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

August 27, 1985

HUMAN RESOURCES
DIVISION

B-220103

The Honorable Alan Cranston
Ranking Minority Member
Committee on Veterans' Affairs
United States Senate

Dear Senator Cranston:

Subject: Impact of Offsetting Earnings From VA's Work
Therapy Programs From Veterans' Pensions
(GAO/HRD-85-97)

At your request, we conducted a study to determine the impact of offsetting income earned by veterans from the Veterans Administration's (VA's) work therapy programs against these veterans' VA pension benefits. We briefed your staff on the results of our study on July 29, 1985.

As you know, veterans participating in VA's two work therapy programs--incentive therapy and compensated work therapy--are paid wages based on their ability to function and work. Under the incentive therapy program, veterans are assigned various duties within a VA medical center and are paid from 5 cents an hour to half the minimum hourly wage from VA appropriated funds. Under the compensated work therapy program, private companies contract with VA for work to be performed by the veterans and pay the wages earned.

Until 1978, income veterans earned under these programs was not counted in determining pension benefits. Public Law 95-588 established a revised VA pension program which, among other things, provided that all income from any source not specifically exempted by law would be counted as income and used to determine entitlement to, and the level of, VA pension benefits. The law did not exempt income earned from the VA work therapy programs; thus, VA was required to offset earnings from those programs against pension payments.

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This report discusses (1) the number of veterans affected by the pension offset and (2) the effect the offset had on their participation in the work therapy programs, their use of VA facilities, and their mental health.

The number of veterans directly affected by the offset of work therapy payments is small. Only 567, or less than 2 percent, of the 32,382 veterans participating in the work therapy programs in fiscal year 1984 were outpatients receiving a pension and thus subject to the offset. In addition, 2,665 inpatients participated in those programs and received a VA pension. The other 29,150 veterans participating in the programs were not receiving a VA pension.

Although the number of veterans affected by the work therapy/pension offset issue is small, the offset has had detrimental effects on those veterans and on the work therapy programs themselves. Our data collection efforts to address this issue focused on outpatients because they were generally more affected by the offset than inpatients. VA officials told us that outpatients needed the funds to continue to live in the community.

Work therapy program officials told us that, as a result of the pension offset, (1) veterans were being rehospitalized at least partially because of medical and emotional factors related to the offsets and their mental health was deteriorating, (2) some outpatient pensioners could no longer afford to live in the community, (3) outpatients were leaving the program, (4) new outpatients were refusing to participate, and (5) VA counselors were not referring new outpatients to the programs. In effect, they said the work therapy offsets have caused the programs to lose their therapeutic value for many of the outpatient pensioners affected by the offset.

Program officials reported that the offset had also resulted in additional work for the work therapy professional staff in counseling patients and performing administrative and other tasks. Similarly, VA's veterans benefits offices had the additional task of processing the pension offsets--a task that imposed a large burden in relation to the generally small amounts of the offsets.

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As requested by your office, we obtained informal comments from VA program officials on a draft of this report. They agreed with the material presented. We are providing copies of this report to the Administrator of Veterans Affairs, the Director of the Office of Management and Budget, the Chairmen of the Senate and House Committees on Veterans' Affairs, and the Ranking Minority Member of the House Committee on Veterans' Affairs. We will also make copies available to other interested parties.

Sincerely yours,

A handwritten signature in cursive script that reads "Richard L. Fogel".

Richard L. Fogel
Director

Enclosures - 8



IMPACT OF OFFSETTING EARNINGS FROM
VA'S WORK THERAPY PROGRAMS FROM
VETERANS' PENSIONS

INTRODUCTION

The Veterans Administration (VA) has two work therapy programs--incentive therapy, authorized by Public Law 87-574, approved August 6, 1962 (38 U.S.C. 618), and compensated work therapy, authorized by Public Law 94-581, approved October 21, 1976 (38 U.S.C. 618). Administered by VA's Department of Medicine and Surgery (DM&S), both programs are available to inpatients and outpatients and are designed to promote disabled veterans' self-sufficiency and to reduce their dependency on government support, such as long-term VA hospitalization and support from other federal, state, and local government sources. VA physicians prescribe treatment in the work therapy programs to develop their patients' vocational and social skills and feelings of self-worth; to prevent depression or regression; and, in some cases, to help inpatients enter and remain in the community.

