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# Senate Hearings

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## Veterans Administration Benefits Programs in the Republic of the Philippines

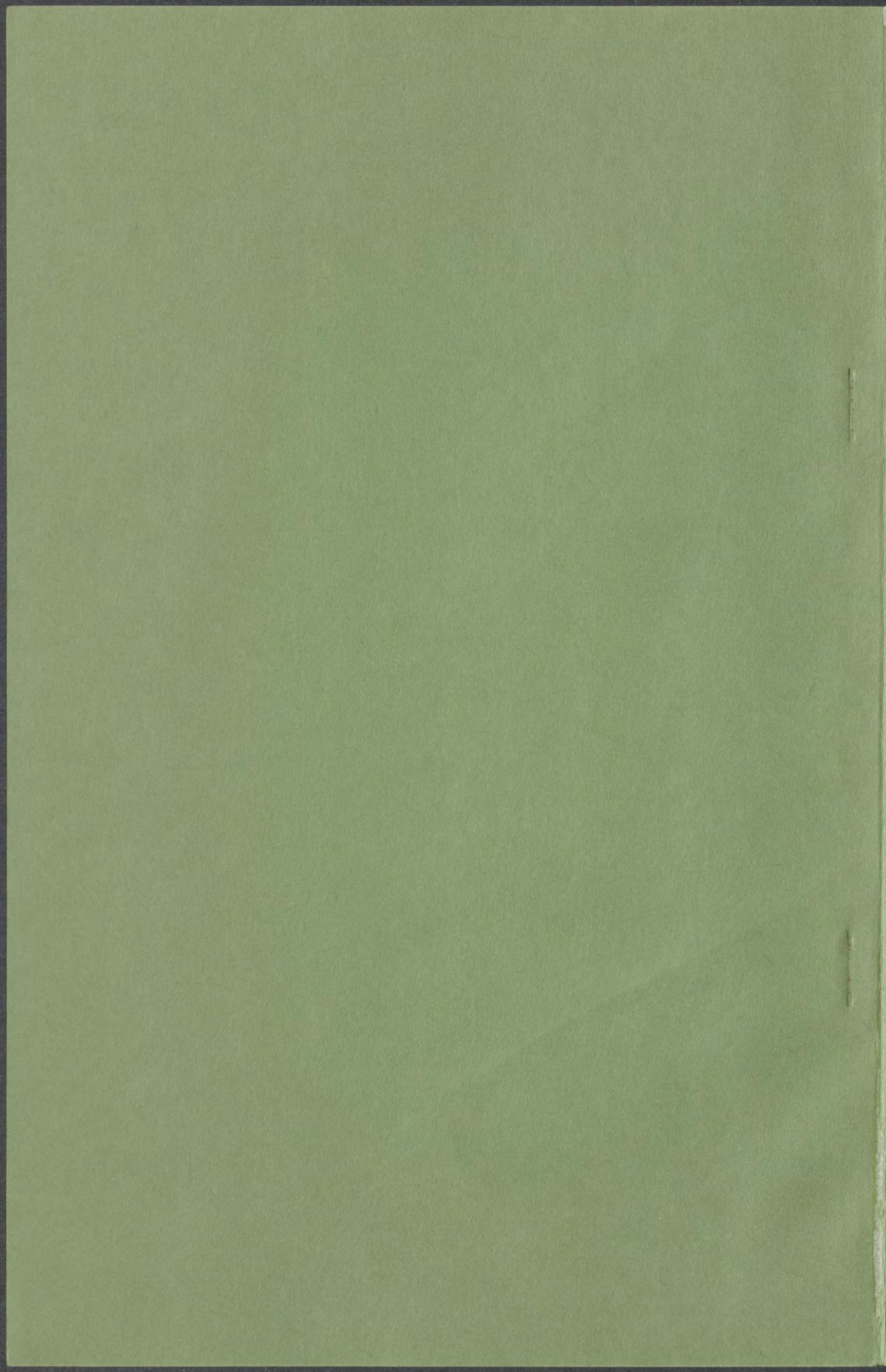


Fiscal Year 1978

95<sup>th</sup> CONGRESS, FIRST SESSION

### SPECIAL HEARING

Department of State  
General Accounting Office  
Veterans Administration



**VETERANS ADMINISTRATION BENEFITS PROGRAMS  
IN THE REPUBLIC OF THE PHILIPPINES**

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**HEARING**  
BEFORE A  
**SUBCOMMITTEE OF THE**  
**COMMITTEE ON APPROPRIATIONS**  
**UNITED STATES SENATE**  
NINETY-FIFTH CONGRESS  
FIRST SESSION

