



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

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HUMAN RESOURCES  
DIVISION

May 3, 1985

B-218494



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The Honorable Harry N. Walters  
Administrator of Veterans Affairs

Dear Mr. Walters:

Subject: Information on Veterans' Ability to Defray  
the Cost of Their Inpatient Care  
(GAO/HRD-85-63)

The administration's fiscal year 1986 budget proposes a comprehensive reform of eligibility for Veterans Administration (VA) medical care which will include an income-based test (means test) for veterans with no service-connected disabilities. Several years ago, we began an effort to determine the potential effects that several alternative means tests might have had on veterans who were discharged from VA hospitals during fiscal year 1981. This work involved a complex and costly methodology and the use of several extensive VA and Internal Revenue Service (IRS) computerized files to gather and analyze the data necessary to determine these effects. Because of the additional costly and resource-intensive steps to determine precisely the reliability of the data in the computerized files we used for our analyses, we terminated our work last fall. But we believe that, notwithstanding certain data-related limitations discussed in this report, the information we developed will be a useful starting point in projecting the number of veterans who may be affected by changes in laws and regulations related to the administration's proposal for a means test.

WHO CAN GET CARE AT A VA HOSPITAL?

The eligibility criteria for veterans seeking VA medical benefits are set forth in sections 610 and 612, title 38, United States Code. To be eligible for VA medical benefits, an individual must have served on active duty in the armed forces and have been discharged under other than dishonorable conditions. Eligible veterans are classified into two broad categories: those with disabilities resulting from their military service and those without such disabilities. Veterans with service-connected disabilities are afforded highest priority when seeking medical care at VA facilities and are eligible to receive free inpatient and outpatient care for treatment of such disabilities.

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Veterans can obtain inpatient care (to the extent that VA facilities have the capacity to provide such care) for non-service-connected disabilities if they are at least 65 years old or are unable to defray the costs of necessary hospital care.

HOW DOES VA DETERMINE WHETHER VETERANS ARE ABLE TO PAY FOR THEIR CARE?

Before enactment of the Veterans Administration Health Care Amendments of 1980 (Public Law 96-330), the Administrator of Veterans Affairs was required to accept the statements under oath of applicants that they were unable to defray the expenses of necessary hospital care as sufficient evidence of inability to defray the expenses. Under the 1980 amendments, veterans who are receiving a VA pension, are 65 years of age or older, have a service-connected disability, or are eligible for Medicaid are presumed to be unable to defray their medical expenses. The amendments' effect was to authorize VA to establish specific ability-to-pay criteria and to verify veterans' ability to defray medical expenses before providing medical care except as noted above (or in an emergency). The amendments do not, however, require VA to establish such criteria.

In commenting on another recent GAO report,<sup>1</sup> you said that VA has an obligation to make case-by-case determinations of veterans' ability to pay even though Public Law 96-330 does not expressly direct VA to establish and impose ability-to-pay criteria. You said that the law gives VA broad latitude as to the criteria used to establish an applicant's ability to pay and the means by which those criteria are implemented.

VA has not yet published proposed regulations to implement the ability-to-pay provisions of Public Law 96-330. VA currently accepts veterans' oaths as sufficient evidence of inability to defray medical expenses.<sup>2</sup> VA admission forms state that a veteran's certification of inability to pay for medical expenses should be based on the following factors:

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<sup>1</sup>Legislation to Authorize VA Recoveries from Private Health Insurance Would Result in Substantial Savings (GAO/HRD-85-24, Feb. 26, 1985).

<sup>2</sup>According to a VA official, veterans are no longer required to sign the oath if they are receiving a VA pension, are over 65 years old, have income below the pension rate, or are Medicaid recipients.

- The applicant's monthly income from all sources.
- The cash value of the applicant's ready assets, other than home of residence (cash, savings deposits, stocks, bonds, property, etc.).
- The applicant's entitlement to medical care under an insurance policy of any kind, including insurance liability of third parties in accident cases.

#### OBJECTIVES, SCOPE, AND METHODOLOGY

Our primary objective was to determine the extent to which veterans under age 65 with no service-connected disabilities who received VA inpatient care during fiscal year 1981 had incomes that would have permitted them to pay for that care under three alternative means tests. We wanted to estimate, for each of the means tests, the portion of the costs of that care that VA could have recovered from those veterans. A secondary objective was to determine the potential effects of the three alternative means tests on veterans aged 65 and older with no service-connected disabilities. We used only veterans' 1981 family incomes as reported to IRS in our analyses because we did not have data regarding the cash values of their ready assets or their entitlement to medical care under insurance policies. We selected fiscal year 1981 because it was the latest year for which relatively complete data were available when we performed our analyses.

Because you announced your intention to establish a means test, we believe that some of the data we gathered may be useful in projecting the effects of such a test.

