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UNITED STATES
GENERAL ACCOUNTING OFFICE



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Veterans Assistance Program
In The Philippines
Should Be Revised

Veterans Administration

MWD-76-6

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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

MANPOWER AND WELFARE
DIVISION

B-133044

AUG 4 1975

The Honorable Richard L. Roudebush
Administrator of Veterans Affairs

Dear Mr. Roudebush:

The Veterans Administration needs to revise its program in the Philippines.

A prior GAO report, "Better Use Could Be Made of U.S. Assistance and Other Support to the Philippines" (B-133359, Mar. 2, 1973), presented the status of the compensation, pension, and education benefit programs as of 1971. This report updates the status of these programs and also includes the medical program controlled by VA's Manila Regional Office. Veteran insurance programs administered by the VA Central Office were not reviewed.

The Philippines is the only foreign country in which the VA operates a comprehensive benefits program. This program resulted from

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

The average compensation and pension payment to U.S. and Filipino veterans is several times greater than the average annual wage in the Philippines. Moreover, the average educational payment to a veteran is about 15 times the average educational costs and is almost 10 times the average starting wage for a college graduate.

Although disparities between veterans' benefits and local earnings and educational costs also exist in some parts of the United States, the differences in the payments existing in the Philippines may disrupt the socio-economic structure, to some degree, throughout the Philippines.

In fiscal year 1974, 96 percent of the patient-days charged against the funds made available from VA appropriations for the Veterans Memorial Hospital was for non-service-connected illnesses. In view of the Philippine economy's postwar improvement, the Philippines could fund the care, at the Veterans Memorial Hospital, for veterans who have non-service-connected illnesses.

VA officials, with whom we discussed this report, agreed that the cost for treating non-service-connected illnesses at the Veterans Memorial Hospital should be borne by the Philippine Government. They said, however, that VA does not favor reducing benefits to U.S. veterans in the Philippines, since these veterans are entitled to all the benefits received by any veteran who was a member of the U.S. Armed Forces. They stated that the United States is obliged to continue paying benefits to U.S. veterans regardless of where they live.

Benefits paid to U.S. veterans should not necessarily be reduced. The purpose of including data on benefits to U.S. veterans was to further illustrate the disparities between VA benefits in the Philippines and the cost of living in that country and to demonstrate the need to evaluate the program.

According to VA officials, a study of the monetary benefit program for Filipino veterans and the grant-in-aid program for the Veterans Memorial Hospital was recently started. This study should prove beneficial in identifying the program's weaknesses; however, it is scheduled for completion in conjunction with the current legislative authority for the grant-in-aid program which expires on June 30, 1978. In the meantime, the entire benefit program--costing about \$72 million in fiscal year 1974--will continue. Due to these major costs, every effort should be made to accelerate the study so that any changes in the program can be initiated as soon as possible.


As set forth on p. 12, we recommend that you accelerate the current study of the VA program in the Philippines and seek whatever legislative changes are shown to be necessary or desirable.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendation to the House and Senate Committees on Government Operations not later than 60 days after the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Director, Office of Management and Budget, and to the Senate and House Committees on Veterans Affairs, Appropriations, and Government Operations.

We would appreciate your views on the matters presented as well as any actions taken or contemplated as a result of this report.

Sincerely yours,


Gregory J. Ahart
Director

VETERANS ASSISTANCE PROGRAM IN THE PHILIPPINESINTRODUCTION

The Philippines is the only foreign country in which the VA operates a comprehensive benefits program. This program resulted from

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

The Congress has passed many laws providing benefits for veterans, several relating specifically to Philippine veterans and having the effect of providing them most of the monetary and medical benefits available to American veterans.

Filipinos with service in the regular components of the U.S. Armed Forces, including those who served before and during World War II as Philippine Scouts, called Old Scouts, are considered U.S. veterans. Approximately 20,000 of these veterans reside in the Philippines; they and their dependents are entitled to the same monetary benefits provided to American veterans.