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Printed for the use of the Committee on Appropriations

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**SPECIAL HEARING**  
Department of State  
General Accounting Office  
Veterans Administration



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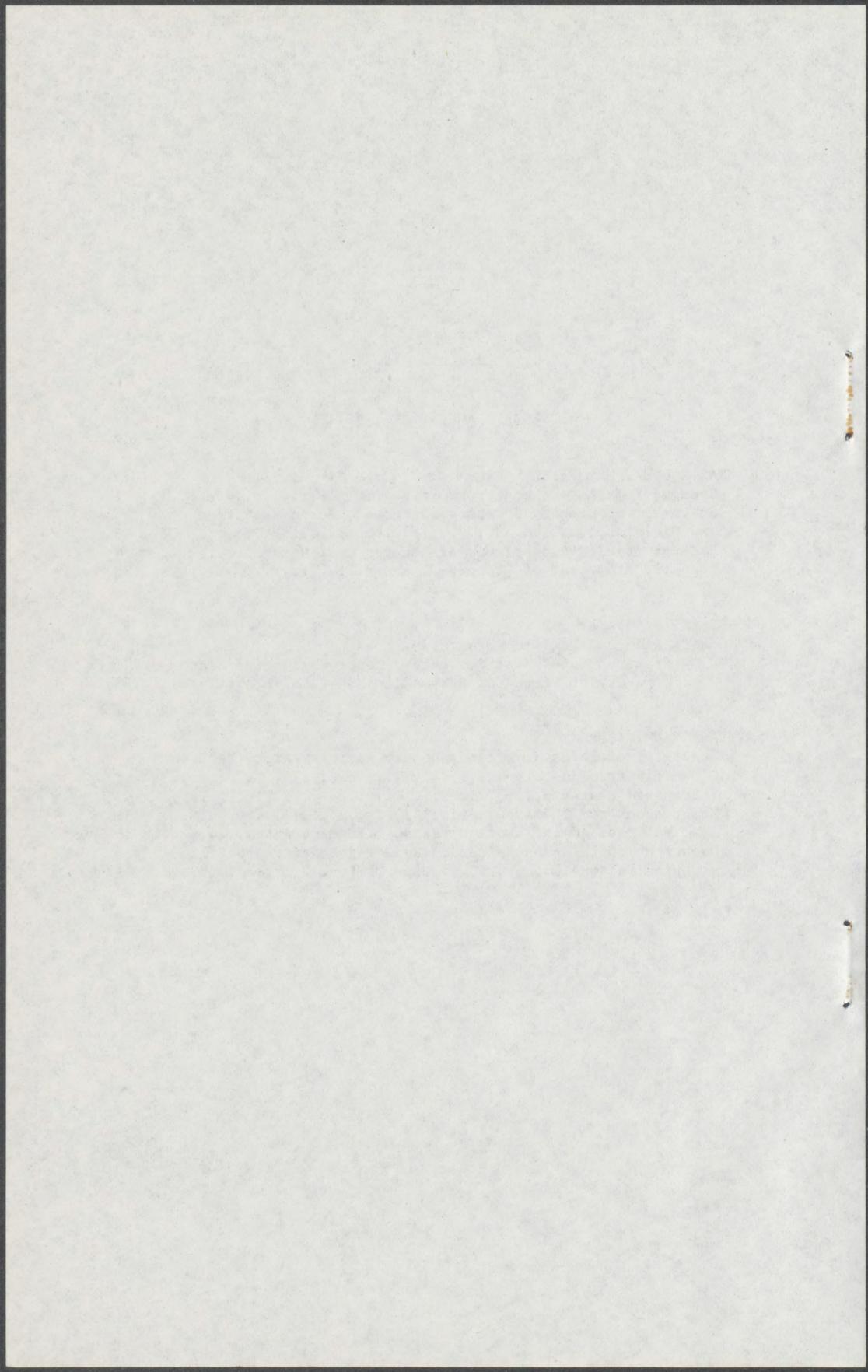
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WEDNESDAY, AUGUST 31, 1977

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# VETERANS ADMINISTRATION BENEFITS PROGRAMS IN THE REPUBLIC OF THE PHILIPPINES

WEDNESDAY, AUGUST 31, 1977

U.S. SENATE,  
SUBCOMMITTEE ON DEPARTMENT OF HOUSING AND  
URBAN DEVELOPMENT AND INDEPENDENT AGENCIES,  
*Washington, D.C.*

The subcommittee met at 10:05 a.m., in room 1318, Everett McKinley Dirksen Office Building, Hon. William Proxmire (chairman) presiding.

Present: Senator Proxmire.