#### Universe for analysis

Our primary universe was intended to include only veterans with no service-connected disabilities (i.e., were not eligible for VA compensation) who were (1) under age 65 and (2) not receiving a VA pension.<sup>3</sup> As shown in the following table, of the total veterans discharged from VA inpatient care during fiscal year 1981, 276,890 fit into our universe. These veterans accounted for 415,036 episodes of care, which we estimated cost VA about \$2.17 billion (1981 dollars).

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<sup>3</sup>We also excluded former prisoners of war because they are eligible for free care in VA facilities.

<u>Category</u>	<u>Veterans discharged in fiscal year 1981</u>	<u>Total number of inpatient discharges (episodes)</u>	<u>Estimated cost of care in 1981 dollars</u> (billions)
Veterans under age 65, not receiving VA compensation or pension	276,890	415,036	\$2.17
Veterans aged 65 and older, not receiving VA compensation or pension	80,409	124,811	1.33
Veterans receiving either VA compensation or pension	<u>250,306</u>	<u>409,633</u>	<u>2.20</u>
Total	<u>607,605</u>	<u>949,480</u>	<u>\$5.70</u>

Our universe may contain some veterans who did not meet our selection criteria. To determine whether veterans were receiving either VA compensation or pension, we matched a data file (VA's patient treatment file) of all veterans discharged from VA inpatient care during fiscal year 1981 against a file of all veterans receiving disability compensation or pension payments from VA as of October 1981. We assumed that veterans on the patient treatment file who were not receiving either compensation or pension would be part of our universe of veterans with no service-connected disabilities. However, veterans who had been receiving either compensation or pension payments at some time during fiscal year 1981 but not in October 1981 may erroneously be part of our universe. Likewise, veterans with service-connected disabilities for which they were not being compensated may also be erroneously included in our universe.

Because of the expense involved in verifying the data in the universe, we did not precisely determine the extent to which veterans were erroneously in our universe. However, for those episodes where our analysis indicated that the veterans under age 65 had the ability to pay for part or all of their care (about 60 percent of the episodes in our universe), VA's patient treatment file indicated that 83.6 percent of such episodes had been provided to veterans with no service-connected disabilities who were not receiving a VA pension. We did not make this comparison for the other 40 percent of the episodes where our

analysis indicated the veterans were unable to pay for care. Nevertheless, we believe it is reasonable to assume that about 16.4 percent of the episodes of care in our primary universe might be attributed to the inclusion of erroneously categorized veterans. We also recalculated the potential VA fiscal year 1981 recoveries using this information and found that about 16.1 percent of the recoveries might be attributed to the inclusion of erroneously categorized veterans.

### Methodology

We matched VA's 1981 patient treatment file against 1981 tax information filed with IRS to obtain data on the reported incomes and family sizes for the veterans in our universe. IRS records contained income and family size data on 101,580 of the 276,890 veterans in our universe. The 101,580 veterans represented 146,276 episodes of care, which we estimated cost VA about \$573 million. Because only income, but not family size, data were available for 66,964 of the veterans in our universe, we excluded them from our analyses. In addition, we excluded 108,346 veterans because neither income nor family size data were available.

We performed similar analyses of data for veterans aged 65 and older with no service-connected disabilities. For these veterans, IRS records contained income and family size data on 21,510 of the 80,409 veterans in this universe. The 21,510 veterans represented 33,735 episodes of care, which we estimated cost VA about \$221 million. Because only income data were available for 16,617 other veterans, we excluded them from our analyses. In addition, we excluded 42,282 veterans because neither income nor family size data were available.

We did not fully assess the reliability of the data from VA's compensation and pension, or patient treatment files or IRS' data file. We calculated the cost of veterans' care by obtaining length-of-stay data from VA's patient treatment file and multiplying it by VA's inpatient per diem rate for fiscal year 1981. This overstated the cost of care because some veterans had been in the hospital during more than 1 fiscal year; the per diem rate for fiscal years before 1981 was less than the rate in 1981. On the other hand, in some cases this may have understated veterans' ability to pay for that care because, as described below, the cost of care provided affected the determination of the veteran's ability to pay for it.

Means tests used to assess  
veterans' ability to defray  
the cost of inpatient care

We used three different means tests to determine how much of their income those veterans could have spent on their health care.

The Hill-Burton Program used national poverty income guidelines published annually by the Office of Community Services, Department of Health and Human Services, to determine the extent to which patients were expected to pay for care received in non-governmental hospitals. A patient whose family income was at or below the poverty income level would receive free care. For patients whose family incomes were between the poverty level and twice that level, hospitals were permitted to either provide free care or charge patients for a portion of their care. A patient whose income exceeded twice the poverty level was determined to be ineligible for assistance under the Hill-Burton Program.

