

GAO

Report to the Chairman, Special  
Committee on Aging, U.S. Senate

January 1989

# AGING ISSUES

## Related GAO Reports and Activities in Fiscal Year 1988



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About Our New Cover...

The new color of our report covers represents the latest step in GAO's efforts to improve the presentation of our reports.

**Human Resources Division**

B-217195

January 26, 1989

The Honorable David H. Pryor  
Chairman, Special Committee  
on Aging  
United States Senate

Dear Mr. Chairman:

This report is in response to the Committee's September 21, 1988, request for a compilation of our fiscal year 1988 activities regarding older Americans.

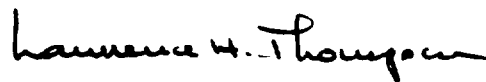
Appendix I lists our issued products—35 reports, 10 briefing reports (BR), and 3 fact sheets (FS). Some reports include conclusions and recommendations, but fact sheets contain only information and limited analyses. Appendix II lists 59 assignments in process as of September 30, 1988.

Appendix III summarizes our employment policies, which prohibit age discrimination. On September 30, 1988, 53.1 percent of our work force was 40 years of age or older. We continue to provide individual retirement counseling and group preretirement seminars.

As arranged with your office, we are sending copies of this report to interested congressional committees and subcommittees. Copies also will be made available to others on request.

This report was prepared under the direction of Linda G. Morra, Associate Director. Other major contributors are listed in appendix IV.

Sincerely yours,



Lawrence H. Thompson  
Assistant Comptroller General

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**Abbreviations**

ADP	automated data processing
ALJ	administrative law judge
BR	briefing report
DMMS	decentralized medical management system
DRG	diagnosis related group
FEMA	Federal Emergency Management Agency
FS	fact sheet
GAO	General Accounting Office
HCFA	Health Care Financing Administration
HHS	Department of Health and Human Services
HMO	health maintenance organization
HUD	Department of Housing and Urban Development
LIHEAP	Low-Income Home Energy Assistance Program
PPS	prospective payment system
PRO	peer review organization
RAM	resource allocation methodology
SSA	Social Security Administration
VA	Veterans Administration



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# GAO Reports Relating to Issues Affecting the Elderly Issued During Fiscal Year 1988

Following are brief descriptions, presented chronologically, of the GAO reports, including briefing reports (BR) and fact sheets (FS), relating to the elderly issued during fiscal year 1988. An asterisk after the report title indicates that the review was performed at the request of Committees or Members of Congress. Two asterisks indicate that the work was done because of statutory mandate.

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## Medicare: Better Controls Needed for Peer Review Organizations' Evaluations (GAO/HRD-88-13, Oct. 8, 1987)\*

GAO reported that the instructions under the Health Care Financing Administration's (HCFA's) contract renewal evaluation process for peer review organizations (PRO) were inconsistent, incorrect, or not properly implemented by the panels, and documentation of the panels' and HCFA's decisions were not always adequate. In addition, GAO found that HCFA's procedures for monitoring current contracts sometimes lacked criteria to enable monitoring personnel to distinguish between acceptable and unacceptable PRO performance. Also, GAO reported that HCFA set the overall funding for the program on the basis of the minimum amount allowed by law.

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## Medicare: Comparison of Catastrophic Health Insurance Proposals—An Update (GAO/HRD-88-19BR, Oct. 16, 1987)\*

GAO reviewed two new proposals by the Congress—H.R. 2470 and S. 1127—to expand Medicare coverage for catastrophic illness and concluded that the proposals still would leave the elderly at risk of high out-of-pocket costs for two major reasons. First, Medicare provides only minimal coverage of long-term care services for the chronically ill elderly. Second, Medigap policies primarily cover only the deductibles and coinsurance for Medicare-covered services rather than expand coverage to other services.

Neither bill would relieve Medicare beneficiaries of charges in excess of Medicare-approved rates by physicians not accepting the Medicare-determined reasonable charge. Medigap policies generally will not pay for charges above the Medicare-approved rate. Providing further relief under the new bills to elderly who incur high out-of-pocket health care expenses would increase Medicare costs.

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**Social Security:  
Payment Accuracy  
Rates Are Overstated  
(GAO/HRD-88-10,  
Oct. 29, 1987)**

Over 33 million beneficiaries received about \$175 billion in Social Security benefits during fiscal year 1986. These beneficiaries rely on the Social Security Administration (SSA) to calculate and pay the correct benefits. SSA's sampling methodology and processes for measuring errors and determining accuracy rates are adequate. But when the payment benefits are incorrect, not all the detected errors are included in SSA's error reports because of how SSA interprets errors. Consequently, actual error rates are about twice what SSA calculates, GAO believes. This means that in 1986 about 4.2 million persons were overpaid or underpaid benefits totaling \$1.1 billion. GAO found almost two-thirds of the errors were underpayments and most would not have been detected by routine SSA processes.

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**Pension Plans:  
Possible Effects of  
Requiring Employers  
to Make Contributions  
Sooner (GAO/HRD-88-  
28, Oct. 30, 1987)\***

The financial viability of the employee retirement income security program is threatened by large claims from some underfunded plan terminations. GAO reported that the administration's proposal to require employers to pay contributions sooner could help alleviate this problem by (1) ensuring that employers make required contributions and (2) permitting quicker identification of employers who are not making required contributions, so that more timely action can be taken to help protect participants' benefits and reduce potential insurance program claims.

GAO found, however, that most plans are overfunded. To minimize the burden on employers to comply with the Employee Retirement Income Security Act's funding standards, employers already sponsoring plans with funding levels sufficient to protect plan participants and the insurance program should not be required to pay contributions sooner.

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**Pension Plans: Vesting  
Status of Participants  
in Selected Small Plans  
(GAO/HRD-88-31,  
Oct. 30, 1987)\***

Minimum standards for private pension plans, first established by the Employee Retirement Income Security Act of 1974, required employer-sponsored pension plans to give participants a right to their pension benefits before retirement (vesting). In 1982, the Congress added "top-heavy" rules to requirements the plans must meet to qualify for tax benefits. Top-heavy plans are those in which more than 60 percent of benefits or account balances go to owners or key employees.