## GENERAL ACCOUNTING OFFICE

STATEMENT OF GREGORY J. AHART, DIRECTOR, HUMAN RESOURCES DIVISION

### ACCOMPANIED BY:

GEORGE D. PECK, ASSISTANT DIRECTOR, HUMAN RESOURCES DIVISION

MAURICE BLAIS, SUPERVISORY AUDITOR, FAR EAST BRANCH, HONOLULU

WILLIAM HIGHTOWER, AUDIT MANAGER, HUMAN RESOURCES DIVISION

### OPENING REMARKS OF SENATOR PROXMIRE

Senator PROXMIRE. The subcommittee will come to order.

Today we will hear from the General Accounting Office, the State Department, and the Veterans' Administration regarding abuses in veterans programs in the Philippines.

The dimensions of the problem will be revealed in all their shocking detail in the testimony of Mr. Gregory Ahart, Director of the Human Resources Division of the General Accounting Office.

We will then hear from Mr. Robert B. Oakley, Deputy Assistant Secretary of State for East Asian and Pacific Affairs and, finally, Deputy VA Administrator Rufus Wilson.

### FACTORS IDENTIFYING INEQUITIES IN PHILIPPINE VA PROGRAM

I will have a number of questions, but before Mr. Ahart proceeds, I would like to make four points that may help to put the inequities created by Philippine veterans benefits programs into perspective.

One: The Veterans' Administration pays the average Filipino VA beneficiary benefits that are 7½ times as great as his country's median

income—in other words, 7½ times as much as the average Philippine citizen receives as income—while the American veteran gets a benefit which is about 70 percent of the median income in the United States.

The Philippine veteran literally gets 10 times as much in relation to the other citizens of his country as the American veteran gets. What he gets, he gets from the American citizen.

Two: In the Philippines, as Mr. Ahart points out in his testimony, veterans' dependents earned about as much from their educational assistance payments as the average college professor with a master's degree.

In other words, a GI's dependents going to college in the Philippines are paid as much in veterans' benefits as their professors receive, which is a shocking situation. It would be as if a GI, receiving VA educational benefits in this country for going to school, got \$25,000 or \$30,000 a year.

Three: In some cases, the United States pays disabled Filipino veterans 15 times as much as a Filipino veteran receives if he is paid by the Filipino Government.

Four: Last year, the VA processed over 1,700 new disability compensation claims in the Philippines, and 99 percent were thrown out.

#### ABUSES IN PHILIPPINES VETERANS PROGRAM

I am sure the American taxpayer will want to know why we have already spent \$2 billion of his money to make these inflated payments and what the Federal Government intends to do to correct the situation. That will be the focus of my questioning today.

On the basis of what I have seen so far, this program would be a great candidate for a Golden Fleece Award.

I wish to make clear that this hearing in no way constitutes a criticism of the thousands of Filipino veterans and their families who made a substantial contribution to the war effort during World War II. Filipino units and individual soldiers fought with excellence and great sacrifice. We owe them a very considerable debt.

What we are interested in here are the built-in abuses and inequities in our veterans program in the Philippines.

I am delighted to have all of you gentlemen here today and look forward to Mr. Ahart's testimony at this time.

#### INTRODUCTION OF GREGORY J. AHART

Mr. Ahart, I understand you have an extensive statement and you would like to present it in detail. We have a number of witnesses. I would appreciate it if you could abbreviate your statement as much as possible. Perhaps in the questioning we could bring out some of the more vivid examples, you cite in your prepared testimony.

After we finish the question period, if you do feel there were some facts that we weren't able to cover, feel free to summarize them and bring them to our attention. We will also include your prepared statement in the record at the conclusion of your testimony.

Mr. AHART. Thank you, Mr. Chairman.

## INTRODUCTION OF ASSOCIATES

On my immediate left is Mr. Maurice Blais, who is from our Far East branch in our International Division. On his left is Mr. George Peck, Assistant Director of the Human Resources Division of the General Accounting Office, who runs our work at the Veterans' Administration. To his left is Mr. Bill Hightower, of Mr. Peck's office.

## INTENT OF CONGRESS TOWARD MONETARY BENEFITS TO PHILIPPINE VETERANS

Before summarizing my prepared statement, I want to briefly qualify it in one major regard; that is, with regard to what the true intent of the Congress was when it considered monetary benefits to Filipino veterans following World War II, and subsequently.

Apparently as of the end of the war, the Veterans' Administration had ruled that these veterans were entitled to the same benefits, in terms of U.S. dollars, as Americans who served in the U.S. Armed Forces.