Our first means test was based on Hill-Burton guidelines used by D.C. General Hospital in 1981. We assumed that veterans with family incomes at or below the poverty income level were unable to pay for their care. Veterans with family incomes exceeding twice the poverty income level were able to pay for their care. Veterans with family incomes between these two levels were able to pay for part of their care. For veterans with more than one episode during the year, we reduced their incomes by the amount the veterans would have spent for the previous episodes. To assure that veterans' incomes would not be reduced below the poverty level, we limited the amounts veterans would have been expected to pay for care to the difference between their incomes and the poverty income level. This means test is presented in enclosure I.

For the second means test, we substituted VA pension levels for the national poverty income guidelines. This means test is presented in enclosure II.

The third means test was based on draft regulations considered by VA in 1983 but not formally proposed. This criterion involved considering a veteran's income, family size, and estimated cost of medical care in determining whether a veteran could afford the cost of care. This means test is presented in enclosure III.

Using the first two means tests, we assumed that in each episode VA would have admitted and treated the veteran and attempted to recover all or part of the cost of that care if the veteran's income exceeded certain levels. For the third means test, we assumed, based on the draft regulations VA was considering, that decisions on veterans would have been made before admission. If veterans' income exceeded twice the pension level and the estimated cost of care did not exceed certain levels, the veterans would have been denied care because they could have afforded to pay for their care elsewhere. Therefore, there would have been no recoveries.

INCOME LEVELS OF VETERANS WITH  
NO SERVICE-CONNECTED DISABILITIES  
DISCHARGED FROM INPATIENT CARE  
DURING FISCAL YEAR 1981

As discussed on page 5, income data were available for 206,671 veterans with no service-connected disabilities, regardless of age, who were discharged from VA inpatient care during fiscal year 1981. The following table presents these data:

<u>Income range</u>	<u>Number of veterans</u>	<u>Number of veterans exceeding minimum of range</u>
Up to \$5,000	85,218	206,671
5,001 to 10,000	48,046	121,453
10,001 to 15,000	29,902	73,407
15,001 to 20,000	18,052	43,505
20,001 to 25,000	10,909	25,453
25,001 to 30,000	6,274	14,544
30,001 to 35,000	3,471	8,270
35,001 to 40,000	1,984	4,799
40,001 to 45,000	1,088	2,815
45,001 to 50,000	599	1,727
More than 50,000	1,128	1,128

RESULTS OF OUR ANALYSES OF VETERANS  
WITH NO SERVICE-CONNECTED DISABILITIES  
DISCHARGED FROM INPATIENT CARE IN 1981

The results of our analyses for veterans under age 65 are presented in enclosure IV, tables 1 to 3, and summarized below.

Using the poverty-based means test, we found that VA provided 48,933 episodes of care during fiscal year 1981 to veterans under age 65 with no service-connected disabilities whose

income exceeded twice the poverty level. These episodes cost VA about \$183 million; it could have recovered about \$129 million based on our criterion. In addition, VA provided 42,514 episodes of care to veterans whose incomes exceeded the base poverty level but not twice that level. These episodes cost VA about \$180 million; it could have recovered about \$45 million.

Using the VA pension-based means test, we found that VA provided 43,844 episodes of care during fiscal year 1981 to veterans under age 65 with no service-connected disabilities whose income exceeded twice the base pension level. These episodes cost VA about \$163 million. Based on the cost of each episode and the veteran's income and family size, VA could have recovered about \$116 million. In addition, VA provided 43,260 episodes of care to veterans whose income exceeded the base pension level but not twice that level. These episodes cost VA about \$180 million; it could have recovered about \$47 million.

Using the third means test, based on the regulations VA considered proposing in 1983, we found that VA provided 22,456 episodes of care to veterans under age 65 with no service-connected disabilities whose incomes exceeded twice the base pension level and whose cost of care was within specified limits. These episodes cost VA about \$18 million.

The results of our analyses of VA care provided during fiscal year 1981 to veterans aged 65 and older with no service-connected disabilities are presented in enclosure IV, tables 4 to 6.

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In conducting our analyses, we compiled detailed data on the number of episodes of care and the costs to VA of providing those episodes of care in fiscal year 1981. We arrayed the costs of the episodes of care in \$1,000 increments up to \$25,000 per episode. Episodes costing VA more than \$25,000 were combined into one category. These detailed data may be useful to your staff as VA refines its means test proposal and attempts to project the potential impacts of alternative means tests on veterans meeting various income or asset criteria. We would be glad to share the detailed data we have available with your staff to the extent we are able to do so without violating the stipulations under which we were able to use 1981 IRS data in performing our analyses.

We are sending copies of this report to the Director, Office of Management and Budget, and the Chairmen and Ranking Minority Members of the House and Senate Committees on Aging, Appropriations, Budget, and Veterans' Affairs. We will also make copies available to others upon request.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Richard L. Fogel". The signature is written in a cursive style with a prominent flourish at the end.