Had the Tax Reform Act of 1986 rules for quicker vesting applied to the 128 plans we reviewed, (1) shorter-tenured workers would have had to work longer to achieve the same vesting status, (2) the proportion of

nonvested women in the plans would have increased from 16 to 29 percent, and (3) the proportion of nonvested men would have increased from 8 to 15 percent.

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**Medicare:  
Uncertainties  
Surround Proposal to  
Expand Prepaid  
Health Plan  
Contracting (GAO/  
HRD-88-14, Nov. 2,  
1987)\***

The Department of Health and Human Services (HHS) has proposed to contract on a prepaid capitation basis with employer-based plans to provide Medicare benefits to their retirees. But GAO reported that there are many unresolved issues involved in implementing such a proposal. HHS would use an untried method to set capitation rates, and the mechanisms used under currently authorized capitation plans to ensure reasonable Medicare costs and benefits for enrollees would not necessarily apply to employer-based plans. Because the concepts in the proposal have not been tested and HHS had problems implementing capitation initiatives in the past, GAO urged caution in proceeding with the proposal.

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**VA Health Care:  
Assuring Quality Care  
for Veterans in  
Community and State  
Nursing Homes (GAO/  
HRD-88-18, Nov. 12,  
1987)\***

The quality of care that patients in nursing homes receive is an issue of national concern. In fiscal year 1986, the Veterans Administration (VA) sponsored nursing home care for about 55,000 veterans through community and state nursing home programs at a cost of about \$350 million. To provide this service, each of VA's 172 medical centers contracts with privately owned and operated community nursing homes in its service area. The centers do not contract with or place veterans in state homes, but are required to evaluate the quality of care provided to veterans in state as well as community homes.

The eight VA medical centers that GAO reviewed generally complied with VA's requirements for determining that state veterans' homes could provide quality nursing home care. However, the centers were not fully complying with VA's requirements for community nursing homes. Where noncompliance was found, typically some of the requirements had not been clearly communicated from VA central office to the field.

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**Medicare: Change in Contingency Reserve Funding Held Down Increase in Part B Premium (GAO/HRD-88-40BR, Nov. 30, 1987)\***

In this report, GAO describes HCFA's changes in the way it computed the amount in the 1988 Part B premium of Medicare necessary to ensure an adequate reserve to cover contingencies. This change produced a lower increase in the premium for 1988 than would have resulted had the computation been consistent with prior years' practices. In previous years, HCFA viewed the trust fund as being composed of an aged portion and a disabled portion for purposes of setting contingency margins. In the 1988 premium calculation, HCFA viewed the trust fund as one.

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**Social Security: Observations on Demonstration Interviews With Disability Claimants (GAO/HRD-88-22BR, Dec. 3, 1987)\***

Demonstration projects, mandated by the Social Security Disability Benefits Reform Act of 1984, require the opportunity for face-to-face interviews for applicants at the initial stage in the disability determination process and current beneficiaries during continuing disability reviews. Such interviews take place before a final decision is made. These demonstration projects are intended to test whether such early, face-to-face interviews result in more accurate evaluations of an applicant's or beneficiary's condition, assure that all relevant information is obtained, and simplify and expedite the decision-making process. For cases that are not part of a demonstration project, the interviews do not take place unless a final decision is appealed to an administrative law judge (ALJ).

GAO's report concludes that any changes to the current system should be carefully considered and should have merits that would justify revising it, such as more accurate decisions at a lower level. These merits should be objectively measured during the evaluation.

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**Social Services: Implementation of Food and Shelter Programs Under the Mckinney Act (GAO/RCED-88-63, Dec. 8, 1987)\*\***

GAO reviewed implementation of the Stewart B. McKinney Homeless Assistance Act, that authorized over \$400 million for fiscal year 1987 for several existing and new federal programs. Appropriated funds were to be used mainly for food, rent and utility assistance, operation and maintenance of shelters, and assistance for establishing additional shelters. But none of the funds appropriated pursuant to the act were disbursed by the end of fiscal year 1987. GAO obtained information on the reasons the Department of Housing and Urban Development (HUD) and the Federal Emergency Management Agency (FEMA), administrators of the funds, have had difficulty in meeting legislatively mandated milestones.

GAO also identified several questions that need to be addressed concerning implementation of the McKinney Act: Under what conditions should HUD funds be used for capital improvements to facilities owned by religious organizations? Do HUD and FEMA target their programs to the segments of the homeless population specifically mentioned in the act? Should grantees be allowed to use other federal funds to satisfy matching requirements under the act? Do HUD and FEMA formulas for distributing funds accurately measure the need for funds in a given area?

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**Medicare: Laboratory  
Fee Schedules  
Produced Large  
Beneficiary Savings  
but No Program  
Savings (GAO/HRD-  
88-32, Dec. 22, 1987)\*\***

GAO examined the fee schedules for Medicare-covered clinical diagnostic laboratory services furnished by physicians, independent laboratories, and hospitals on an outpatient basis. GAO's analysis showed that the fee schedules saved beneficiaries substantial amounts of money, but increased Medicare costs. The schedules had no effect on beneficiary access to laboratory services and no material effect on quality. GAO concluded that the fee schedule system met its objectives, except for saving Medicare money.

If a national fee schedule is computed using the same methodology as was used to compute current fee schedules, GAO reported that rates will go up in some carrier areas and down in others and total Medicare program payments will increase.

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**Social Security:  
Observations on Social  
Security's Data Base  
Integration Program  
(GAO/IMTEC-88-19,  
Jan. 11, 1988)**

SSA's data base integration program was initiated to modernize the storage and management of the agency's automated information files. GAO's study found no analysis supporting the requirements that all data files be integrated and immediately accessible. According to SSA documents, these requirements comprise the primary advantage of SSA's modernization strategy.