This ruling was premised on President Roosevelt's July 26, 1941, order placing all of the organized military forces of the Commonwealth of the Philippines into the service of the Armed Forces of the United States for the period of the then existing emergency.

Public Law 301 of the 79th Congress, approved February 18, 1946, and known as the first supplemental surplus appropriation rescission bill, 1946, apparently attempted to overcome this ruling by limiting benefits to Filipino veterans to only service-connected disability and death benefits and then to only 1 peso per dollar.

In approving this law, President Truman expressed his reservations about the limiting of these benefits while recognizing the practical difficulties of granting full benefits to Filipino veterans.

In any event, the main effect of the limiting provision of the bill was apparently to reduce U.S. liability to these veterans from a then estimated \$3 billion to about \$500 million.

Although it was clear that the differing economies of the United States and the Philippines were considered, it is not clear as to how they were given effect, except that at that time the foreign exchange rate was about 2 pesos per dollar.

It is probable that in terms of the Philippine standard of living at that time, a 1 peso per dollar benefit was somewhat liberal. Although we haven't been able to fully research the matter, we did note that pay in the American armed service was about five times the pay in the Commonwealth service.

## EXCERPT FROM 1946 TESTIMONY OF SENATOR HAYDEN

The circumstances leading up to the 1946 legislation are summarized in testimony by the late Senator Carl Hayden, who served as a member of the Filipino Rehabilitation Commission, in testimony on the second supplemental surplus appropriation rescission bill, 1946.

Although we have not yet fully assessed the record as to the intent of the Congress in 1946 or when it enacted subsequent legislation which we will mention today, the theme of our testimony is in line with that of Senator Hayden in 1946 when he said:

The GI bill of rights is intended to benefit an American who served in the armed forces and who returns to civil life in the United States, where American standards of living prevail. \* \* \* A Filipino veteran does not need 150 pesos a month in order that he may go to school or 40 pesos a week as unemployment compensation.\*\*\* Whenever any part of the GI bill of rights is extended to Filipino veterans, the cost of living in the Philippines and other economic factors must be given careful consideration. (Page 61 of hearings.)

Our testimony today will indicate that Senator Hayden's 1946 admonition was not fully heeded. To the extent that it wasn't, any present-day reassessment of the benefit programs must, of course, give due consideration to the long history of how we got to where we are.

Because we have not yet fully considered this history, Mr. Chairman, we may wish to amend our prepared statement before it is entered in full in the record.

Senator PROXMIRE. That would be perfectly appropriate.

#### RESULTS OF PROGRAM REVIEW

Mr. AHART. We are pleased to be here to discuss the results of our review of the program.

This is the only foreign country in which the VA operates comprehensive veteran benefits programs. Since 1946, about \$2 billion has been provided.

Filipinos with service in the regular components of the U.S. Armed Forces, including those who served before and during World War II as Philippine Scouts, are considered U.S. veterans. There are approximately 50,000 of these veterans residing in the Philippines.

In addition, 3 other groups of Filipino veterans totaling about 452,000 are also entitled to benefits.

Although the number of potential beneficiaries total about 502,000, only about 56,000 are currently receiving benefits.

I first would like to address briefly the monetary benefit programs.

The Congress has enacted several laws that provide Filipino veterans most of the benefits received by American veterans.

#### REQUIREMENTS OF PUBLIC LAW 79-301

In 1946, Public Law 79-301 authorized the payment of monetary benefits to eligible Filipino veterans and their dependents. The law limited benefits under the National Service Life Insurance Act of 1940, and for the payment of pensions on account of service-connected disability or death.

The law required that benefits be paid at the rate of 1 Philippine peso to each dollar for a veteran who was a member of the U.S. Armed Forces.

This provision recognized that the average income, living costs, and other related economic factors in the Philippines were different from those in the United States. The concept was that 1 peso would obtain for the Philippine veterans the equivalent of \$1 for the American veteran in the American economy.

Subsequent legislation included additional categories of benefits for Filipino veterans. The 89th Congress authorized educational assistance for children of Filipino veterans who died or were permanently disabled from service-connected causes.

Public Law 89-641 increased payments from 1 peso for each dollar authorized to a rate in Philippine pesos equivalent to 50 cents for each dollar.

In other words, it adopted permanently the standard of using the foreign exchange rate to make up the differential between U.S. benefits and Filipino benefits.

In addition to authorizing additional benefits for Filipino veterans, the Congress since 1946 has periodically increased benefits rates for all veterans.

#### PROGRAM EXPENDITURES

Program expenditures have steadily increased from \$8.1 million in calendar year 1947 to \$78.4 million in fiscal year 1976. The types of program expenditures are:

Compensation which is payable to eligible veterans for service-connected disabilities or their dependents.