Richard L. Fogel  
Director

Enclosures - 4

POVERTY-BASED INCOME MEANS TEST USED  
TO ESTABLISH VETERANS' ABILITY TO  
PAY FOR CARE IN FISCAL YEAR 1981

<u>Family size</u>	<u>Poverty level</u>	<u>Twice the poverty level</u>
1	\$ 4,310	\$ 8,620
2	5,690	11,380
3	7,070	14,140
4	8,450	16,900
5	9,830	19,660
6	11,210	22,420
7	12,590	25,180

We assumed that veterans with family incomes at or below the poverty income level were unable to pay for their care. Veterans with family incomes exceeding twice the poverty income level were able to pay for their care. Veterans with family incomes between these two levels were able to pay for part of their care. To assure that veterans' incomes would not be reduced below the poverty level, we limited the amounts veterans would have been expected to pay for care to the difference between their incomes and the poverty level income. For veterans with more than one episode during the year, we reduced their incomes by the amount the veterans would have spent for each previous episode.

The results from using the above means test are presented in enclosure IV:

- Table 1 for veterans under age 65 with no service-connected disabilities.
- Table 4 for veterans aged 65 and older with no service-connected disabilities.

PENSION-BASED INCOME MEANS TEST USED  
TO ESTABLISH VETERANS' ABILITY TO  
PAY FOR CARE IN FISCAL YEAR 1981

<u>Family size</u>	<u>Base pension level</u>	<u>Twice the base pension level</u>
1	\$ 4,960	\$ 9,920
2	6,499	12,998
3	7,339	14,678
4	8,179	16,358
5	9,019	18,038
6	9,859	19,718
7	10,699	21,398

We assumed that veterans with family incomes at or below the base pension level were unable to pay for their care. Veterans with family incomes exceeding twice the base pension level were able to pay for their care. Veterans with family incomes between these two levels were able to pay for part of their care. To assure that veterans' incomes would not be reduced below the base pension level, we limited the amounts veterans would have been expected to pay for care to the difference between their incomes and the base pension level. For veterans with more than one episode during the year, we reduced their incomes by the amount the veterans would have spent for each previous episode.

The results from using the above means test are presented in enclosure IV:

--Table 2 for veterans under age 65 with no service-connected disabilities.

--Table 5 for veterans aged 65 and older with no service-connected disabilities.

MEANS TEST BASED ON VA'S 1983 DRAFT  
REGULATIONS WHICH USED VA PENSION LEVEL

FISCAL YEAR 1981

For this means test, we assumed that veterans with incomes equal to or less than twice the base pension level (as shown in enc. II) were unable to pay for their care. For veterans with incomes exceeding twice the base pension level, we assumed, based on the draft regulations VA was considering, that if the cost of care was more than a certain percentage of family income (see table below), the veterans would have been unable to pay for the care provided.

Income Test

<u>Range of veteran's family income</u>	<u>Percent of family income to be used to establish ability to pay for care</u>
\$ 9,920 - 15,000	5
15,001 - 20,000	6
20,001 - 25,000	7
25,001 - 30,000	8
Over 30,000	10

For example, if a veteran had a family income of \$28,000 (which exceeded twice the base pension level based on the veteran's family size) and the estimated cost of care were \$3,000, the veteran would have been presumed unable to pay for that care because the \$3,000 cost of care exceeded \$2,240 (\$28,000 x 8 percent).

The results from using the above means test are presented in enclosure IV:

--Table 3 for veterans under age 65 with no service-connected disabilities.

--Table 6 for veterans aged 65 and older with no service-connected disabilities.

TABLE 1

RESULTS OF USING POVERTY-BASED INCOME MEANS TEST  
TO ASSESS ABILITY OF VETERANS UNDER AGE 65 WITH  
NO SERVICE-CONNECTED DISABILITIES TO PAY FOR CARE  
FISCAL YEAR 1981