The incentive therapy program assigns patients to various jobs within a VA medical center, such as grounds workers, messengers, and food service helpers. This program, although congressionally authorized in 1962, has been operating in some form since the 1930's. Patients' wages may range from 5 cents an hour to half of the minimum wage based on the patient's level of functioning and work performed. Program officials estimated that in fiscal year 1984, payments to the 25,959 veterans who participated in the 95 incentive therapy programs operated by VA medical centers totaled \$5.2 million. These funds were paid from VA's medical care appropriation.

Under the compensated work therapy program, private companies contract with VA for projects to be completed either at the VA facility or in the community. The contractors pay the patients' wages, which must be commensurate with wages paid in the community for work of the same quality and quantity. The work performed ranges from sorting and packaging products to fabrication and assembly operation using complex machines. VA operated 42 compensated work therapy programs in fiscal year 1984. Program officials estimated that wages paid to the 6,423 patients who participated in the program during the year totaled

\$2.3 million. Of this amount, one medical center (Palo Alto) accounted for almost one-third (\$724,418) of all payments.

Some patients who participated in these programs received a VA pension either on the basis of legislation in effect before the passage of Public Law 95-588 in 1978 or on the basis of that law. Public Law 95-588 established a revised VA pension program and provided that all income from any source not specifically exempted by law would be counted as income in determining entitlement to, and the level of, pension benefits. The income from the VA work therapy programs was not exempted; thus VA was required to offset earnings from those programs against pension payments. Veterans already receiving a pension before the passage of Public Law 95-588 could elect to convert to the new pension or could remain under the provisions of the "old" law. "Old" law pensioners are not affected by the pension offset unless their income (including work therapy income) exceeds the maximum allowable to receive a pension.

A March 1983 report by VA's Inspector General indicated that many veterans were not reporting their work therapy incomes. Therefore, in 1983 DM&S instituted a program of income verification under which the medical centers were responsible for reporting veterans' work therapy income to VA's Department of Veterans Benefits.

On March 27, 1984, Senators Cranston and Matsunaga introduced legislation which, among other things, proposed to exclude work therapy income from being counted as income in determining the amount of a VA pension. In considering this legislation, the Senate Committee on Veterans' Affairs agreed to a provision requiring VA to conduct a 3-year demonstration project under which work therapy income would not be offset against pensions. The provision was included in S. 2736, the Veterans' Administration Benefit Rate Increase and Program Improvement Act of 1984, passed by the Senate on October 2, 1984. However, the provision was deleted during the conference with the House.

On January 24, 1985, Senator Cranston reintroduced, as part of S. 6, the provision to exclude work therapy income from VA pension determinations. The provision was included in S. 876, the Veterans Administration Health Care Program Improvement Act of 1985, which passed the Senate Committee on Veterans' Affairs on June 12, 1985. However, the provision was deleted from S. 876, and it is to be included in a veterans' compensation bill to be considered later this year.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Ranking Minority Member of the Senate Committee on Veterans' Affairs requested that we evaluate the impact of the pension offset. Our objectives were to determine (1) the number of veterans affected by the offset and (2) the effect the offset had on their participation in the work therapy programs, their use of VA medical facilities, and their mental health.

Since VA's central office did not have complete data, we sent questionnaires to all 160 VA medical centers to obtain current information on which centers had programs, how many veterans participated, how much the programs cost, and what program officials' views were on the effects of the pension offset.

All 160 medical centers responded to our questionnaires. We telephoned a number of medical centers to clarify and follow up on some of their responses. We visited five medical centers--Palo Alto and West Los Angeles, California; Chillicothe, Ohio; Battle Creek, Michigan; and Northport, New York--to further document the effects of the offset on the veterans and the programs and to verify the information provided by the Battle Creek and Northport medical centers on outpatient program participants who had been rehospitalized. The other three medical centers visited did not have any outpatients who had been rehospitalized during the period covered by our review. We also interviewed Sepulveda medical center work therapy program officials during our visit to Palo Alto.

In selecting centers to visit, we tried to obtain a geographic dispersion. We also wanted to visit centers that had larger work therapy programs, reported rehospitalizations, and had a domiciliary.¹ During our visits, we interviewed program staff, social work staff, hospital officials, and at West Los Angeles, the chairman of a patient advocacy group. We also examined the patient treatment files and work therapy program records at those facilities to verify reported rehospitalizations.

