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Report to the Chairman, Committee on
Veterans' Affairs, U.S. Senate

July 1987

VETERANS ADMINISTRATION

VA Pensions to Medicaid Nursing Home Residents Should Be Reduced



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United States
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Washington, D.C. 20548

Human Resources Division

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July 10, 1987

The Honorable Alan Cranston
Chairman, Committee on Veterans' Affairs
United States Senate

Dear Mr. Chairman:

In our ongoing review of the Medicaid program, we noted a situation that significantly increases the government's costs for nursing home care provided to veterans or their survivors who are dually eligible for a Veterans Administration (VA) pension and Medicaid benefits.

Under title 38 of the U.S. Code, a VA pension is reduced to \$60 a month if the beneficiary enters a VA-supported nursing home and does not have a spouse or other dependent living in the community. A similar provision does not exist, however, when the beneficiary enters a nursing home as a Medicaid patient. Because Medicaid recipients must apply any cash income and benefits they receive toward the cost of their care, the VA pensions do not generally benefit veterans and their survivors. Instead, they reduce Medicaid program costs. The primary beneficiaries of the reduced Medicaid costs are the states. We estimate that in fiscal year 1986, continuing VA pension payments to about 18,500 Medicaid nursing home residents in the eight states we reviewed cost the federal government about \$27.2 million. The eight states accounted for about 34 percent of total Medicaid nursing home patients in fiscal year 1985.

To eliminate the VA subsidy to the states, the Congress should amend title 38 to require that the VA pension for veterans and their survivors who enter a nursing home under Medicaid be reduced using one of two options. Neither option should adversely affect veterans' access to nursing home care or the income of the spouse or dependent remaining in the community.

Background

Medicaid is a federally aided, state-administered medical assistance program that serves about 22 million needy people. Medicaid became effective on January 1, 1966, under authority of title XIX of the Social Security Act (42 U.S.C. 1396). Within broad federal limits, states set the scope and reimbursement rates for the medical services offered and make payments directly to the providers who render the services. Generally, persons receiving public assistance under the Aid to Families With Dependent Children (AFDC) and Supplemental Security Income (SSI) programs are eligible for Medicaid assistance. Also, at each state's

option, persons who do not qualify for such public assistance but cannot afford the costs of necessary health care may be entitled to Medicaid benefits.

Medicaid nursing home residents must apply their income, except amounts for personal needs (generally \$25 to \$60 per month) and spousal allowance toward the cost of their care. The Medicaid program pays only the difference between the approved charges and what the beneficiary contributes.

The federal government pays from 50 to 79 percent of the Medicaid costs for health services, depending on a state's per capita income. For fiscal year 1986, Medicaid expenditures were estimated at \$44.9 billion; the state and federal shares were estimated at \$20.2 billion and \$24.7 billion, respectively. The Health Care Financing Administration, within the Department of Health and Human Services has overall responsibility for administering the Medicaid program at the federal level. The estimated federal share of Medicaid payments for nursing home care was about \$6.9 billion in fiscal year 1986.

Under title 38, VA provides pensions to low-income, wartime veterans who are 65 or older or who have become permanently and totally disabled since their military service. Survivors of wartime-service veterans also may qualify for pension benefits based on financial need. In fiscal year 1987, VA will pay pension benefits totaling about \$3.8 billion to an estimated 1.3 million veterans and their survivors. As of July 1987, the maximum VA pension was \$5,963 for a single veteran and \$7,811 for a veteran with a spouse or dependent child. The maximum survivor pension without dependents was \$3,996. A veteran or survivor entering a nursing home becomes eligible for an additional \$3,576 or \$2,396, respectively, known as aid and attendance.

Objectives, Scope, and Methodology

As part of a review of how Medicaid nursing home residents' income is used to offset the costs of their care, we evaluated how Medicaid and VA benefits interact.

The objectives of that segment of our review were to determine (1) how many Medicaid nursing home residents were receiving VA pensions, (2) how those pensions were applied toward the cost of care, (3) how the VA pensions affected state and federal costs, and (4) how other needs-based programs adjust benefits for institutionalized recipients.

We did our work at VA headquarters in Washington, D.C.; Health Care Financing Administration headquarters in Baltimore; VA's regional office in Boston; and state Medicaid agencies in California, Connecticut, Florida, Massachusetts, Ohio, Pennsylvania, Rhode Island, and Texas. The eight states were judgmentally selected to provide geographic balance and states with large Medicaid programs. In 1985, the eight states accounted for about 30 percent of Medicaid payments for recipients over 65 years of age.