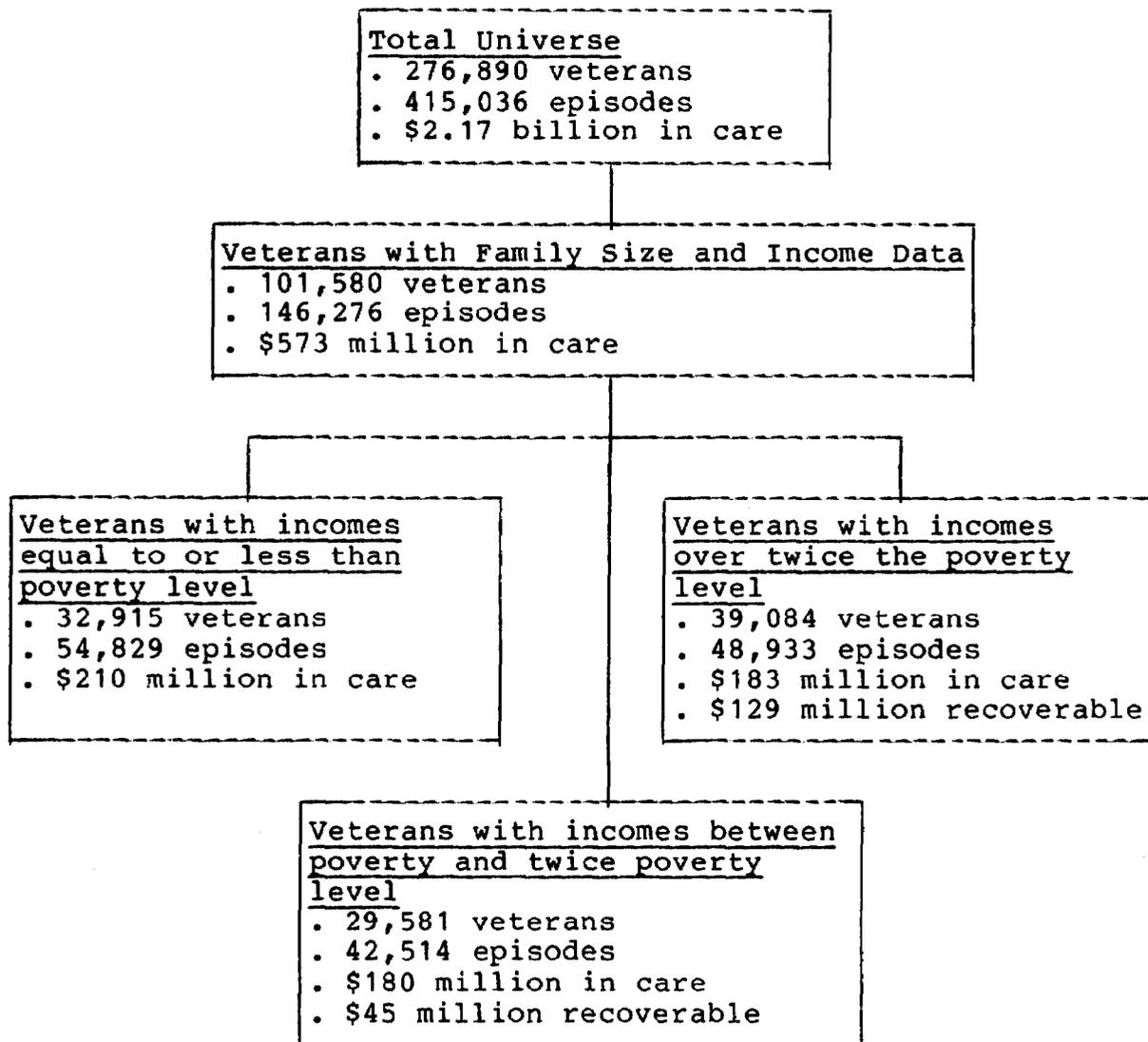


TABLE 2

RESULTS OF USING PENSION-BASED INCOME MEANS TEST  
TO ASSESS ABILITY OF VETERANS UNDER AGE 65 WITH  
NO SERVICE-CONNECTED DISABILITIES TO PAY FOR CARE  
FISCAL YEAR 1981