¹VA's domiciliary program provides less intensive care than a nursing home or hospital to veterans who need continuing medical care in an institutional environment. In responding to our questionnaires, work therapy program officials at medical centers with domiciliaries indicated their patients were also affected by pension offsets.

We interviewed VA central office officials in the Department of Veterans Benefits and DM&S officials responsible for administering the incentive therapy and compensated work therapy programs regarding the pension offset. We reviewed the legislative histories of the two laws that authorized the work therapy programs and Public Law 95-588, which is the legislative basis for requiring the pension offset.

Our data collection efforts regarding the impact of pension offsets focused on pensioners who were outpatients because VA officials told us that this group relies on work therapy income to live in the community. However, some work therapy program officials reported that other veterans were refusing to participate in the programs because they were concerned that the offset would be extended to their benefits.

PENSION OFFSETS DIRECTLY AFFECT
A VERY SMALL PORTION OF OUTPATIENTS

The number of outpatients directly affected by the offset of work therapy payments against their pension benefits is small, as are the earnings received by these veterans. In their questionnaire responses, VA work therapy program officials advised us that in fiscal year 1984 only 567, or less than 2 percent, of the 32,382 veterans who participated in the work therapy programs were outpatients receiving a VA pension and thus subject to the pension offset. This is a decrease from the 706 outpatients with VA pensions who participated in fiscal year 1983. (See enc. II.)

The earnings of outpatients who receive VA pensions and participate in these programs are relatively small. Based on information provided in questionnaire responses for 503 outpatient pensioners in the work therapy programs in calendar year 1984, total work therapy wages paid to outpatients were \$335,244.² Of this total, about two-thirds was paid to participants in the incentive therapy program. Work therapy officials reported that about 57 percent of the outpatients in the incentive therapy program in 1984 who were receiving VA pensions received less than \$500 in wages for the year. Almost 80 percent received less than \$1,000. They also reported that about half of the outpatients participating in the compensated work therapy program and receiving a VA pension received less than \$500 in wages in 1984 and almost 70 percent received less than \$1,000. (See enc. III.)

²VA maintains income information for pension purposes on a calendar year, rather than fiscal year, basis.

According to VA program officials, many of the outpatients used the earnings from the work therapy programs to enable them to live in the community. Of the 503 outpatients on whom the information was provided, 238 (or 47 percent) lived in residential care homes,³ where they paid an average of \$404 per month for their room and board.

The monthly cost of a residential care home approached or exceeded the maximum monthly pension amount of \$475 paid to an outpatient without a spouse or dependents at four of the five medical centers visited. The costs or range of costs of the residential care homes at the medical centers visited are indicated below:

Battle Creek	\$507 - 595
Chillicothe	\$360
Northport	\$390 - 480
Palo Alto (San Jose)	\$476 - 605
West Los Angeles	\$525 - 700

VA program officials, in their questionnaire responses, expressed concern, and our visits to five medical centers confirmed, that the pension offset has affected most outpatients who were receiving VA pensions. The program officials reported veterans being rehospitalized because of the offset, outpatients leaving the programs, new outpatients refusing to participate in the programs, and VA counselors not referring new outpatients to the programs. (See encs. V-VIII.)

The program officials reported that 30 outpatient pensioners were rehospitalized in 1984 at least partially because of medical and emotional factors related to the offsets. The officials estimated that these patients incurred 999 days of hospitalization.

The program officials reported that 266 (or 53 percent) of the 503 outpatients with VA pensions who participated in the work therapy programs in calendar year 1984 left during the year. Of those who left, over 39 percent left solely because of the pension offset and another 21 percent left partially because of the offset. The Chillicothe VA program staff reported, for example, that all 23 outpatients with VA pensions who were

³VA's residential care home program provides room, board, personal care, and general health care supervision. Care is provided, at the veteran's expense, in private homes approved by VA. The only cost to VA is for administration.

participating in the work therapy program at the beginning of fiscal year 1984 quit during calendar year 1984. Sixteen of these reportedly quit solely because of the pension offset, and the other seven quit partially because of the offset.

Twenty-two of the 79 programs that responded to a question related to referrals reported that their counselors are not referring new outpatient pensioners to the work therapy programs. Some of the programs reported that new outpatient pensioners were not being referred because the counselors believed they would refuse to participate.