In addition to the 20,000 U.S. veterans, three groups of Filipino veterans also are entitled to limited benefits as a result of military service during and immediately following World War II:

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

The VA reported in 1973 that approximately 110,000 Commonwealth Army veterans, 312,000 recognized guerrillas, and 30,000 New Scouts, or a total of 452,000 Filipino veterans ^{1/} resided in the Philippines who were potentially eligible for VA benefits. By law, these veterans and dependents are entitled to limited monetary benefits, which are currently paid at 50 cents in Philippine pesos for every dollar otherwise entitled.

In addition to monetary benefits, medical benefits for Filipino veterans are provided through a VA grant-in-aid program, primarily for inpatient care at the Veterans Memorial Hospital (not a U.S. VA facility), Quezon City, the Philippines. This program was started in 1950 and initially was to last 5 years. However, the program has been periodically renewed, most recently to June 30, 1978, by Public Law 93-82 (38 U.S.C. 632). Filipinos who are U.S. veterans and American veterans are also treated at this hospital, but VA pays their bills from funds appropriated to operate its own medical care system.

VA is responsible for administering the benefit program, both monetary and medical, in the Philippines. 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 veterans. However, VA operations have expanded greatly to service the large increase in potential beneficiaries created by legislation providing benefits to World War II Filipino veterans and by continually expanding these benefits over the years. As of September 1974, VA employed 250 persons in the Philippines, including 16 Americans. Annual operating costs averaged over \$1.8 million for the last 3 fiscal years.

As of September 1974, there were 67,000 persons, including insurance beneficiaries, in the Philippines receiving monetary benefits (17,000 veterans and 50,000 dependents). Expenditures for all benefit programs and related administrative expenses, including operating costs, for the VA office in the Philippines have totaled over \$1.6 billion since World War II ended. During fiscal years 1965-74, expenditures amounted to about \$597.1 million; annual expenditures steadily increased from \$41.8 million in fiscal year 1965 to \$74 million in fiscal year 1974.

^{1/}In this report, "U.S. veterans" refers to Filipinos entitled under law to the same benefits as American veterans. "Filipino veterans" refers to those covered under separate legislation and entitled to more limited benefits.

The types of expenditures were as follows:

	<u>FY 1965-74</u>
	(millions)
Compensation and pension	\$474.2
Educational benefits	47.1
Grants to the Philippines for medical benefits	<u>12.7</u>
Total	534.0
Operating and other expenditures	21.8
Insurance payments	<u>41.3</u>
Total	<u>\$597.1</u>

A prior GAO report, "Better Use Could Be Made of U.S. Assistance and Other Support to the Philippines" (B-133359, Mar. 2, 1973), presented the status of the compensation, pension, and education benefit programs as of 1971. This report updates the status of these programs and also includes the medical program controlled by VA's Manila Regional Office. Veteran insurance programs administered by the VA Central Office were not reviewed.

DISPARITY BETWEEN VETERAN BENEFITS AND
PHILIPPINE EARNINGS AND EDUCATIONAL COSTS

In general, compensation payments are provided to veterans or their dependents for the loss of earning power resulting from service-connected disability or death; pensions are provided to veterans because of service, age, or non-service-connected disability and to veterans' dependents because of non-service-connected death. Educational benefits are provided to restore lost educational opportunities where careers were interrupted or impeded because of military service. Any payments made are intended to help veterans meet, in part, the cost of obtaining an education.

The average compensation and pension (C&P) payment to U.S. and Filipino veterans is several times greater than the average annual wage in the Philippines. Moreover, the average educational payment to a veteran is about 15 times the average educational costs and is almost 10 times the average starting wage for a college graduate.

Although disparities among veterans' benefits and local earnings and educational costs also exist in some parts of the United States, the differences in the payments existing in the Philippines may disrupt the socioeconomic structure, to some degree, throughout the Philippines.

C&P

In fiscal year 1974, VA spent approximately \$63 million in the Philippines for C&P claims, as follows:

<u>Category</u>	<u>Number of cases</u>	<u>Entitle-ment</u>	<u>Total</u>
U.S. veterans	15,382	Full	\$29,965,000
Filipino veterans	<u>36,295</u>	Half	<u>33,083,000</u>
Total	<u>51,677</u>		<u>\$63,048,000</u>

The payments to all recipients averaged \$1,220 a year--\$1,948 for a U.S. veteran and \$911 for a Filipino veteran.