However, a number of prospective data base contractors noted that SSA's strategy (1) would go beyond the current state of the art for data base technology and (2) would result in a one-of-a-kind system. Should the latter happen, GAO noted that it would limit SSA's ability to take advantage of technological advances in standard data base design.

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**Medicare: Share of  
Hospitals' Inpatient  
Use and Revenue  
(GAO/HRD-88-44BR,  
Jan. 15, 1988)\***

Medicare is an important source of business for hospitals, representing an average 31.5 percent of revenues, 32.3 percent of discharges, and 42.0 percent of inpatient days. GAO reported that Medicare is more important to rural hospitals than urban hospitals as a source of payment, and to rural hospitals with less than 50 beds in particular.

In its review of Arizona, GAO found that, as is the case nationwide, Medicare is important to that state's hospitals in terms of inpatient hospital use and revenues. In Arizona, however, Medicare is slightly more important to urban hospitals than to rural hospitals.

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**Medicare: Physician-  
Sponsored  
Organizations Receive  
Priority for Peer  
Review Contracts  
(GAO/HRD-88-43,  
Jan. 21, 1988)\***

There are two categories of peer review organizations—physician-sponsored and physician-access—that help assess the appropriateness and quality of hospital and certain other services to Medicare beneficiaries. Physician-sponsored organizations must be composed of a substantial number of the licensed physicians in the area served by the PRO and be representative of the practicing physicians in that area. Physician-access organizations are required to have available a sufficient number of physicians to assure adequate peer review of services provided by the various medical specialties and subspecialties.

GAO reported that as required by the Tax Equity and Fiscal Responsibility Act of 1982, HCFA gives physician-sponsored organizations priority in the award of PRO contracts and that, according to HCFA documentation, most PROs are physician-sponsored.

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**Federal Funding:  
Information on  
Selected Benefit/  
Mandatory Spending  
Programs (GAO/  
AFMD-88-31FS,  
Jan. 27, 1988)\***

The federal government annually budgets and spends billions of dollars for entitlement, benefit payment, and mandatory spending programs ranging from unemployment compensation to social service grants. This GAO review identifies and describes over 100 of these programs and provides data on the appropriation authority and expenditures each had during recent fiscal years.

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**Fund Accountability:  
Procedures Used for  
Selected Benefit/  
Mandatory Spending  
Programs Are  
Adequate (GAO/  
AFMD-88-30, Jan. 27,  
1988)\***

GAO surveyed seven major social welfare programs at HHS and the Department of Education to determine if they had proper fund accountability frameworks. These programs had a proposed combined budget authority for fiscal year 1988 of \$49.3 billion.

GAO found that (1) procedures established by HHS and Education for these programs were sufficient to prevent overobligation of funds; (2) five of the programs provided grants to states in specific amounts, which limits the total payments that can be charged to the programs; and (3) for the other two programs, funding flexibility had been provided by the Congress through budget authority language contained in the appropriation acts.

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**Medicare: Number of  
Rural Hospitals  
Terminating  
Participation Since the  
Program Began (GAO/  
HRD-88-46, Jan. 29,  
1988)\***

In this review, GAO found that while the number of hospitals participating in Medicare fluctuates from year to year, the number of rural hospitals terminating participation each year has remained relatively constant since October 1974.

As of December 1986, 2,918 rural hospitals were participating; a total of 446 had terminated participation since Medicare began in 1966. Of the hospitals no longer participating, 48 are in counties that do not currently have a hospital participating in Medicare.

The prospective payment system (PPS) was started in 1984. During the 3 years immediately before the PPS implementation, 25 rural hospitals terminated participation, and 3 counties were left without a hospital participating in Medicare. During the 3 years immediately after PPS started, 41 rural hospitals ceased participation, and 14 counties were left without a participating hospital.

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**Social Security:  
Additional Measures  
Could More Fully  
Indicate the System's  
Financial Condition  
(GAO/PEMD-88-11,  
Feb. 5, 1988)**

The "imbalance year"—the year in which Social Security Trust Funds would go out of close actuarial balance for the subsequent 75-year period—was developed by GAO as an early warning indicator that measures the financial condition of the funds. GAO also developed the "adjusted actuarial balance," which gives a fuller representation of the financial position of the funds than is now available.

These projections suggest that (1) action will be needed soon if the trust funds are to remain in close actuarial balance and (2) options for the Social Security system are likely to include those that permit the



accumulation of reserves in the near future, as well as those that limit the reserve buildup.

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**Medicare: Contractor Services to Beneficiaries and Providers (GAO/HRD-88-76BR, Mar. 16, 1988)\***

This GAO report on contractors' performance in fiscal years 1983-87 includes data relating to (1) Medicare claims processing times and accuracy; (2) review of appealed claims cases; (3) processing of hearings related to appealed claims; (4) written, telephone, and walk-in inquiries by beneficiaries and providers; and (5) education of beneficiaries and providers about Medicare coverage and requirements.

Contractor performance improved during fiscal year 1987, following several years of decreasing performance. Whether this improved performance will be sustained, given an increasing number of claims, is unclear. Also unanswered is whether the decreased claims processing times in fiscal year 1987 came at the expense of accuracy.

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**Veterans' Pensions: Verifying Income With Tax Data Can Identify Significant Payment Problems (GAO/HRD-88-24, Mar. 16, 1988)\***

Nearly \$1 billion more in beneficiaries' income was recorded in tax data files for 1984 than was reported to VA that year. By not including this income in its pension calculations, VA made potential overpayments of \$182.5 million to nearly 149,000 beneficiaries. VA could not have identified most of these potential overpayments, GAO concluded, because it lacks access to tax data.

Further, GAO indicated that allowing VA access to income data reported to the Internal Revenue Service is the most efficient, economical, and minimally intrusive way to obtain reliable, independently reported information to verify income data beneficiaries report to VA. Use of the tax data would (1) increase VA pension program efficiency and effectiveness, (2) potentially save millions of dollars, and (3) likely increase beneficiary compliance with VA's income-reporting requirements.