Program records showed, for example, that:

- One veteran had been hospitalized off and on since 1953 for schizophrenia. Within recent years, he participated in the incentive therapy program by working in the hospital laundry. He was informed about March 1, 1984, that income earned in the program would be offset from his pension. He chose to forgo his work assignment. A social worker's note written in his patient treatment file after the veteran's hospitalization on March 30, 1984, stated that the veteran had a lot of idle time and was depressed for several weeks. The note stated that the job had provided socialization and a feeling of self-worth that was instrumental to his success in the community and that the hospitalization directly resulted from the loss of his job. Since leaving his job, the veteran had been hospitalized three times for a total of 157 days, through April 29, 1985.

- Another veteran, with a 36-year history of alcohol abuse, participated in the incentive therapy program by working at the medical center's golf course. Considered an industrious worker who took pride in his work, he worked 40 or more hours a week in the program nearly every week for over 16 months. He quit his job in August 1984 after being informed by the medical center of the pension offset. He was rehospitalized during October 1984 for 6 days, during December 1984 for 4 days, and during February and March 1985 for 17 days for acute alcohol intoxication. Before his hospitalization in October 1984, his last admission was in March 1983 for 4 days. The clinical psychologist who treated the veteran for the past 7 years told us that the veteran expressed anger about the offset issue and felt "betrayed and slapped in the face." The psychologist also told us that although it would be too simplistic to say it had a direct effect,

the pension offset was a factor in the veteran's rehospitalization.

PENSION OFFSET MAY HAVE
OTHER EFFECTS ON VETERANS
AND THE MEDICAL CENTERS

In addition to the effect that the pension offset has had on outpatient pensioners, the VA work therapy program officials reported a number of other adverse effects on inpatients and on the medical centers.

Of the 80 work therapy programs that responded to a question concerning the effect of the pension offset on professional staff time, 70 reported that additional professional staff time had been spent to counsel patients or perform administrative or other tasks because of the offset. Of the 70 program officials who reported that they had spent more time, 25 reported spending more than 20 hours per month on these additional tasks. They also reported that in addition to an increased workload for the VA medical centers, the offset has resulted in additional work for VA's veterans benefits offices.

The program officials also reported that:

- Alternative inpatient activities, such as occupational therapy, which would be more staff intensive and more costly, must be developed for patients who now refuse to participate in the work therapy programs.
- Services previously performed by patients in the incentive therapy program are no longer performed or are more costly.
- The offset has resulted in some public image problems for the VA medical centers, including veterans sleeping in the parks, public intoxication, and public disturbances. In one case widely covered by the local news media, a medical center director told us that a former "model" patient became depressed after being informed about the pension offset, barricaded himself in his apartment with a shotgun, and had a standoff with the police. The experience resulted in his rehospitalization.
- When patients do not participate in the work therapy programs, there is less opportunity to monitor their daily functioning. This can lead to delays in providing needed treatment, longer hospitalizations, and more severe disabilities.

--The programs have lost their therapeutic effect for many of the pensioners affected by the offset.

The program staff at one medical center we visited told us that the attendance is poor for inpatients who have been given alternative assignments, such as occupational therapy, in place of work therapy. The chief of rehabilitation medicine at one medical center told us that because of their mental illness, many of the patients are apathetic and have little energy. These patients need extrinsic rewards, specifically compensation, to motivate them. As a result, according to program officials, many of these inpatients are no longer participating in any meaningful activity, have regressed, and in some cases, behave in a counter-productive way.

The chairman of a medical center patient advocacy group told us that the work therapy assignments are "medicine" for the patients. He stated that their work enhances their pride and their dignity and gives them encouragement in different stages of their illness. He added that the incentive therapy patients feel that they are contributing to the medical center. They would rather earn their support than rely on charitable organizations.

The chief of rehabilitation medicine service at one facility told us that the work therapy programs are crucial to the aftercare plans for chronic patients. He said that many of these patients will relapse because of the fear and stress of not having their pensions to fall back on. He added that for most psychiatric illnesses, the relapse rate is more than 50 percent. Therefore, the financial buffer that the pension program offers is an important factor in encouraging inpatients to reenter the community and keeping them in the community.