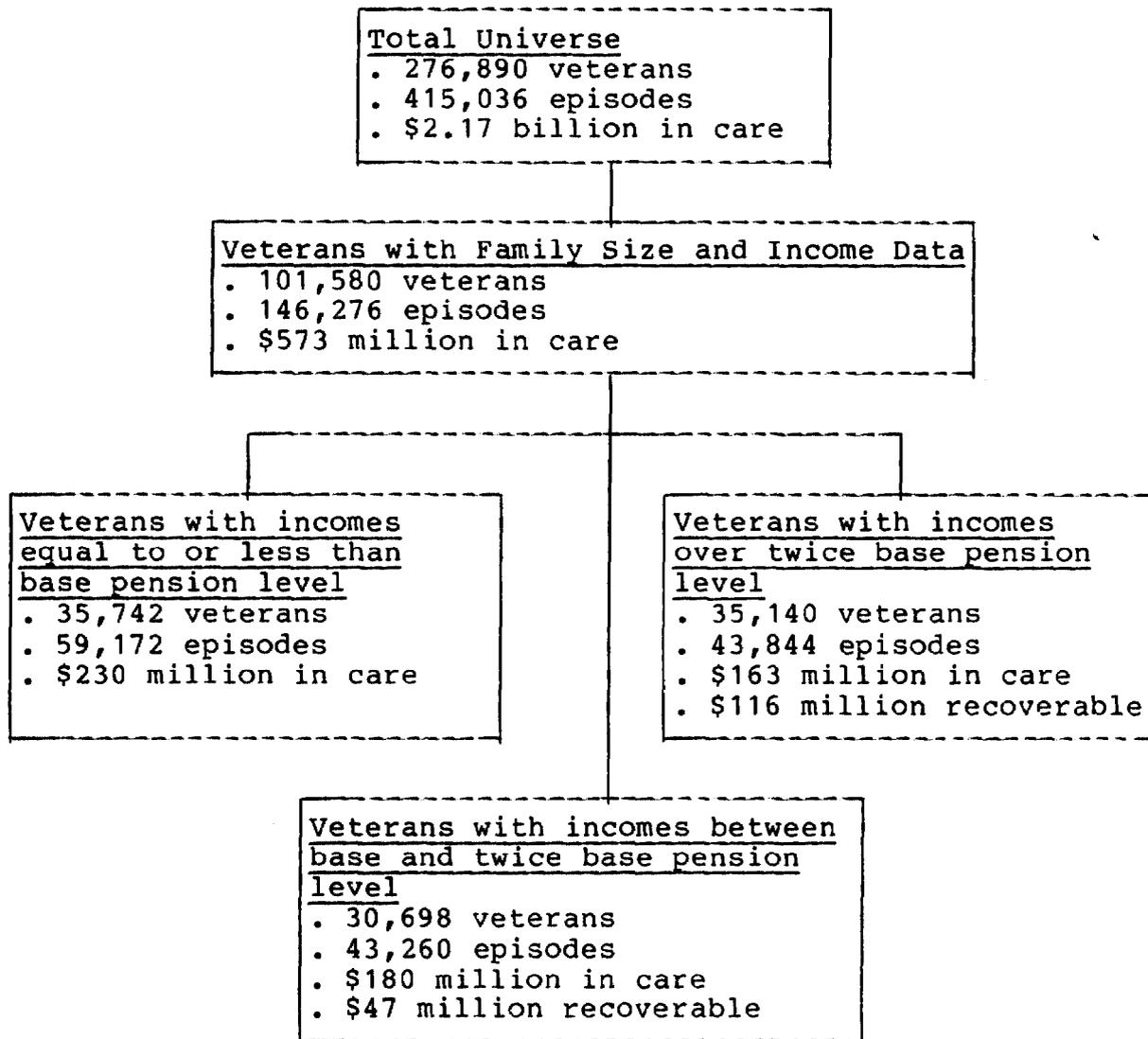


TABLE 3  
RESULTS OF USING MEANS TEST BASED ON  
VA'S 1983 DRAFT REGULATIONS TO ASSESS ABILITY OF  
VETERANS UNDER AGE 65 WITH NO SERVICE-CONNECTED  
DISABILITIES TO PAY FOR CARE  
FISCAL YEAR 1981