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**Social Security: The Notch Issue (GAO/HRD-88-62, Mar. 24, 1988)\***

Social Security retirees born just before 1917 generally receive higher benefits than those born in 1917 and after—a disparity commonly referred to as the notch. The higher compensation occurred beginning in 1977 when a change was made to the benefit formula. The change decreased benefits to those who turned 60 after 1977. Because of the way increased inflation affected the formula, its continued use without modification would have jeopardized the solvency of the Social Security Trust Funds and required large future increases in payroll taxes to pay for the growing benefits.

GAO reported that legislative proposals to lessen the benefit disparities could jeopardize the financial condition of the Social Security Trust Funds and SSA's ability to finance the coming retirements of the "Baby Boom" generation. Other options would require reducing the growth of benefits to those already retired. This report offers guidelines for any further congressional considerations.

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**Medicare: Potential  
Effects of Shifting the  
Home Health Benefit  
From Part A to Part B  
(GAO/HRD-88-79,  
Mar. 25, 1988)\***

A GAO analysis showed that shifting home health care payments from Medicare's Hospital Insurance Program (Part A) to its Supplementary Medical Insurance Program (Part B) should not directly affect coverage of services under the home health benefit, the amount of Medicare expenditures for these services, or the way in which the benefit is administered.

This would, however, change the financing source for the benefit from social security payroll taxes, which fund Part A, to beneficiary premiums and general revenues, which fund Part B, GAO reported.

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**401 (k) Plans:  
Incidence, Provisions,  
and Benefits (GAO/  
PEMD-88-15BR,  
Mar. 29, 1988)\***

The Congress has provided incentives to encourage savings in the form of tax deferrals on contributions to retirement savings plans. Judging from responses to a nationally representative sample of 5,000 firms GAO surveyed in 1987, only about 4 percent of all U.S. corporations (about 35,000 out of 793,000 nationally) sponsor cash or deferred arrangement retirement plans, known as 401(k) plans. But incidence is closely related to firm size; nearly all firms with 5,000 or more employees sponsored such plans in 1986. Thus, almost 6 percent of all full-time civilian U.S. workers were eligible for 401(k) plans that year. The plans were used predominantly for retirement savings, not loan or hardship withdrawals, or as tax-favored ordinary savings or investment instruments.

Most of the 401(k) plan sponsors provided other retirement plans as well, and most made matching contributions to their 401(k) plans. Participants generally chose conservative investment options—over two-fifths of plan assets were in guaranteed interest accounts or balanced funds.

There is some evidence that 401(k) plan benefits are more concentrated among higher-paid rather than lower-paid workers. Participants earning \$30,000 a year or more seemed better able to take advantage of the tax

deferral for plan contributions. They tended to make larger contributions and deferred a greater percentage of their pay than did lower-paid workers.

Some provisions of the Tax Reform Act of 1986 could reduce employee participation in or contributions to 401(k) plans, perhaps more so among higher-paid workers.

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**District's Workforce:  
Annual Report  
Required by the  
District of Columbia  
Retirement Reform  
Act (GAO/GGD-88-60,  
Mar. 30, 1988)\*\***

The District of Columbia Retirement Reform Act provides for annual federal payments to the District's Police Officers' and Fire Fighters' Retirement Fund. The payments, however, are to be reduced when the disability retirement rate exceeds an established limit. An enrolled actuary determined the disability retirement rate to be 0.752 percent. Since this rate is less than eight-tenths of 1 percentage point, the current limit, GAO reported that no reduction is required in the fiscal year 1989 payment to the fund.

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**Medicare:  
Performance of Blue  
Shield of  
Massachusetts Under  
the Tri-State Contract  
(GAO/HRD-88-81BR,  
Mar. 31, 1988)\***

The New Hampshire, Vermont, and Maine congressional delegations cited numerous beneficiary and provider complaints about Medicare program services in their states. The areas of complaint included claims payment timeliness and accuracy, telephone service, reviews of denied claims, responses to written inquiries, and requests for information already provided.

GAO reported that Blue Shield did not meet several contract requirements during fiscal year 1986. Blue Shield's performance improved significantly, however, in fiscal year 1987, when it was in compliance with all but one of the contract requirements—telephone service. Blue Shield, in an effort to meet this requirement, provided HCFA with a corrective action plan.

GAO found that the number of Blue Shield employees working on the tri-state contract increased substantially, with staffing levels reflecting (1) a 76-percent increase over the level Blue Shield proposed in its response to HCFA's request for proposal and (2) a 60-percent increase over its actual staffing levels when the contract became operational in October 1985.

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**Department of Labor:  
Pension Plans and  
Corporate Takeovers  
(GAO/HRD-88-58,  
Mar. 31, 1988)\***

The Employee Retirement Income Security Act is designed to protect the rights of workers and their beneficiaries under private pension plans. In 1987, the act covered some 915,000 private pension and 4.5 million health and welfare plans, which combined had an estimated 75 million participants and about \$1.6 trillion in assets. Private pension plans hold about 17 percent of all corporate stock and 7.6 percent of taxable bonds traded in the financial markets. Some pension plans, when investing plan funds in stocks and bonds or voting stock held as plan investments, have become involved in corporate takeovers.

GAO found that the Department of Labor, which enforces the act, generally learns informally of corporate takeover transactions that involve pension plans. Since March 1985, Labor has investigated 27 instances of potential abuse of pension assets in corporate takeovers, taking legal or other action in two of the cases. Also relative to such matters, Labor has issued one advisory opinion and three advisory letters and filed four civil lawsuits and two friend-of-the-court briefs.

The Department has not acted on certain congressional recommendations (with which it disagrees) concerning possible conflicts of interest faced by fiduciaries (plan managers) during corporate takeover situations. Labor cited its lack of authority as well as other actions it has taken in regard to fiduciaries' responsibilities in corporate governance, and stated it has not issued a policy statement on this matter.