PROGRAM PARTICIPANTSFISCAL YEARS 1983 and 1984REPORTED BY VA WORK THERAPY PROGRAM OFFICIALS

	<u>Incentive therapy</u>		<u>Compensated work therapy</u>		<u>Total</u>	
	<u>FY 1983</u>	<u>FY 1984</u>	<u>FY 1983</u>	<u>FY 1984</u>	<u>FY 1983</u>	<u>FY 1984</u>
Estimated number of outpatients receiving pensions and participating in program	547	438	159	129	706	567
Estimated number of inpatients receiving pensions and participating in program	2,502	2,441	242	224	2,744	2,665
Other participants ^a	<u>24,097</u>	<u>23,080</u>	<u>5,282</u>	<u>6,070</u>	<u>29,379</u>	<u>29,150</u>
Total participants	<u>27,146</u>	<u>25,959</u>	<u>5,683</u>	<u>6,423</u>	<u>32,829</u>	<u>32,382</u>

^aIncludes inpatients and outpatients who were not receiving a VA pension.

WORK THERAPY EARNINGS
BY OUTPATIENTS RECEIVING PENSIONS

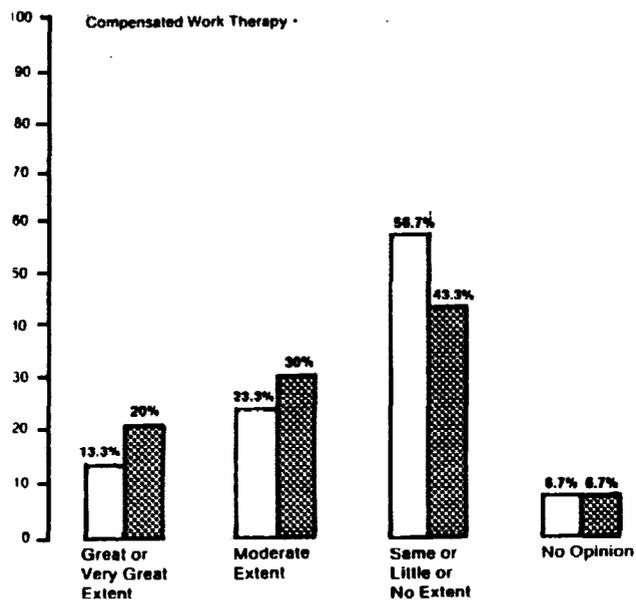
IN 1984

<u>Amount earned</u>	<u>Incentive therapy</u>		<u>Compensated work therapy</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
0-\$99	94	24.7	31	25.2
\$100-\$499	123	32.4	34	27.6
\$500-\$999	85	22.4	21	17.1
\$1,000-\$1,499	44	11.6	8	6.5
\$1,500-\$1,999	20	5.2	7	5.7
\$2,000-\$2,499	12	3.2	4	3.2
\$2,500-\$2,999	2	.5	5	4.1
\$3,000-\$3,499	-	-	5	4.1
\$3,500-\$3,999	-	-	2	1.6
\$4,000-\$4,499	-	-	5	4.1
\$4,500-\$4,999	-	-	1	.8
Total	380	100.0	123	100.0

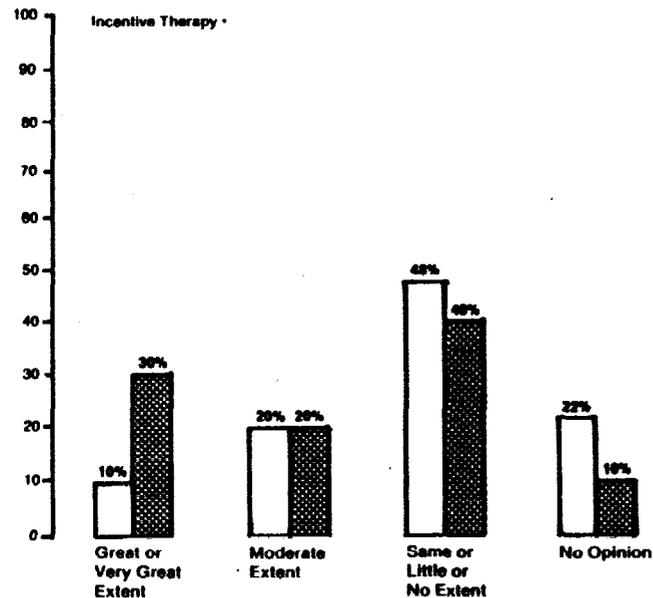
Current And Future Impact Of The Pension Offset On Veterans' Ability To Afford To Live In The Community, By Program

Current: Veterans can no longer afford to live in the community since the pension offset.
 Future: Veterans could no longer afford to live in the community because of the pension offset.