According to the Philippine Government's statistics, the average 1973 annual earnings, based on May 1973 average weekly earnings of all employed wage and salary workers in the Philippines, was about \$400--about one-third of the average C&P payments. Workers in the highest paid major industrial group averaged about \$660 a year--about one-half of the average C&P payments.

Further comparison shows that the average C&P payment to U.S. veterans is more than the average earnings in the highest paid Philippine occupational groups. Except for this group--administrative, executive, and managerial--the Filipino veteran at half-benefits also receives more than the average in all occupational groupings. A sample of average yearly earnings follows:

<u>Occupational groups</u>	1973 average yearly earnings (<u>note a</u>)	Average C&P payment	
		<u>U.S. veteran</u>	<u>Filipino veteran</u>
Farming, fishing, hunting, and lodging	\$ 220	\$1,948	\$911
Manual labor	300	1,948	911
Crafts and production	370	1,948	911
Clerical	580	1,948	911
Professional and technical	750	1,948	911
Administrative, executive, and managerial	1,450	1,948	911

a/Based on May 1973 average weekly earnings.

A report by VA's Internal Audit Service, conducted in October and November 1973, stated that (1) many attempts were made to fraudulently obtain compensation benefits in the Philippines and (2) despite action by VA to overcome these attempts, the practice was expected to continue "as long as compensation payments are so lucrative compared to the local economy * * *."

These benefits exceed those which could be considered reasonable on the basis of Filipino salary scales and may create inequities between Filipino beneficiaries, who are able to live better than many other Filipinos, and their American counterparts living in the United States. American beneficiaries, including those residing in the Philippines, receive the same VA C&P payment when living in any foreign country as do those residing in the United States. However, unlike Filipino beneficiaries, they must make social readjustments and leave their homeland to take advantage of the lower cost of living in other countries.

Education

The average monthly educational payment to veterans in the Philippines in fiscal year 1974 was \$300. Under the present law, eligible wives, widows, and children receive \$110 per month. These payments are much more than the average monthly costs for obtaining a higher education in the Philippines.

The Philippines published a report in 1974 on 1970-71 costs in Philippine colleges and universities. This report, which listed fees from institutions enrolling almost 92 percent of all college level students, shows tuition--based

on a 9-month school year--ranging from a low of \$4.50 to a high of \$29.20 a month, the average fee being equivalent to about \$8.70 a month. The report estimates that total costs--including tuition, books, travel, and one meal a day--averaged about \$17 a month, or about double the costs of tuition alone. Based on our sampling in 1974 of six institutions, tuition costs appear to be about the same as in 1971. The sample showed monthly tuition costs ranging from about \$4 to about \$27 and averaging about \$10. Because the 1970-71 total costs were about double the tuition costs, we estimate that total monthly educational costs in 1974 were about \$20.

In fiscal year 1974, approximately \$7 million was paid to 1,867 veterans, 218 wives and widows, and 1,779 children. As shown below, based on fiscal year 1974 enrollment, educational benefits to beneficiaries exceeded the average educational cost in the Philippines by about \$6.3 million.

	<u>Number of accounts</u>	<u>Average yearly payments/ costs (note a)</u>	<u>Total</u>
Educational payments:			
Veterans	1,867	\$2,700	\$5,040,900
Wives and widows	218	990	215,820
Children	<u>1,779</u>	990	<u>1,761,210</u>
Total	<u>3,864</u>	-	\$7,017,030
Estimated costs:			
All accounts	3,864	\$ 180	<u>695,520</u>
Difference			<u>\$6,322,410</u>

a/Based on 9-month school year

MEDICAL BENEFITS

The United States has provided medical benefits to Filipino veterans since 1950 through (1) funding the construction of the Veterans Memorial Hospital (VMH) at a cost of \$9.4 million and (2) annual grant-in-aid appropriations to help pay the hospital's operation and maintenance costs. In fiscal year 1974, 96 percent of the patient-days charged to the grant-in-aid funds, at a cost of at least \$1.5 million of the \$2 million appropriated, was for non-service-connected

illnesses. Because of the postwar improvement in the Philippine economy, that country could assume responsibility for the costs of treating non-service-connected illnesses.

Since 1950, the Philippine gross national product (GNP) has more than trebled, representing an annual growth of nearly 6 percent in total output. The data below shows the recent economic gains.