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**Social Security: Trends  
in SSA's Information  
Technology Systems  
Budget (GAO/IMTEC-  
88-33FS, Apr. 20,  
1988)**

SSA's Information Technology Systems account is composed of funds for automatic data processing (ADP) acquisitions, ongoing ADP operations and maintenance, telephone equipment purchases, and telephone operations and maintenance. While expenditures for the overall account have only increased from \$196 million in fiscal year 1985 to \$221 million for fiscal year 1989, GAO found that the percentage of funds allocated to the individual components has changed significantly. Telephone system expenditures increased from 34 to an estimated 47 percent, while ADP expenditures decreased from 66 to 53 percent.

For fiscal year 1988, SSA's carryover authority (unobligated funding authority from a previous fiscal year) reached a high of \$220 million. The Congress, concerned that SSA had not adequately demonstrated the need for the large accumulated carryover amount, reduced SSA's new

budget authority to \$53 million for fiscal year 1988. SSA later determined that the \$220 million was sufficient to fund Information Technology Systems activities and plans to use the \$53 million to fund activities under the administrative expenses appropriation.

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**Medicare Claims:  
HCFA Proposal to  
Establish an  
Administrative Law  
Judge Unit (GAO/  
HRD-88-84BR),  
Apr. 20, 1988)\*\***

HCFA has proposed to establish, at a cost of about \$15 million, its own hearings and appeals unit to handle Medicare cases, using 42 administrative law judges and operating from one central location. HCFA believes that its proposed ALJ unit will provide faster and less expensive hearings than are currently experienced. Also, it believes that its proposed central location concept will lead to improvements in the management of the caseload of the ALJs, facilitate ALJ training, and promote consistency in the application of Medicare law and regulations.

GAO found, however, that HCFA has little documentation for its proposal and no experience or assurance that the program will operate as envisioned. Given these uncertainties, GAO recommended that HCFA test and evaluate the proposal before implementation.

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**Medicare: Refinement  
of Diagnosis Related  
Groups Needed to  
Insure Payment  
Equity (GAO/HRD-88-  
41, Apr. 22, 1988)**

One of the primary concepts behind Medicare's prospective payment system is to encourage hospitals to operate efficiently while providing quality care. To work as intended, it is essential that diagnosis related group (DRG) patients are classified with patients with similar resource needs.

GAO's review found that the concept is not being achieved. Rather, expected treatment costs for the diagnoses and procedures falling under certain DRGs vary greatly. Moreover, high and low expected treatment cost cases are not evenly distributed among hospitals.

As a result, GAO reported (1) hospitals profit or lose on the wide-variation DRGs—contrary to the premise of PPS that hospitals should be rewarded for efficiency, and (2) wide variations in treatment costs within DRGs give hospitals financial incentives to seek patients with diagnoses in the low expected treatment cost range and avoid those at the high end. This in turn could adversely affect access to care for patients with high expected treatment costs and/or result in financial burdens from inequitable PPS payments for hospitals that treat such patients.

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**Federal Workforce:  
Effects of Public  
Pension Offset on  
Social Security  
Benefits of Federal  
Retirees (GAO/GGD-  
88-73, Apr. 27, 1988)\***

The public pension offset provision of the Social Security Amendments of 1977 applies to federal, state, and local government retirees who were not covered by Social Security during their government employment, but became eligible for such benefits as the spouse or surviving spouse of a Social Security recipient. This provision prevents the spouses of Social Security recipients from receiving a full spousal benefit in addition to a pension from their own work in government employment not covered by Social Security by requiring a spousal Social Security benefit to be reduced by \$2 for every \$3 of public pension received.

GAO found that this provision is being applied to 104,608 retired government employees, 74 percent of whom were men. About 69,000 were federal retirees, 79 percent of whom were men. These federal retirees' average monthly Civil Service annuity was \$1,412. For 95 percent of them, Social Security spousal or survivor benefits were completely eliminated by the offset provision.

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**401(k) Plans:  
Participation and  
Deferral Rates by Plan  
Features and Other  
Information (GAO/  
PEMD-88-20FS,  
Apr. 29, 1988)\***

According to GAO's survey of 5,000 corporations, 70 percent of which responded, 4 percent of the firms sponsored 401(k) plans in 1986; of these, 31 percent offered employees no other retirement plan. Almost no companies employing 500 or more used their 401(k) plans as the sole retirement vehicle. Also called cash or deferred compensation arrangement plans, 401(k) refers to the section of the Internal Revenue Code that qualifies them for special tax treatment. Taxes on employees' contributions to such plans are deferred until their retirement, death, or other specified circumstance.

Of all the 401(k) plans GAO surveyed, 61 percent were established as new plans, not replacements for existing plans of other types. This was true especially among smaller firms. Where a 401(k) plan did replace another plan, the latter commonly was a profit-sharing plan.

When employers also contributed to the plan, 88 percent of employees participated; when employers did not, participation was less than 50 percent. Where the match was dollar-for-dollar, 99 percent of those eligible participated on average.

Employees' participation in a plan also was higher when they could change the percentage they contributed as often as they wanted, the plan did not permit participants to borrow from it (this was contrary to some expectations), or withdrawal by employees of the employer's (but

not the employee's) contributions was allowed for hardship reasons. Whether the plan allowed employees to make added, nontax-deferred contributions or to direct investment of plan assets made no difference in the participation rate.

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**Low-Income Energy  
Assistance: State  
Responses to Funding  
Reductions (GAO/  
HRD-99-92BR,  
Apr. 29, 1988)\***

Each year since fiscal year 1986, federal funds for the Low-Income Home Energy Assistance Program (LIHEAP) have declined. The President proposed a further reduction for fiscal year 1989, prompted by the availability to states of hundreds of millions of dollars in oil overcharge settlements.

Five of 13 states GAO reviewed may have available oil overcharge funds that substantially exceed the proposed funding cuts, but 3 would not. For fiscal years 1986-88, oil overcharge funds mitigated, but did not replace federal funding cuts.