Current: Veterans can no longer afford to live in the community since the pension offset.
 Future: Veterans could no longer afford to live in the community because of the pension offset.



* Based on responses from 30 compensated work therapy programs that had outpatients receiving pensions during calendar year 1984.

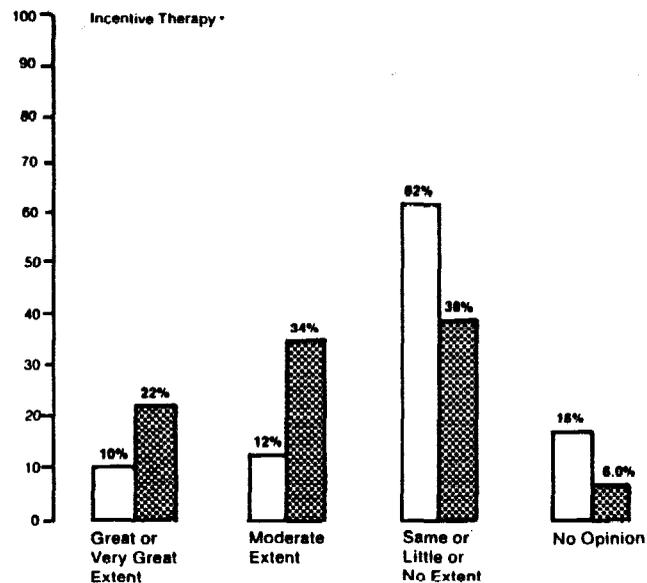
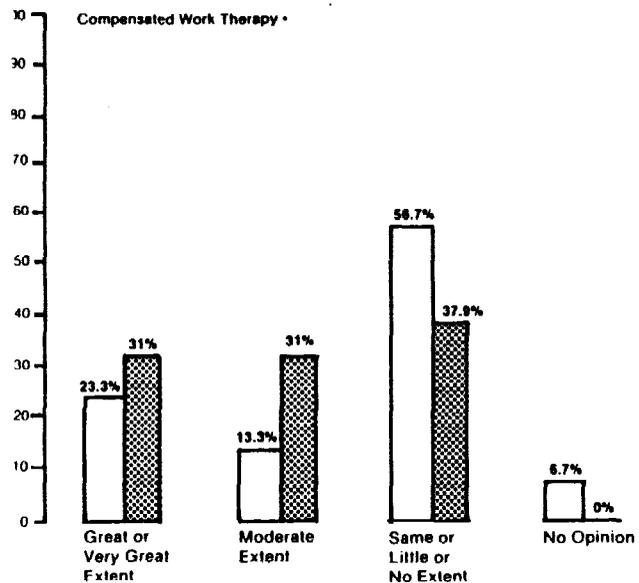


* Based on responses from 50 incentive therapy programs that had outpatients receiving pensions during calendar year 1984.

**Current And Future Impact Of The Pension Offset
On Veterans' Rehospitalization, By Program**

 Current: Veterans have been rehospitalized because of the pension offset.
 Future: Veterans would be rehospitalized because of the pension offset.

 Current: Veterans have been rehospitalized because of the pension offset.
 Future: Veterans would be rehospitalized because of the pension offset.