	<u>1971</u>	<u>1973</u>	<u>Percent increase</u>
	(millions)		
GNP at constant 1967 prices	\$5,100.0	\$5,701.6	11.8
Gold and foreign exchange reserves	244.2	876.0	258.7
Balance of trade	-71.6	240.6	436.0

The Philippine Government's budget has shown corresponding increases. For the first 6 months of 1974 alone, receipts increased by 47 percent and disbursements by 44 percent, resulting in an operating surplus of about \$286 million. The defense budget, from which the Philippine Government contributes to VMH funding, increased by \$100 million in fiscal year 1974, with further increases planned.

According to VA, the United States was originally supposed to contribute to the support of VMH for 5 years after which time the Philippine Government was to assume full responsibility. However, the grant-in-aid program has been periodically renewed, and the current program was extended by Public Law 93-82 (38 U.S.C. 632) to June 30, 1978. When the current extension was being considered, the Administrator of Veterans Affairs informed the Congress that:

"Although it has been the U.S. position throughout that the Philippine Government would eventually be expected to assume full responsibility for the operation and maintenance of the Veterans Memorial Hospital, we have continued to acknowledge a certain moral obligation to provide care for service-connected Filipino veterans and to recognize, as a practical matter, that the program enables the Philippine Government to maintain a high standard of medical care for its veterans which would not be possible if such assistance was withheld." (Emphasis added.)

The United States has a continuing obligation to finance the cost of care for veterans who have service-connected illnesses. The cost of care for veterans whose illnesses are not service connected seems to be more appropriately a responsibility of the Philippines.

VA COMMENTS AND OUR EVALUATION

VA officials, with whom we discussed this report, agreed that the cost for treating non-service-connected illnesses at VMH should be the responsibility of the Philippine Government. They said, however, that VA does not favor reducing benefits to U.S. veterans in the Philippines, since these veterans are entitled to all the benefits received by any veteran who was a member of the U.S. Armed Forces. These officials stated that the United States is obliged to continue paying these benefits to U.S. veterans regardless of where they live.

We do not necessarily suggest that benefits paid to U.S. veterans be reduced. The purpose of including data on benefits to U.S. veterans was to further illustrate the disparities between VA benefits in the Philippines and the cost of living in that country and to demonstrate the need to evaluate the program. Clearly, the Congress should decide whether benefits to these veterans should be reduced; VA would, of course, be given an opportunity to present its views on the matter if such changes are contemplated.

VA's Field Director of Area 4 and the Director of VA's Internal Audit Service said in April 1975 that (1) a study of the monetary benefit program for Filipino veterans and the grant-in-aid program had recently been started and (2) the study's purpose is to determine whether any changes in the program are necessary. According to these officials, the study is scheduled to be completed in conjunction with the current legislative authority for the grant-in-aid program for the VMH which expires on June 30, 1978, so that appropriate recommendations may be made when new legislation is being considered. The Director of Internal Audit Service said he would try to accelerate the study. He said, however, that the required coordination with the Department of State would be time consuming and that, in his opinion, to complete the study much before the now estimated completion date would not be possible.

CONCLUSIONS

VA benefits to Filipino beneficiaries greatly exceed those which could be considered reasonable on the basis of Filipino wage scales and educational costs.

Also, the resulting ability of these beneficiaries to live much better than many Filipinos may disrupt the socio-economic structure, to some degree, throughout the Philippines. In view of the postwar improvement of the Philippine economy, the Philippine Government should fund the treatment of veterans at VMH for non-service-connected illness.

The current VA study of the veteran assistance program in the Philippines should prove beneficial in identifying the program's weaknesses; however, it is not scheduled for completion until shortly before the current legislative authority for the grant-in-aid program expires on June 30, 1978. Since the entire VA benefit program involves great costs--about \$72 million for C&P payments, education benefits, and the VMH grant-in-aid program--every effort should be made to accelerate completing the study and, if necessary, to request that legislative changes be initiated before June 30, 1978.

RECOMMENDATION

We recommend that the Administrator of Veterans Affairs direct that the study be accelerated as much as possible and seek whatever legislative changes are shown to be necessary or desirable.