On average, the 13 states have not used a large part (14-22 percent) of their oil overcharge funds to support LIHEAP. Unless the 13 states allocate more funds to LIHEAP from other sources than in the past, their 1989 LIHEAP programs may have about 33 percent less funds than in 1986.

Over fiscal years 1986-88, the number of households receiving assistance in the 13 states fell by 6 percent. Eight of the 13 states reduced heating benefit levels (5 of the 8 states had received little or no oil funds). The other five states that did not reduce benefit levels received oil overcharge funds. For fiscal year 1987, when federal funds to LIHEAP first were cut significantly, five states reported negative effects (e.g., benefits reduced, eligibility criteria restricted, weatherization eliminated), while eight did not. The next year, seven states reported negative effects and six reported none. All 13 states predict a negative impact if proposed cuts occur.

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**Medicare: Improving  
Quality of Care  
Assessment and  
Assurance (GAO/  
PEMD-88-10, May 2,  
1988)\***

GAO reported that systems with uncertain validity are being used to monitor Medicare quality of care. This makes the accuracy of key information questionable. Further, HHS's strategy for developing quality assurance methods is inadequate to meet future program needs. Short-term efforts could lead to significant improvements. Developing a comprehensive quality assurance research base and creating a program for incorporating this knowledge into Medicare quality assurance efforts, however, would require a long-term commitment that cannot be supported adequately by current resources.

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**Social Security: Staff  
Reductions and  
Service Quality (GAO/  
HRD-88-97, May 13,  
1988)\***

A GAO review found that even though SSA continued to implement its planned staff reduction, the quality of SSA service, as measured by SSA indicators, for the quarter ending December 1987 improved in most cases when compared with data for the December 1986 quarter. Two exceptions were the processing time for hearings and the Retirement and Survivors Insurance process accuracy for initial claims. Client satisfaction remains high, GAO reported, but morale problems within the agency continue.

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**VA Health Care:  
Monitoring of Cardiac  
Surgery and Kidney  
Transplantation  
(GAO/HRD-88-70,  
May 26, 1988)\***

VA has established minimum standards for determining whether a medical center performing cardiac surgery is maintaining an acceptable level of utilization and patient mortality. It does not use the standards as the sole basis for judging a center's performance, but to identify centers that may be experiencing performance problems. GAO's review found VA's monitoring inadequate to (1) help centers not meeting the standards to improve their performance or (2) assess the centers' potential for meeting the standards.

VA also has established a minimum utilization standard for assessing centers' performance concerning kidney transplants. It has not, however, adopted standards for assessing the centers' survival rates for patients with transplanted kidneys. GAO reported that VA needs to establish these survival rate standards and use them to evaluate each center's performance so that those not performing at an acceptable level are identified promptly.



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**HCFA Research:  
Agency Practices and  
Other Factors  
Threaten Quality of  
Mandated Studies  
(GAO/PEMD-88-9,  
June 3, 1988)\***

A GAO study found that mandated reports from HCFA's Office of Research and Demonstrations to the Congress on research, demonstrations, and evaluation of the Medicaid and Medicare programs were not fully responsive to congressional mandates, frequently late, and varied in their technical adequacy. Not a single stage of the research management process—planning, project execution, or report review—was without problems. GAO indicated that overall, the relevance, timeliness, and technical adequacy of the office's research and evaluation activities have improved little since the early 1980s.

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**Medicare: Simplified  
Processing of  
Deceased  
Beneficiaries' Claims  
to Be Implemented  
(GAO/HRD-88-99,  
June 21, 1988)\*\***

GAO reported that processing of certain Medicare claims involving deceased beneficiaries is being delayed. However, HCFA is planning to simplify procedures for processing such claims in the near future, which would reduce the delays.

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**Medicare: Improved  
Patient Outcome  
Analyses Could  
Enhance Quality  
Assessment (GAO/  
PEMD-88-23, June 27,  
1988)\***

HCFA's 1987 hospital mortality analyses improved on the methods used in 1986 by including patient-level data, more clinically coherent diagnostic groups, and more appropriate techniques to adjust for severity of illnesses. These analyses have attracted widespread interest, as well as concerns about misinterpreting the results. For the analyses, HCFA used Medicare data it already collected on individual patients.

HCFA could make added improvements in the key area of patient severity adjustment. To make future analyses of patient outcome more credible and useful, GAO reported HCFA should more fully validate the analytical approaches it selected, systematically check its data for accuracy and completeness, and analyze outcomes from several years to reduce the effect of random variation. So far, HCFA's application of Medicare patient outcome analyses has been limited and not notably effective in identifying quality problems.

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**VA Hospital Care: A Comparison of VA and HCFA Methods for Analyzing Patient Outcomes (GAO/PEMD-88-29, June 30, 1988)\***

VA modeled its approach to analyzing hospital mortality data after the method employed in HCFA's 1987 analysis of Medicare hospitals. GAO found that VA made some changes, however, such as modifications in the diagnostic categories analyzed. VA also adjusted for two variables, race and total length of hospital stay, which under certain circumstances could mask some differences in quality of care across hospitals. GAO reported that VA deserves credit for planning validation efforts in conjunction with the initial development of its approach.

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**Retirement Income: 1984 Pension Law Will Help Some Widows, but Not the Poorest (GAO/HRD-88-77, July 11, 1988)\*\***

If the spousal consent requirement of the Retirement Equity Act of 1984 had been applicable in 1980-81, GAO's analysis showed that the wives of 100,000 newly retired men, who chose not to provide a private pension survivor benefit, would have had the opportunity to gain entitlement to the benefit. Had the men who did not elect survivor benefits done so, the median survivor benefit would have been about \$142 per month for all wives and \$68 per month for those in the lowest third of the income distribution.