Disability pensions which are paid to eligible veterans because of wartime service, age, or non-service-connected disabilities. Unlike compensation, pensions are authorized only for U.S. veterans.

Death pensions which are paid to the dependent spouse and children of U.S. veterans.

Education benefits which are payable to all veterans who served in the regular components of the U.S. Armed Forces, including old Philippine Scouts, and in certain instances are also payable to widows, wives, and children of veterans. Eligible persons are entitled to educational assistance up to 45 months. Dependents of United States and Filipino veterans are paid at half rate.

#### BASIS FOR COMPUTING VA BENEFITS CREATES INEQUITIES

The basis for computing benefits does not adequately consider differences between income levels of the United States and the Philippines and has the effect of compensating Filipino veterans at higher levels than their American counterparts in the United States.

At the time the benefit program for Filipino veterans was established in 1946, it was generally accepted that 1 U.S. dollar was worth 2 Philippine pesos and that 1 peso would obtain for the Filipino veteran in the Philippine economy the equivalent of \$1 for the American veteran in the American economy.

Thereby, Filipino veterans were placed on a level equal to American veterans considering the differences in the economies of the two countries.

As a result of a Joint Republic of the Philippines-United States Commission study of Philippine veterans' problems, Congress in 1966 authorized a change in the compensation formula.

#### ADJUSTMENT OF PAYMENT BASIS PROVIDES WINDFALL TO FILIPINO VETERANS

Public Law 89-641, changing the basis for benefit payments to Filipino veterans, had the immediate effect of doubling benefit payments to Filipino veterans, and has provided them with additional windfall benefits due to subsequent legislative increases and currency devaluations.

The intent of the 1966 law was to restore Philippines beneficiaries to approximately their situation in 1946, taking into account the changes occurring in the economies and living standards in the Philippines and the United States since 1946.

Since the law was enacted, however, legislative increases and devaluations of the peso have provided Filipino veterans with undue increases in benefits and has resulted in Filipino veterans achieving much higher levels of benefits than their counterparts in the United States.

For example, over the period 1966-77, benefits for American veterans have been increased by legislation by about 125 percent. However, Filipino veterans receive the same percentage increase as American veterans.

As a result of peso devaluation and legislative increases over this period, Filipino veterans have received about a 700-percent increase in benefits.

Both United States and Filipino veterans in the Philippines receiving VA benefits have gained significantly from exchange rate adjustments. This is in addition to benefit increases granted by the Congress apparently to offset inflation or cost-of-living increases in the United States.

Since most expenses borne by VA beneficiaries in the Philippines are in the local currency, exchange rate fluctuations do not necessarily relate to the cost of living in the Philippines.

Although the amounts differ, these windfall increases apply to all categories of VA benefits paid to Filipino veterans and their beneficiaries.

#### INTERNAL AUDIT SERVICE (IAS) RECOMMENDATIONS

VA's Internal Audit Service—IAS—in 1973, after its review of the programs, concluded that benefits in the Philippines, even at 50 cents to \$1, represented a substantial source of income based on the local economy and relatively low standard of living.

The study recommended that a relatively simple formula for computation of benefits should be developed with periodic updating to reflect a reasonable average cost of the service or benefit the laws were originally intended to provide.

IAS recommended changing legislation to provide for computing benefits conforming to the original intent of the applicable laws.

A VA committee established to consider the recommendations of the IAS study did not concur with the recommendation. In a March 5, 1976, letter, it stated that VA benefits provided a substantial income for most recipients and that most of the beneficiaries had been on the VA rolls for 30 years and their standard of living has been upgraded accordingly.

The committee stated that reduction of benefits at this date would drastically affect the standard of living to which the beneficiaries had become accustomed.

#### COMPENSATION AND PENSION

In general, compensation payments are provided to United States and Filipino veterans or their dependents for the loss of earning power resulting from service-connected disability or death.

Pensions are paid to U.S. veterans who are unable to work because of a non-service-connected disability and dependents of deceased veterans to provide a measure of security.

In the Philippines, however, compensation and pension payments more than compensate the veteran for loss of earning power, and in many cases, provide veterans with income levels higher than they could have possibly achieved had they not been disabled.

In fiscal year 1976, distributed approximately \$67 million in compensation and pension payments to over 48,000 beneficiaries in the Philippines. The average payment was \$1,382 a year—\$2,069 for a U.S. veteran and \$1,080 for a Filipino veteran receiving limited benefits.

Senator PROXMIRE. On page 8 of your prepared testimony you state that: "As a result of the peso devaluation, Filipino veterans have received about a 700-percent increase." That is pretty devastating.