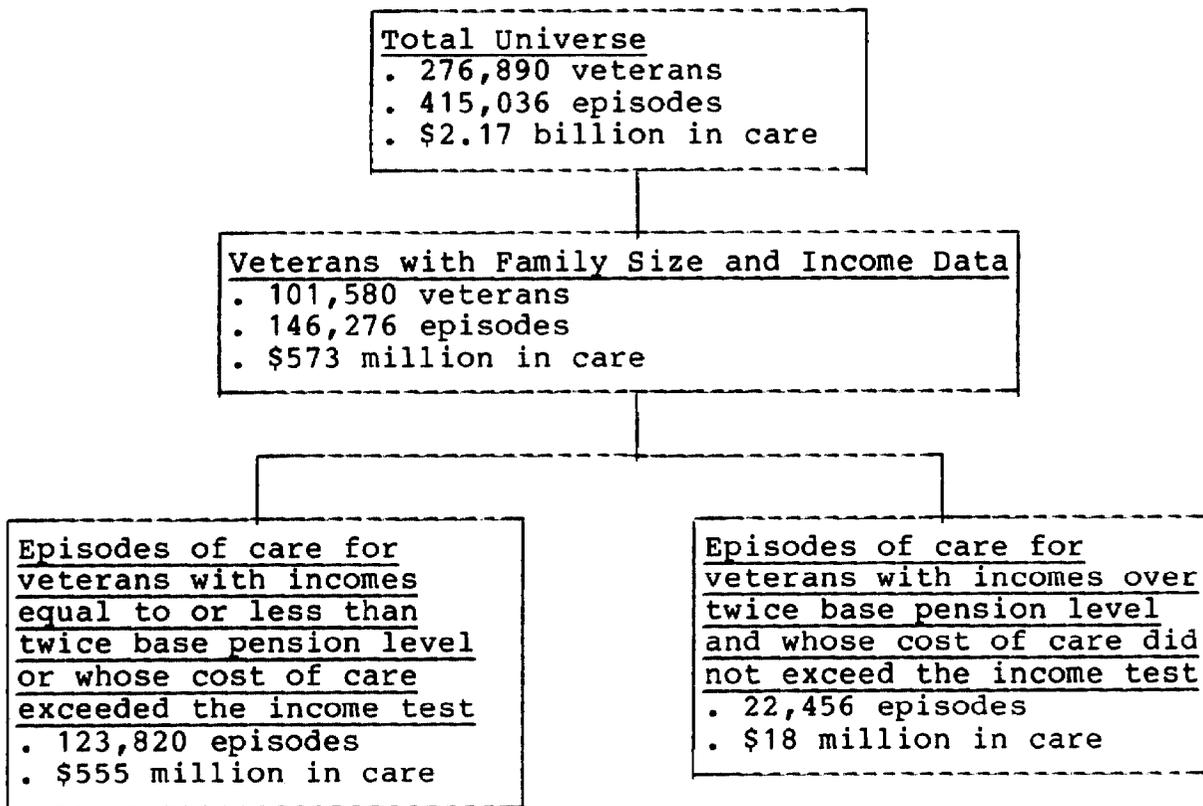


TABLE 4

RESULTS OF USING POVERTY-BASED INCOME MEANS TEST  
TO ASSESS ABILITY OF VETERANS AGED 65 AND OLDER  
WITH NO SERVICE-CONNECTED DISABILITIES TO PAY FOR CARE  
FISCAL YEAR 1981

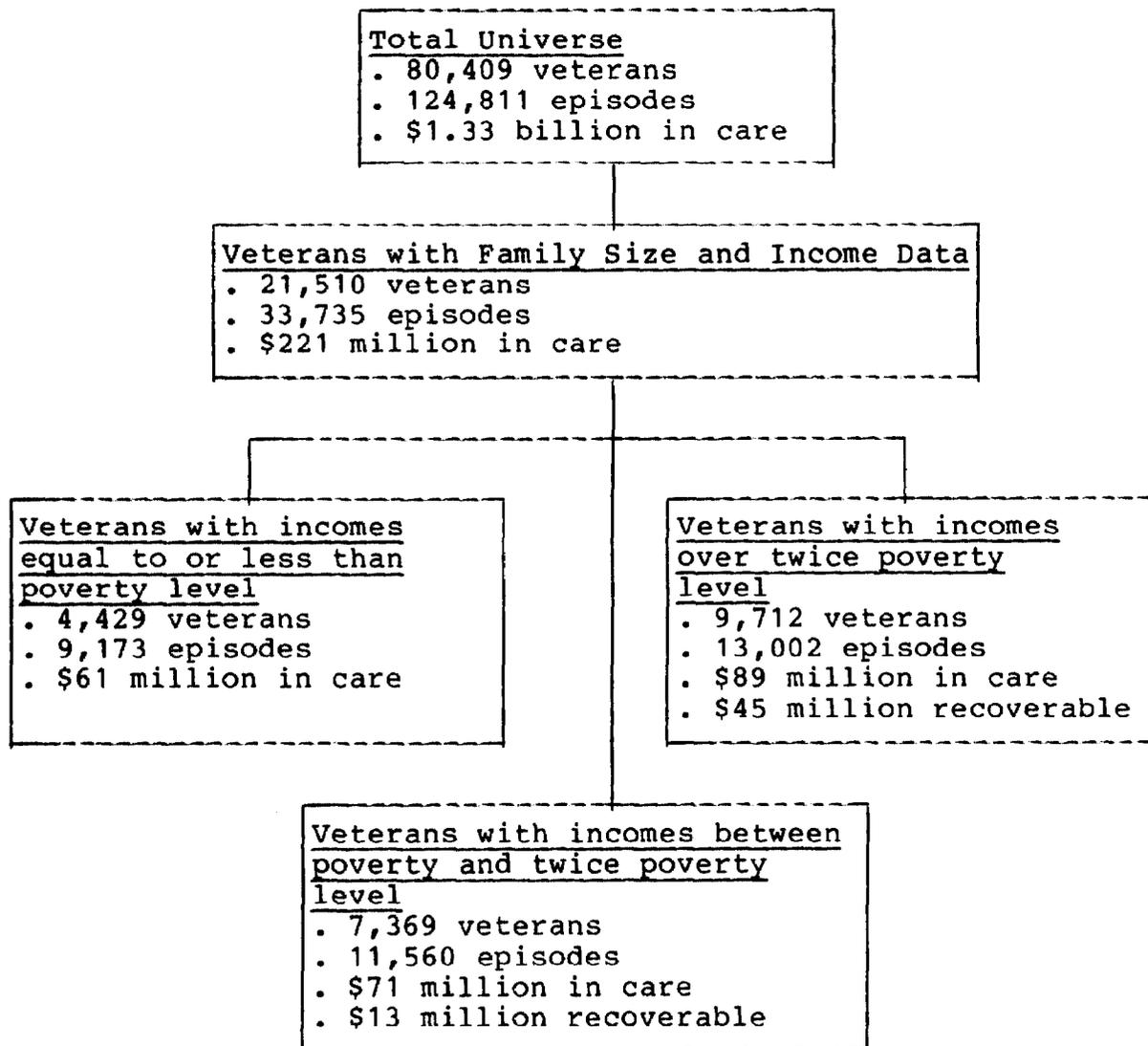


TABLE 5

RESULTS OF USING PENSION-BASED INCOME MEANS TEST  
TO ASSESS ABILITY OF VETERANS AGED 65 AND OLDER WITH  
NO SERVICE-CONNECTED DISABILITIES TO PAY FOR CARE  
FISCAL YEAR 1981

