for the Philippines and Mexico; VA's regional office in Washington, D.C., administers all veterans programs for beneficiaries abroad.

In the past VA and the U.S. Embassy in Manila have suggested that some functions of VA's Manila office be transferred to a U.S. location.

There are many uncertainties as to whether transferring the VA office to a U.S. location would save money or reduce invalid or fraudulent claims.

The former director of VA's Manila office in a September 29, 1975, letter to VA's Central Office endorsing transfer of most of VA functions to the United States stated that

"\* \* \* all functions of this regional office, exclusive of the Veterans Services Division and its Social Security Section, could be performed by an office established on the U.S. west coast. \* \* \* The Regional Disbursing Offices and our Support Services Office concur that payments could be made from a stateside computer by having tapes in the Regional Disbursing Office and monthly modifications mailed from the U.S.

"\* \* \* it appears to this office that the type of workload here at present, and that which can be logically forecasted for the future, warrants considering of reducing this regional office after June 30, 1978 \* \* \*."

"\* \* \* it is my opinion that after several years the volume of invalid and fraudulent claims and correspondence relating to such would decrease appreciably were only an office maintained here rather than a regional office as such. \* \* \* We have not explored the administrative costs aspect but do believe that overall a budgetary savings would be realized."

On December 8, 1976, the current VA director, in a letter to VA's central office stated that he was opposed to any transfer of VA operations from Manila to the United States at that time and stated:

"Such transfer would be unecomomical and would drastically affect our services to Filipino veterans and beneficiaries. \* \* \* many useless and fraudulent claims are presented. Our local employees are experienced in recognizing such claims which would appear valid to the average employee in the U.S. Most probably, our claims fixers would have a field day submitting new or reopened claims to stateside offices for consideration."

In an April 27, 1976, letter to the Chairman, House Committee on Veterans Affairs, the ranking majority member of the Subcommittee on Medical Facilities and Benefits, House Committee on Veterans' Affairs, made several suggestions regarding VA activities in Manila pursuant to an inspection of the facilities and operations of VA's Manila office. Among his suggestions were:

"1. The processing of claims for disability benefits should be done in the U.S., not in the Philippines. The reason for my suggesting that accreditation be moved to the U.S. is that only one percent of the claims accepted, and this is too small a percentage to justify a full Philippine staff. Also, there are from 50-100 professional "fixers", hanging around Manila earning their livelihoods in encouraging generally improper claims. These "fixers" would be seriously handicapped should accreditation be transferred to the U.S.

"2. Check payments and records are now hand posted in the VA Manila office. A computer in the U.S. could be used and tapes sent by mail. This would result in no delay in the check writing of V.A. and Social Security checks. (However, wages are so low in the Philippines that this change would perhaps save no money)."

The U.S. Embassy views moving the program to the United States to be in line with the overall U.S. policy of reducing U.S. presence abroad. This reduction would be accompanied by a change in VA functions, such as computerization and moving work gradually back to the United States. Over time VA could change from a separate entity to being part of the Embassy, with certain VA functions consolidated with Embassy activities.

There are numerous factors and options available in transferring the VA office stateside, such as

- transferring all or part of the functions;
- reducing only American positions;
- consolidating activities, for example, supply, maintenance, and motor pool with the Embassy; and
- computerizing check payments and records now being hand posted.

Since these factors and options cannot be readily quantified, we were unable to determine if they would save money or reduce invalid or fraudulent claims.

Any plan for reducing VA employees or transferring functions stateside would mean that beneficiaries in the Philippines are likely to receive service inferior to what they now receive. At the same time some reductions in the quality of service should merely put VA beneficiaries in the Philippines on approximately the same level as beneficiaries in other countries.

However, with or without U.S. presence in the Philippines, program abuses will continue because of the high levels of benefits paid when compared to local income levels and VA's inability to stop them.

#### Changing the basis used to compute benefits

The basis used to compute benefits to Filipino veterans is set by law (38 U.S.C. 107)--the peso equivalent of \$.50 for each dollar paid to U.S. veterans. This basis does not take into account the Philippine economy. It would seem more appropriate to adjust the basis for determining benefit amounts to make them more commensurate with the Philippine economy, considering such factors as income levels and cost of living indicators.

## Lump-sum settlement

The U.S. relationship with the Republic of the Philippines has changed in recent years. As a former U.S. possession, the Philippines has had a long and special relationship with the United States evidenced by bilateral trade agreements and security arrangements between the two governments. The two countries are moving away from this special relationship by:

- Rising Philippine nationalism.
- Philippine aspirations for third world status.
- Expiration of a bilateral trade agreement in 1974, with no intention on the part of the United States to renew it.

The United States can further normalize the bilateral relationship through a final negotiated settlement with the Republic of the Philippines to cover the cost of all remaining benefits for Filipino veterans residing in the Philippines. The United States and the Philippines signed an executive agreement in 1967 which provided for a lump-sum payment of \$31 million to the Philippine Government for previously unsettled Filipino veteran claims.

We recognize that the basis used for this settlement--which involved unsettled claims--may not be applicable as precedent for a lump-sum settlement for future benefits. We believe, however, that the concept of a lump-sum settlement for claims should not be ignored when considering the future of the benefits programs. Before negotiating such a lump-sum settlement, the benefits should be adjusted to better reflect Philippine economic conditions.