Mr. AHART. It is a 700-percent increase in terms of pesos, Mr. Chairman. It is rather substantial.

Senator PROXMIRE. Go ahead.

Mr. AHART. I just mentioned the average payment of \$1,382 a year on page 10.

Senator PROXMIRE. Why don't you go back to page 8 and read from the material I just referred to?

#### GAINS FROM EXCHANGE RATE ADJUSTMENTS

Mr. AHART. Both United States and Filipino veterans in the Philippines receiving VA benefits have gained significantly from exchange rate adjustments. This is in addition to benefit increases granted by the Congress apparently to offset inflation or cost of living increases in the United States. Since most expenses borne by VA beneficiaries in the Philippines are in the local currency, exchange rate fluctuations do not necessarily relate to the cost or standard of living in the Philippines.

Senator PROXMIRE. That is helpful.

When you finish your presentation, I want to get into that exchange rate element because I think it goes to the heart of that problem.

Mr. AHART. Going to page 10, I brought out the fact that the average payment was \$1,382 a year. For comparison purposes, the average annual earnings, according to Philippine statistics, was only about \$455 in 1975; that is less than one-third of the average compensation and pension payment.

As shown by a recent Philippine Government salary and wage survey, veterans in the Philippines generally receive more in benefits than they could earn in some trades and professions.

For example, a 50-percent-disabled Filipino veteran would receive more compensation than he could expect to earn in many civilian occupations. As the degree of disability increases, the disparity becomes even more pronounced.

A Filipino veteran who is 100-percent disabled would receive \$4,794 annually, or more than double the average annual salary of a physician in the Philippines.

In comparison, the Philippine Veterans Affairs Office—PVAO—a counterpart agency of VA which administers all programs for Filipino

veterans recognized by the Philippine Government, but not recognized by the United States—pays its 100-percent-disabled veterans up to \$320 a year, which is about 30 percent less than the average annual earnings in the Philippines.

This disparity in benefits is obviously even greater when comparing U.S. veterans' benefits to local income levels.

#### PROGRAM ABUSES

I would like to turn now to abuses of the benefits programs. As presently structured, VA monetary benefits are so relatively high to the Philippine levels of income that they provide an incentive for certain individuals to try every conceivable ploy to obtain VA benefits.

Because VA has never accomplished a complete file search to insure that only eligible beneficiaries are receiving benefits, and does not maintain records which readily identify the incidence of program abuses, we were unable to determine the full extent of these abuses.

We are, therefore, presenting examples and information available illustrating the various types of program abuses and problems encountered by VA in administering benefits programs in the Philippines, along with actions taken by VA to remedy these problems.

#### FRAUDULENT CLAIMS UNDER WIDOWS' RESTORATION PROGRAM

Although the VA office in Manila cannot estimate the number of fraudulent cases in the Philippines, it reported that such claims acted upon locally number in the thousands.

The VA widows' restoration program clearly illustrates this problem in the Philippines.

In 1970, Public Law 91-376 provided for the restoration of VA benefits to widows. How this works, Mr. Chairman, is that if some widow lost her benefits because she remarried or breaks off that new marriage or new relationship, she could have her benefits restored.

Because of the high potential for fraud under this law, VA's Manila office in 1971 initiated a program requiring field investigations for all widows' restoration claims.

Through April 1977, more than 5,000 widows applied for restoration of benefits under the provisions of the law. However, after investigation, only 2,613, or about 50 percent, had their benefits restored.

Of the remainder, 1,910 claims were determined to be fraudulent and resulted in forfeiture of benefits, and another 640 were disallowed for other reasons.

I might mention in a subsequent investigation of a sample of claims that were actually restored, VA found that there was still a significant number of widows who were not entitled. I think their percentage was 28.

#### ADOPTIONS AND ILLEGITIMATE CHILDREN

Philippine adoptions for the purpose of gaining additional benefits have long been recognized as a problem by VA. The VA, however, has not studied the potential abuse resulting from illegitimate children being entitled to VA benefits in the Philippines.

In 1972, VA's Manila office recommended to VA central office that a more stringent statutory requirement be instituted for Philippine adoptions. VA reported numerous instances of aged and disabled veterans adopting children for the sole purpose of qualifying them for benefits.

#### EXAMPLES OF ADOPTION PRACTICES

Several examples reported by VA are shown below:

A 70-year-old single veteran adopted his 6-year-old great-grand-nephew, even though the natural parents were still alive and living with the veteran.

A single veteran, age 69, adopted two great-grandnieces, ages 4 years and 8 months. The children remained in the custody of their natural parents.