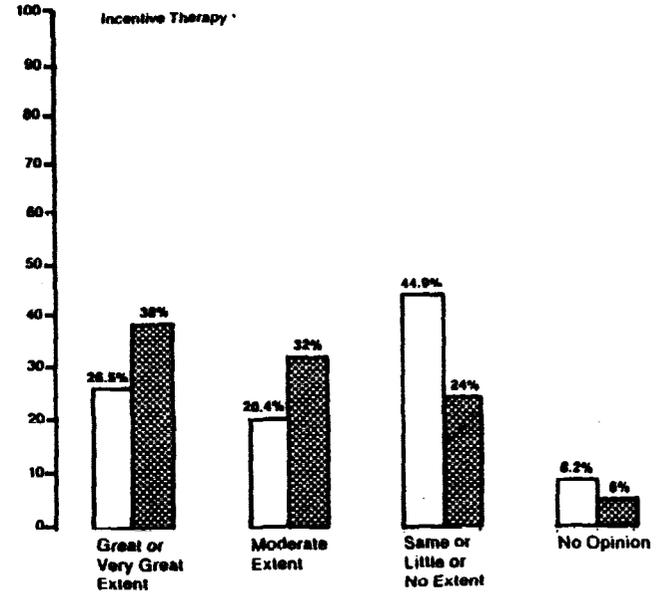
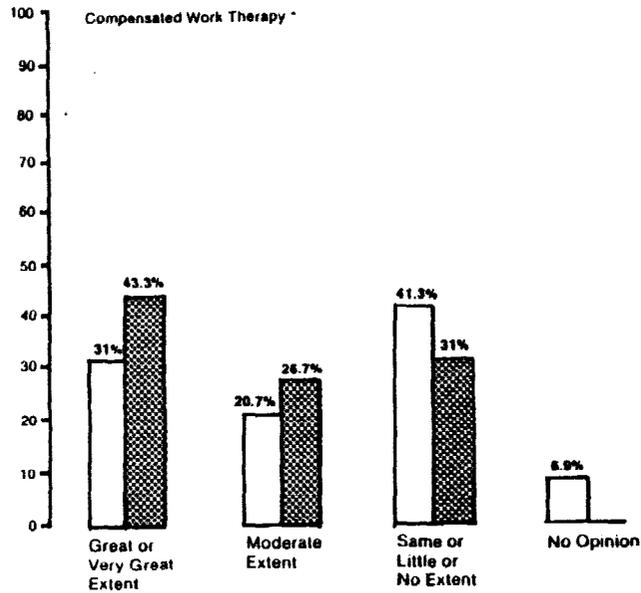
(*) Program did not provide an opinion for the long term effect.
 * Based on responses from 30 compensated work therapy programs that had outpatients receiving pensions during calendar year 1984.

* Based on responses from 50 incentive therapy programs that had outpatients receiving pensions during calendar year 1984.

Current And Future Impact Of The Pension Offset On The Veterans' Mental Health, By Program

 Current: Veterans' mental health has deteriorated as a result of the pension offset.
 Future: Veterans' mental health would deteriorate as a result of the pension offset.

 Current: Veterans' mental health has deteriorated as a result of the pension offset.
 Future: Veterans' mental health would deteriorate as a result of the pension offset.



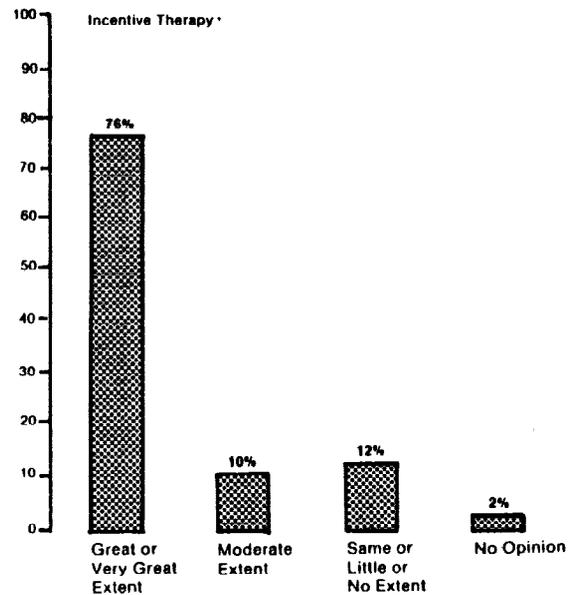
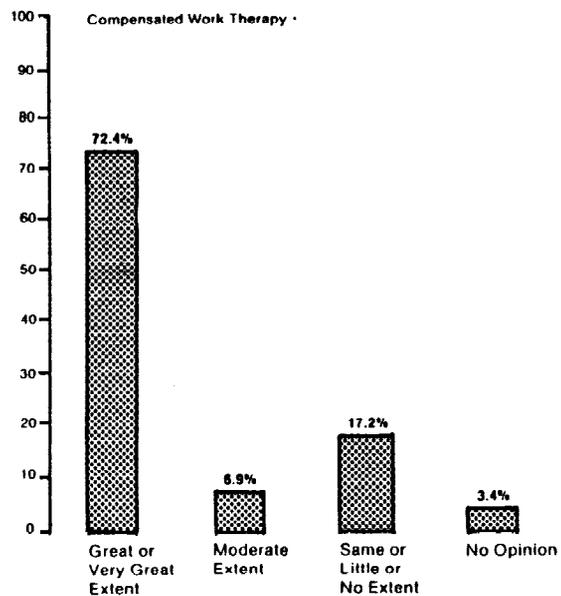
(1 Program did not provide an opinion for the long term effect.)
 *Based on responses from 30 compensated work therapy programs that had outpatients receiving pensions during calendar year 1984.