We matched computerized records of Medicaid nursing home residents in the eight states with VA pension records as of October 1985 to determine the number and amount of VA pensions going to Medicaid nursing home residents. We determined how each of the eight states applied that VA pension income toward the cost of nursing home care, and calculated the effect those procedures had on VA and state and federal Medicaid costs.

We reviewed applicable federal and state laws, regulations, and procedures relating to VA pensions and the application of Medicaid recipients' income toward the cost of nursing home care, including information on the application of income from the AFDC, SSI, and food stamp programs.

Our work was done between January 1986 and May 1987 in accordance with generally accepted government auditing standards except that, at the request of your Committee, we did not obtain agency comments on a draft of this report. We did, however, discuss its contents with VA officials and have incorporated their comments where appropriate.

Many Medicaid Nursing Home Residents Receive VA Pensions

In October 1985, about 6.2 percent of the Medicaid nursing home residents in the eight states reviewed received VA pension benefits. During that month benefit payments totaled about \$6.6 million. As shown in table 1, the percentage of Medicaid nursing home residents receiving a VA pension ranged from 3.1 percent in Connecticut to 7.3 percent in Texas. Pension recipients received an average of \$329 per month, or \$3,946 per year.

Table 1: Medicaid Nursing Home Residents Receiving VA Pensions in October 1985 in Eight States

State	Percent receiving VA pensions	Amount of VA pensions paid
California	6.2	\$1,579,592
Connecticut	3.1	138,401
Florida	7.2	709,180
Massachusetts	5.8	953,755
Ohio	6.2	1,298,582
Pennsylvania	6.1	891,400
Rhode Island	4.4	177,296
Texas	7.3	840,093
		\$6,588,299

A VA official said that the conditions we found in the eight states should be fairly representative of the nation.

VA Payments Result in Higher Federal Costs

Each of the eight states reviewed required veterans to apply their VA pension toward the cost of their care, allowing the veteran, like other Medicaid recipients, to retain only a personal needs allowance. Because the VA payments are applied to the cost of care as part of the Medicaid recipient's income, the federal government, in effect, pays a higher share of the Medicaid nursing home costs for such veterans. The following hypothetical case illustrates the effect of VA pensions on federal costs.

Suppose that a Medicaid recipient is admitted to a nursing home that charges \$1,500 per month to care for Medicaid patients and that the federal government pays 56 percent (the national average) of the Medicaid nursing home costs. And suppose that the Medicaid recipient is a single veteran whose only income is a \$525 per month VA pension. The \$525 pension (100 percent federal money) (less any personal needs allowance) would be applied toward the \$1,500 cost of care, with Medicaid paying the remaining amount (\$975 with no personal needs allowance). Under the Medicaid sharing formula, the federal share of the Medicaid cost would be \$546 and the state share \$429. The total federal cost of care for the veteran would be \$1,071, or 71 percent of the monthly cost of care.

If the veteran were not receiving the VA pension, however, and had no other income to apply to the cost of care, Medicaid would pay the entire \$1,500 monthly cost of care, with the federal government paying \$840

(56 percent) and the state paying \$660 (44 percent). As shown in table 2, the VA pension paid to the recipient increased the federal cost by \$231 a month.

Table 2: Effect of VA Pension on Federal and State Share of Nursing Home Cost for Medicaid Recipients

	Source of funds			
	Recipient with pension		Recipient without pension	
	Federal	State	Federal	State
Monthly cost of care	\$1,500		\$1,500	
Less: Medicaid recipient's income				
VA pension	525	\$0	0	\$0
Other sources	0	0	0	0
Equals: Medicaid program costs	975		1,500	
Federal share (56%)	546		840	
State share (44%)		429		660
Total state and federal share	\$1,071 (71%)	\$429 (29%)	\$840 (56%)	\$660 (44%)

To take advantage of the higher federal payments, all eight states have initiated programs to maximize VA benefit collections on behalf of Medicaid nursing home residents. In Massachusetts, for example, state employees visit nursing homes and interview Medicaid patients and their relatives to identify those for whom VA benefits might be obtained or increased. Since 1979, such efforts have increased VA pension payments to Medicaid nursing home residents in Massachusetts by an estimated \$25 million.

Other Needs-Based Programs Reduce Benefits for Nursing Home Patients

To avoid having the government pay twice for the same services, other needs-based programs generally terminate or greatly reduce benefits when a recipient enters a nursing home under Medicaid. For example, when an SSI recipient enters a nursing home, the Social Security Administration reduces the SSI payment to a maximum of \$25 per month. Similarly, food stamp benefits are generally terminated because the Medicaid nursing home resident no longer incurs costs for meals.