A married veteran, 68 years old, adopted four great-grandnieces and grandnephews, even though two of the children never lived with the veteran.

Since the adoptions were granted by Philippine courts, VA recognized them as valid and awarded increased benefits because of the children. The children can often continue receiving benefits through age 23, and in some cases can receive education benefits thereafter.

A VA official informed us that the Manila office processes about 50 adoption cases each year, but because of recently liberalized adoption laws—permitting persons with natural children to adopt—this number could increase in the future.

In March 1976, the VA committee considering VA's IAS recommendations concurred that a more stringent statutory requirement was needed for Philippine adoptions, and recommended that the VA general counsel formulate appropriate guidelines for a change in legislation. As of August 1977, VA has not implemented this recommendation.

According to a former director of VA's Manila office, the practice of allowing veterans, who receive sizable benefits from VA, to adopt children of relatives solely for the purpose of providing financial support for these children and their natural parents defeats the philosophy, both in law and in intent, of providing benefits to children legitimately adopted by veterans.

#### ILLEGITIMATE CHILDREN

A VA official informed us that in the Philippines, married veterans frequently sire illegitimate children. These illegitimate children, so long as the veteran acknowledges paternity, are entitled to the same benefits as the veteran's legitimate children.

VA officials acknowledged that the recognition of illegitimate children in the Philippines has potential for abuse, particularly for veterans with a disability rated at 50 percent or more—comprising more than 25 percent of Filipino veterans receiving disability compensation—since increased benefits are paid for each child.

VA's Manila office maintains no statistics on illegitimate children, nor has it studied potential abuses associated with their entitlement to VA benefits. Probably the most blatant example in VA files is the case of a veteran, who was shot by a guard while returning

from being absent without leave, was rated 100-percent-disabled with additional compensation for loss of use of extremities.

Since incurring his disability, the veteran fathered 26 children; 11 by his wife and 15 illegitimately by his wife's sister. The last illegitimate child was born in December 1976. The veteran, formerly a farmer, receives \$627 per month at half benefits plus an additional \$204 per month for 18 children under 23 years old.

Since the veteran incurred his disability in 1947, the VA has paid him \$89,100 in benefits, and to his children \$9,900 in educational benefits.

If the veteran lives to his life expectancy, we estimate that at current rates, VA will pay him an additional \$192,000 in benefits and his children up to \$118,000 in education benefits.

Senator PROXMIRE. Furthermore, on the basis of your prepared statement, this fellow is just beginning. The last child he fathered was born in December 1976. He is still moving on.

Mr. AHART. It is not indicated that he is through.

Senator PROXMIRE. So he could receive a lot more than \$192,000?

Mr. AHART. This is true.

#### PROLONGING ILLNESS TO EXTEND MONETARY BENEFITS

A large number of veterans receiving 100 percent disability compensation in the Philippines are either no longer totally disabled or remain disabled by not cooperating with medical treatment plans furnished by VA.

These veterans receive disability compensation on account of pulmonary tuberculosis—PTB—a disease which can be arrested or controlled within a short time with proper medical treatment.

A VA official informed us that nearly 600 veterans in the Philippines receive 100 percent disability compensation on account of PTB. This represents about 68 percent of all veterans receiving 100 percent disability. According to the VA official, about 70 percent of these veterans have been rated 100 percent disabled for more than 20 years, even though VA has provided the medicine necessary to arrest the disease.

In contrast, only 2.5 percent of all 100-percent-disabled U.S. veterans worldwide are disabled due to PTB.

Under 38 U.S.C. 110, a rating of total disability which has been continuously in force for 20 or more years cannot be reduced except if the rating was based on fraud.

At our request, VA reviewed a sample of Filipino veterans whose 100 percent disability is protected under 38 U.S.C. 110. In 13 out of 24 cases reviewed, the PTB was arrested at the time of the last examination and the veterans were no longer considered 100 percent disabled.

However, since the veterans' disability ratings are protected, VA cannot reduce their compensation accordingly.

In April 1964, VA's Manila office reported to the central office the problem of veterans not cooperating with VA's prescribed treatment. A clinical study performed by VA at that time showed that over 60 percent of PTB patients tested were not taking medicine provided by VA on a regular basis.

They attributed this lack of cooperation to the fact that the veterans received more money from VA than they could have possibly earned if they recovered.

VA's central office replied in August 1964 that, short of legislative action, nothing could be done to correct this problem, and that for the time being such action was not appropriate.

In 1973, the VA IAS reported that, for PTB patients refusing to take medication, a statement was being proposed for development to the effect that failure of the patient to respond to treatment over the normal course of the treatment period for such cases was presumptive evidence that the patient was refusing to follow medical advice and therefore grounds existed for reducing compensation.