While the increased access to survivor benefits from private pensions would increase the income of elderly widows, GAO indicated that it would have a negligible effect on their poverty rate, because widows most likely to become poor had husbands who lacked pensions. Even if they gained access to survivor benefits from private pensions, most low- and middle-income wives would continue to depend on social security benefits as their major source of income in widowhood.

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**Health Insurance: Hospital Indemnity and Specified Disease Policies Are of Limited Value (GAO/HRD-88-93, July 12, 1988)\***

Typically, hospital indemnity and specified disease policies pay only a small portion of the policyholder's costs for covered medical services. Several states have concluded that this insurance is of little value to consumers.

Of 12 states that GAO visited, 3 currently ban or restrict the sale of specified disease policies and 2 advise consumers against buying them. All 12 states had educational programs to help consumers choose health insurance and personnel who try to resolve consumer complaints about insurance, and 7 had procedures for reviewing insurance advertising material. GAO concluded that shopping around for a hospital indemnity or specified disease policy is advisable because available policies offer substantially different benefits at widely varying costs.

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**Medicare: Issues Concerning the HealthChoice Demonstration Project (GAO/HRD-88-69, July 20, 1988)\***

HCFA awarded to HealthChoice, a nonprofit company, two contracts for a demonstration project intended to (1) test the effect of educating Medicare beneficiaries on the HMO option by giving them comparative information on participating HMOs in their community and (2) determine the feasibility of using a broker as a marketing agent.

GAO's review found that combining the two components into a single project resulted in problems that HCFA should resolve before authorizing future broker projects. GAO indicated that HCFA should also determine whether sufficient authority exists to fund independent broker projects.

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**Medicare and Medicaid: Updated Effects of Recent Legislation on Programs and Beneficiary Costs (GAO/HRD-88-85, July 26, 1988)\***

Major legislative changes in Medicare from 1980 through 1987 played an important role in slowing down the program's cost growth, according to GAO. GAO also found that for Medicare beneficiaries, the average, inflation-adjusted, out-of-pocket cost per enrollee for covered services increased between 1980 and 1986 by about 73 percent for Part A services and about 36 percent for Part B services. Six major laws were expected to have a mixed effect on Medicaid program costs; two were expected to result in savings and the others to increase program costs.

Changes in Medicaid recipients' out-of-pocket costs could not be analyzed because of varying state cost-sharing requirements and the unavailability of state data. However, GAO found that 28 states have increased cost-sharing requirements for Medicaid recipients as a result of the Tax Equity and Fiscal Responsibility Act of 1982. This has held down Medicaid's cost growth.

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**Federal Retirement: Implementation of the Federal Employees Retirement System (GAO/GGD-88-107, Aug. 4, 1988)\***

GAO reported that the Office of Personnel Management implemented the Federal Employees Retirement System well, issuing information on the policies and procedures necessary to have the pension plan in place by January 1987. Also the Office developed and made available substantial information to assist employees in making their decisions about transferring to the new retirement system.

About 2.8 percent of eligible employees covered by the civil service retirement system transferred to the new plan. As of March 1988, about 700,000 employees were in the plan.

Despite delays in appointing members to the newly created Federal Retirement Thrift Investment Board and other start-up problems, the Board implemented the thrift plan in less than 6 months. Many of the

start-up problems occurred because of coordination problems with over 600 payroll offices, but the Board also carried out its responsibilities well.

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**Medicare: Experience Shows Ways to Improve Oversight of Health Maintenance Organizations (GAO/HRD-88-73, Aug. 17, 1988)\***

This report is the result of congressional concerns about the rapid growth of Medicare HMOs, their compliance with federal standards, and the adequacy of federal oversight.

Although it has relatively limited data with which to monitor HMO quality of care and the reasonableness of HMO capitation rates, HCFA could use available data more effectively. HCFA's staffing for compliance monitoring has not kept pace with HMO growth. Most problems were resolved quickly after an HMO was notified, but a few HMOs did not respond to HCFA's requests for corrective actions. While HCFA tried to resolve these problems, the practical effect often was little more than to document them. In each instance that GAO reviewed, HCFA could have acted more quickly and forcefully. GAO believes that additional sanction authority could prompt HCFA to do so.

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**Social Security: Little Overall Change in Telephone Accessibility Between 1985 and 1988 (GAO/HRD-88-129, Sept. 15, 1988)\***

Information in this report is based on test calls GAO made to SSA facilities in May 1988 to monitor SSA service to the public in light of continuing staff reductions. During the May 1988 test, GAO had easy access for 71 percent of the calls compared to 73 percent of calls during a May 1985 test. Overall, 15.2 percent of its initial test calls got busy signals, as did 6 of every 10 repeat calls. Also, as in the 1985 test, accessibility during the 1988 test varied widely among SSA phone facilities, among SSA regions, and according to when the call was made.

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**Social Security: Decision to Implement Nationwide 800 Telephone Service (GAO/HRD-88-120, Sept. 21, 1988)\***

GAO reported that implementation of the SSA's 800 service will cost \$34 million a year more than the current service, but \$19 million less than improving the service in use now. GAO concluded that the decision to implement the 800 number in October 1988 appears reasonable, but poses some risk that service and efficiency might be less than planned, at least temporarily.

Phone service demand may exceed phone answering capabilities, creating excessive busy signals. Also, demands that toll-free service places on SSA's computers could result in reduced operating efficiency and affect

the timeliness of service. SSA is developing contingency plans for these events, which it believes will help mitigate these problems, should they materialize.

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**Pension Plans: Effect  
of the 1987 Stock  
Market Decline on  
Selected Large Plans  
(GAO/HRD-88-128BR,  
Sept. 26, 1988)\***

GAO reviewed 174 pension plans sponsored by 92 private employers and unions whose combined assets decreased substantially when the stock market crash occurred in October 1987. The decreases, however, were more than offset by gains during the first 9 months of the year, with most pension plans experiencing increases in asset values for the year. The extensive growth in the stock market from 1982 through 1986 resulted in gains that far exceeded the losses from the October 1987 market decline.