VA reduces the pension payments to \$60 per month¹ when a veteran receives care in a VA nursing home or in a community nursing home under contract to VA unless the veteran has a spouse or other dependent living in the community. In the latter instance, the aid and attendance portion of the pension would not be provided. The reduction takes place

¹The reduction takes place at the end of the third month in the nursing home.

because the veteran is no longer incurring the types of daily living costs the pension was intended to defray. If a similar reduction had been applied to veterans or survivors with no dependents whose daily living needs were met by the Medicaid nursing home program in fiscal year 1986, we estimate that net federal savings of up to \$27.2 million would have occurred in the eight states we reviewed. The eight states had about 34 percent of Medicaid nursing home residents in fiscal year 1985. Details of our estimate are provided in appendix I.

We excluded veterans with spouses or other dependents from our calculations. Additional savings would occur if aid and attendance payments were not provided to such veterans who enter a nursing home under Medicaid. Such payments are not made when a veteran enters a VA nursing home.

VA officials generally agreed that reducing the pension payments would result in cost savings without adversely affecting veterans.

Conclusions

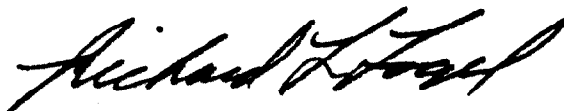
Unlike other needs-based programs such as SSI and food stamps, VA pension benefits are not reduced when a veteran or his or her survivor enters a nursing home as a Medicaid patient. VA pension benefits are reduced only if VA pays for or provides the nursing home care. The Congress should consider extending the pension reduction to include veterans and their survivors in nursing homes who are Medicaid-supported. Substantial savings to the federal government should result, and the coverage of services or costs to beneficiaries should not be adversely affected. The federal savings would be offset by increased state costs.

Recommendation

We recommend that the Congress amend title 38 to require that the VA pension for veterans and their survivors who enter a nursing home under Medicaid be reduced. One way would be to amend title 38 to extend the VA pension reduction criteria that currently apply when the recipient is institutionalized in a VA-supported facility to cover recipients supported by Medicaid. Alternatively, the reduction could be tailored to the personal needs allowance and spousal allowance established by each state Medicaid agency.

We are sending copies of this report to the Administrator of Veterans Affairs, the Secretary of Health and Human Services, various congressional committees and subcommittees, and other interested parties.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Richard L. Fogel". The signature is written in a cursive style with a large, sweeping initial "R".

Richard L. Fogel
Assistant Comptroller General

Methodology Used to Estimate Savings From Reducing VA Pensions Paid to Medicaid Nursing Home Residents

Our work was based on actual VA pension payments to Medicaid nursing home residents in eight states during October 1985. To estimate savings in the eight states, we made three assumptions. First, we assumed that pension payments would remain constant during the year. Second, we assumed that all pension recipients would be receiving a pension in excess of \$60 per month. Finally, we assumed that the personal needs allowance would be set at \$60 per month.

In each state, we matched the state's Medicaid nursing home patient population with VA's compensation and pension mini-master file of benefit payments in October 1985 to identify Medicaid nursing home patients receiving VA pensions and the amounts of those pensions. We excluded veterans and survivors who had a spouse or dependent. We then

- multiplied the amount of VA pensions paid to Medicaid nursing home residents by 12 to arrive at an annual amount,
- multiplied the number of Medicaid recipients receiving a VA pension by \$720 (12 X \$60) to estimate the annual VA payments if pensions were reduced to \$60 per month,
- subtracted the estimated VA payments with pension reduction from the estimated VA payments without pension reduction to estimate savings to VA and increased costs to Medicaid,
- applied the Medicaid cost-sharing percentage for each state to the increased Medicaid costs to determine the federal share, and
- subtracted the increased federal Medicaid costs from the VA savings to determine net federal savings.

The detailed calculations are shown in table I.1.

Table I.1: Savings Calculations

1. VA pension payments for Medicaid nursing home residents in the eight review states in October 1985	\$6,022,830
2. Medicaid nursing home residents receiving VA pensions	18,522
3. Estimated annual VA pension payments to nursing home patients in the eight states (item 1 x 12 months)	\$72,273,960
4. Estimated annual VA pension payments in the eight states if pensions were reduced to \$60 per month (item 2 x \$720 per year)	\$13,335,840
5. Net VA pension payment reduction and Medicaid cost increase in the eight states (item 3 - item 4)	\$58,938,120
6. Federal portion of additional Medicaid costs (calculated based on sharing rate in effect in each state in October 1985.)	\$31,721,623
7. Net federal cost reduction (savings) from VA pension limitation (item 5 - item 6)	\$27,216,497

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