*Based on responses from 50 incentive therapy programs that had outpatients receiving pensions during calendar year 1984.

Work Therapy Programs Would Lose Their Therapeutic Effect On The Participants As A Result Of The Pension Offset, By Program

 Future: Veterans' programs would lose their therapeutic effect on the participants as a result of the pension offset.

 Future: Veterans' programs would lose their therapeutic effect on the participants as a result of the pension offset.



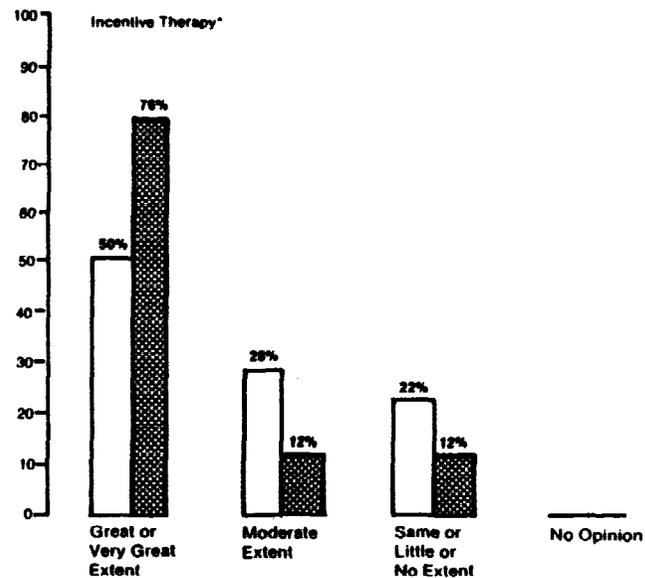
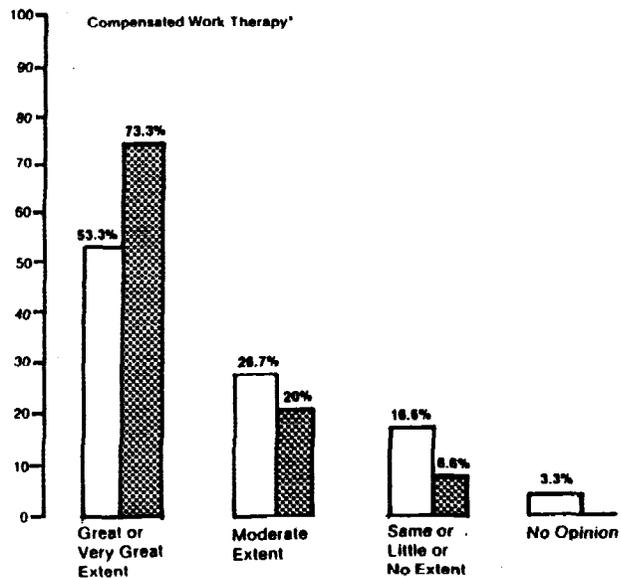
(1 Program did not provide an opinion for the long term effect.)
 * Based on responses from 30 compensated work therapy programs that had outpatients receiving pensions during calendar year 1984.

* Based on responses from 50 incentive therapy programs that had outpatients receiving pensions during calendar year 1984.

**Current And Future Impact Of The Pension Offset On
Veterans Declining To Participate In The Work
Therapy Programs, By Program**

 **Current:** Veterans who would be new participants have declined to participate in the Compensated Work Therapy Program because of the pension offset.
 **Future:** Veterans would refuse to participate in the CWT program because of the pension effect.

 **Current:** Veterans who would be new participants have declined to participate in the Incentive Therapy Program because of the pension offset.
 **Future:** Veterans would refuse to participate in the IT program because of the pension effect.



* Based on responses from 30 compensated work therapy programs that had outpatients receiving pensions during calendar year 1984.

* Based on responses from 50 incentive therapy programs that had outpatients receiving pensions during calendar year 1984.

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