# GAO Reviews in Process as of September 30, 1988, Relating to Issues Affecting the Elderly

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An asterisk after the assignment title indicates that the review is being performed at the request of a Committee or member of the Congress. Two asterisks indicate that the work is being done because of statutory mandate.

Use of the Early Retirement Authority by the Department of Defense\*

Review of Patient Satisfaction With Care They Received at Military Medical Facilities\*

Review of Medicare Payments for Services Provided by HMOs

Study of Variations in Medicare Payments to Teaching and Nonteaching Hospitals\*\*

Evaluation of Medicare Carriers' Utilization Review Activities\*

Survey of Cost and Use of Contracting With Noncertified Nursing Agencies to Provide Medicare Home Health Services\*

Impact of Applying Home Health Cost Limits by Discipline\*\*

Evaluation of Medicare Hospice Program\*

Review of Physician Incentive Plans Used by HMOs With Medicare Risk Contracts\*

Evaluation of Medicare's Part B Secondary Payer Program\*\*

Survey of HCFA's Management of the Medicare Peer Review Organization Program\*\*

Survey of Transfer of Medicare Patients to VA Hospitals\*\*

Evaluation of Ophthalmologist/Optomtrist Reimbursement Arrangements for Cataract Surgeries Paid by Medicare\*

Review of Medicare-Insured Group Demonstration Project\*\*

Review of Medicare Payments to Anesthesiologists\*\*

Survey of the Appropriateness of Medicare Fee Schedule Payments for Clinical Diagnostic Laboratory Services\*\*

Survey of Appropriateness of Medicare Payments for Durable Medical Equipment\*\*

Comparative Analysis of Hospital Costs and Revenues\*

Review of Medicare's HMO Rate-Setting Methodology\*\*

Review of State Mandatory Assignment Programs Under Medicare\*

Review of Medicare's Professional Review Organization Program for HMOs\*

Survey of the Paperwork Requirements Associated With Medicare Claims

Survey of the Cause of Increase of Medicare Part B Payments\*\*

Study of Physician Ownership of Facilities to Which They Make Referrals\*

Evaluation of Existing Medicare Hospital Cost Reporting Systems\*\*

Evaluation of Impact of Medicare Secondary Payer Provisions on Disabled Beneficiaries\*

Review of Medicare Paying for Home Dialysis Care Services\*

Survey of Paperwork Requirements for Vermont Home Health Agency Claims

Survey of Denials of Medicare Intermediaries of Home Health Care Claims\*

Medicaid Nursing Home Resident Savings Bond Holdings

Transfer of Assets to Become Eligible for Medicaid Nursing Home Care

Survey of Alternatives for Increasing Access to Nursing Homes for Medicaid Beneficiaries\*

State Regulations of Private Long-Term Care Insurance\*

Compilation and Synthesis of Existing Information on Long-Term Care Issues for the U.S. Bipartisan Commission on Comprehensive Health Care\*

Limited Assurance That Board and Care Residents' Needs Are Being Met\*

State In-Home Services for the Elderly\*

Survey of How Employee Stock Ownership Plans Are Designed to Benefit Participants\*

Effect of Stock Market Decline on Pension Plans\*

Survey of the Extent That Employers Provide Employee Health Benefits\*

Survey of Changes in Employer-Sponsored Retiree Health Plans With Over One Hundred Participants\*

Enforcement of the Employee Retirement Income Security Act of 1974\*

Cost Estimates for Employer-Sponsored Retiree Health Benefits\*

Followup to the SSA Management Review

SSA Employee Views on Social Security Service Changes\*

Review of the Solvency of the Railroad Retirement Board Trust Funds\*

What Are the Alternatives to the Combined Annual Wage Reporting Process?

Characteristics of the Disabled Population: Observations and Policy Implications\*

Review of SSA's Appeals Process\*

Attorney Fees Under SSA Programs\*

Evaluation of SSA's Office of Hearings and Appeals\*

Review of the Black Lung Program\*



Review of the Low-Income Home Energy Assistance Block Grant\*\*

Evaluation of Medical Device Recalls: Case Study of the Cardiac Pacemaker\*

Evaluating the Relative Effectiveness of Alternative Medical Review Protocols\*

Modeling Factors Associated with the Effectiveness of Quality Assessment of Medicare Peer Review Organizations\*

Statistical Analysis of Factors Associated with the Effectiveness of Medicare Peer Review Organizations' Medical Review\*

An Assessment of the Methods Used in HCFA's 1988 Analysis of Medicare Hospital Mortality\*

Patterns of Use of Coronary Artery Bypass Surgery Among the Elderly

Homelessness: HUD and FEMA Progress in Implementing the McKinney Act\*\*

# GAO Activities Affecting Older Persons

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GAO appointed 663 persons to permanent and temporary positions during fiscal year 1988, of whom 144, (21.7 percent), were age 40 and older. Of GAO's total work force of 5,680 on September 30, 1988, 3,015 (53.1 percent) were 40 and older.

GAO employment policies prohibit discrimination based on age. GAO's Civil Rights Office continues to provide information and advice to persons regarding allegations of age discrimination.

GAO continues to provide individual retirement counseling and preretirement seminars for employees nearing retirement age. The counseling and seminars are intended to assist employees in

- calculating retirement income available through the Civil Service and Social Security systems and understanding options involving age, grade, and years of service;
- understanding health insurance and survivor benefit plans;
- acquiring information helpful in planning a realistic budget based on income, tax obligations, and benefits, and making decisions concerning legal matters;
- gaining insights and perspectives concerning adjustments to retirement;
- increasing awareness of community resources that deal with preretirement planning, second career opportunities, and financial planning; and
- increasing awareness of lifestyle options available during the transition from work to retirement.

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# Major Contributors to This Report

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Human Resources  
Division,  
Washington, D.C.

Linda G. Morra, Associate Director, (202) 275-1655  
Larry Horinko, Group Director  
Greta M. Tate, Evaluator-in-Charge







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