A lump-sum payment would not necessarily mean that the United States would have to provide a dollar for dollar settlement on future estimated veterans benefits costs. The lump-sum payment could be used to establish a trust fund and the Philippine Government could then use the principal and the interest earned from the fund to pay future benefits.

In establishing the trust fund, actuarial data would be used to determine how benefits would change over time, and the resultant benefits to be paid would be discounted by the appropriate interest rate to determine the initial lump-sum payment.

This alternative is aimed primarily at the approximately 452,000 Filipino veterans in the Philippines. These veterans served in purely Philippine military units during and after World War II, as opposed to the approximately 50,000 U.S. veterans who have served in regular components of the U.S. Armed Forces. Although additional problems may be encountered if U.S. veterans are included, this group could also be considered in any final negotiated agreement. If U.S. veterans are not to be included, they can be required to file claims with the VA's Washington office, the procedure now followed by those residing in other foreign countries.

A lump-sum payment would also permit the Philippine Government to adjust the program as it sees fit and enable it to perhaps provide additional veterans benefits to its own veterans, thereby causing the total Philippine veterans program to level out and become more equitable to all Filipino veterans--those recognized by the United States and those recognized by the Philippine Government.

Whatever course of action is taken regarding lump-sum settlement, we believe the present policy of permitting Filipino nationals to enlist in the U.S. Armed Forces should be reexamined. Although the number who enlist currently is rather small--about 300 annually--the agreement between the United States and the Philippines permitting these enlistments authorizes up to 2,000 Filipinos to be recruited annually. Terminations of these enlistments would end the continuing flow of Filipinos who are considered U.S. veterans and are, therefore, entitled to full VA benefits.

## CHAPTER 5

### CONCLUSIONS AND RECOMMENDATIONS

#### CONCLUSIONS

The veterans benefits programs in the Philippines need to be reassessed. The basis used to calculate benefits allows benefits paid to veterans in the Philippines to be at higher levels than those paid their American counterparts. The lucrative benefits structure allows veterans to receive benefits which are greater than the prevailing wages and salaries in the Philippines, and has resulted in program abuses. VA does not know the extent of these abuses. Furthermore, the policy of permitting Filipino nationals to enlist in the U.S. Armed Forces allows for continuation of the benefits programs indefinitely and will likely perpetuate program abuses.

There are several alternatives which should be considered in deciding the future of the programs. These alternatives include:

- Retaining the present level of benefits but not increasing them in the future.
- Moving VA functions to the United States.
- Changing the basis used to compute benefits.
- Negotiating a lump-sum settlement or setting up a trust fund to cover costs of all remaining benefits, with the Philippine Government administering the programs.

With the exception of the alternative of moving VA functions to the United States, all of the above courses of action would require legislation. The present authority for maintaining a VA office in the Philippines expires June 30, 1978.

#### RECOMMENDATIONS TO THE SUBCOMMITTEE

We believe that the Subcommittee should reassess the benefits programs. We recommend that the Subcommittee explore the following alternatives to curtail program abuses and to bring the benefit payments more in line with the prevailing level of income in the Philippines.

- Retaining the present level of benefits but not increasing them in the future.
- Moving VA functions to the United States.
- Changing the basis used to compute benefits.
- Setting up a trust fund or negotiating a lump-sum settlement of all remaining benefits with the Republic of the Philippines to cover costs.

Additionally, we recommend that the authority which permits Filipinos to enlist in the U.S. Armed Forces be rescinded to eliminate their continual flow into the benefits program.

#### Actions by the Subcommittee

On August 31, 1977, hearings were conducted by the Subcommittee on the veterans benefits programs in the Philippines. In these hearings, the Deputy Assistant Secretary of State for East Asian and Pacific Affairs stated that caution should be used before reducing or eliminating programs affecting the Philippines. However, he stated that the matters we found in our review indicated that a review of the veterans benefits programs was very much in order. He said that the Department of State would cooperate fully in the development of proposals on how to meet our obligations to veterans who are genuinely entitled to benefits.

VA's Deputy Administrator stated that our review had raised some valid questions concerning the desirability of continuing or modifying VA's current programs in the Philippines.

As a result of these hearings, VA was directed, in cooperation with the Department of State and us, to provide the Subcommittee with legislative and administrative proposals, by January 1, 1978, for making needed changes in the program. VA officials told us in December 1977 that a committee had been appointed to study each of the areas discussed in our report. A report, coordinated with the Department of State and us, is expected to be forwarded to the Subcommittee in early January 1978.

#### RECOMMENDATION TO THE ADMINISTRATOR OF VETERANS AFFAIRS

A reassessment of the program will probably take considerable time to complete. In the interim we recommend that the Administrator take the necessary actions to insure that payments are being made only to eligible beneficiaries.

PRINCIPAL VA OFFICIALS RESPONSIBLE  
FOR ADMINISTERING ACTIVITIES  
DISCUSSED IN THIS REPORT

**ADMINISTRATOR OF VETERANS AFFAIRS:**

Max Cleland	Mar. 1977	Present
R. L. Roudebush	Oct. 1974	Feb. 1977

**DEPUTY ADMINISTRATOR:**

R. H. Wilson	Mar. 1977	Present
Vacant	Jan. 1977	Mar. 1977
O. W. Vaughn	Nov. 1974	Jan. 1977

**DIRECTOR, MANILA REGIONAL OFFICE:**

H. Price	Jun. 1976	Present
R. E. Edmondson	Oct. 1974	May 1976

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