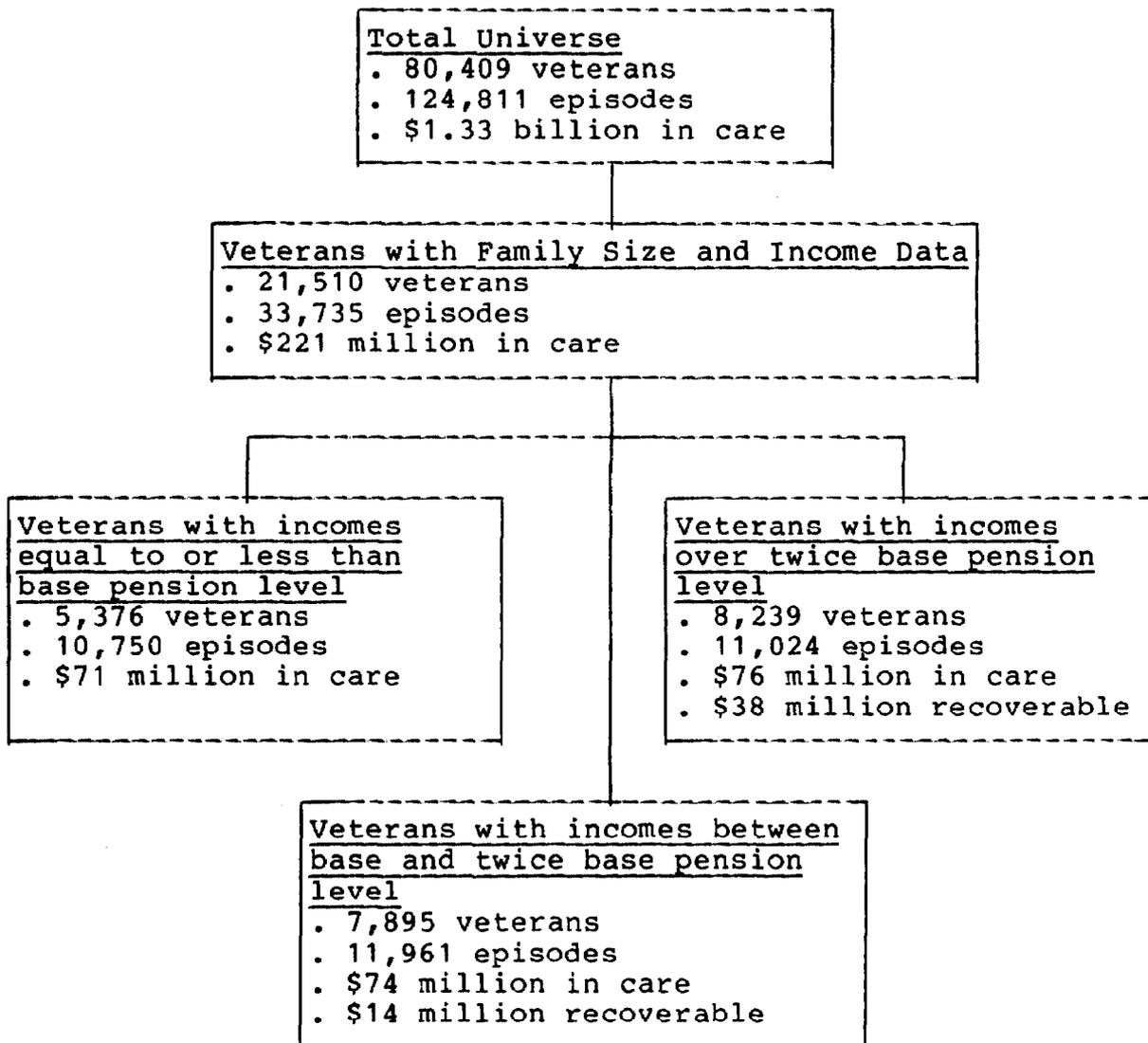


TABLE 6

RESULTS OF USING MEANS TEST BASED ON  
VA'S 1983 DRAFT REGULATIONS TO ASSESS ABILITY OF  
VETERANS AGED 65 AND OLDER WITH NO SERVICE-CONNECTED  
DISABILITIES TO PAY FOR CARE  
FISCAL YEAR 1981