This procedure was not adopted, and as a result many veterans' 100 percent disability ratings have become protected.

Senator PROXMIRE. You are describing a situation in which a veteran who is suffering from TB has an overwhelming monetary incentive for not getting well.

Mr. AHART. That is correct.

Senator PROXMIRE. He may refuse his medicine, and you have documented a case where that has been done, to prolong his illness because as long as he is disabled he gets this very high disability compensation, far higher than he could possibly earn.

The result is that you not only have a ripoff of the American taxpayer, but you have a tragic prolongation of illness and disability on the part of the beneficiary.

Mr. AHART. That is correct, Mr. Chairman. What they are doing is refusing their medicine until they got the statutory 20-year vesting period after which their benefits cannot be reduced. Then they can get well afterward and continue to receive the compensation.

Senator PROXMIRE. This is a shocking situation. You say that a remedy was proposed but it was not adopted?

Mr. AHART. There was a proposal at one time. VA thought they could do something by legislation but they didn't feel the time was appropriate.

Senator PROXMIRE. Couldn't they say that if a beneficiary refused to take the appropriate medication, he could be disqualified?

Mr. AHART. That would be one way to handle it.

#### ATTENDING SCHOOL FOR INCOME FROM VA BENEFITS

I would like to turn now to a situation of beneficiaries attending school for income from VA benefits. VA educational benefits provide students in the Philippines with sizable incomes after deducting educational expenses. As a result, many students often enroll in courses for the income provided.

VA officials acknowledge that providing such generous educational benefits in the Philippines encourages abuse of the program.

According to registrars of the two colleges in the Philippines with the largest VA enrollment, few VA students finish their studies and other requirements and graduate. One registrar explained that by taking the minimum full-time load, 46 months of study are required to graduate and VA benefits are exhausted after 45 months.

The registrar informed us that VA students seldom attend the last month in order to graduate—they simply drop out as soon as their benefits are used up.

VA performs no followup evaluation of students who have received educational benefits. At our request, VA contacted eight dependents who recently completed training with VA educational assistance.

This limited survey indicated that few students had gained employment using skills acquired with the educational assistance and that some students were not even interested in getting jobs. Of the eight dependents contacted, one was self-employed using her skill part time in her home, five were unemployed—three of whom expressed no intention of seeking employment—and two were employed at jobs unrelated to their training—one as a seashell vendor and another as a horse-cart driver.

#### ACTIVITIES OF CLAIMS FIXERS

An acknowledged problem in VA's administration of benefits programs in the Philippines is the acceptance and widespread use of claims fixers—individuals who prepare and submit claims on the behalf of the claimants—by veterans and their beneficiaries.

Senator PROXMIRE. Let us pursue a point from your discussion of education benefits. What your investigation found was that veterans will take advantage of the GI bill and get their subsistence which, because of the exchange situation, is as high as a professor would receive, for the 45 months entitlement. Then they drop out although 46 months of study are necessary for graduation.

Do you have any data as to the utility of this education? Do you have any indication of the proportion of veterans who took advantage of their education to get jobs for which they were being trained?

Mr. AHART. Yes. We performed a very limited sample. We had the VA follow it up for us. There were only two cases where they were actually employed but at jobs unrelated to their training.

I might give one example, Mr. Chairman, to show how this works. A dependent who was a schoolteacher, and already had a bachelor's degree, became entitled to VA education benefits.

Apparently the dependent quit his job, went to school, and took another bachelor's degree in home economics. Since this person's educational benefits were still not used up, the dependent went on to take courses in secretarial training and perhaps other things until the 45 months of benefits were exhausted.

In a situation where you can draw more after educational expenses by going to school than you can in a job as a schoolteacher, that is a very logical thing for that type of individual to do.

Senator PROXMIRE. You have a situation where there is a distinct incentive to stop working, to get out of the labor force, to stop contributing to the economic well-being of the country in that sense, and to become a student being paid a subsistence allowance higher than one could earn on the outside.

Mr. AHART. That is correct.

Senator PROXMIRE. You end up with a limited education which, based on the GAO survey, is not used.

Mr. AHART. It is not used; correct.

## CLAIMS FIXERS PROBLEM

Getting back to the claims fixers problem, the fixers initiate voluminous numbers of claims which VA is required to act on. The fixers often work on a contingent fee basis, in that if the claim is successful, the fixer receives a share of the benefits paid to the claimant. A VA official said many claims fixers are ruthless extortionists who intimidate their clients into paying a share of their benefits.

Fixer-type claims, lacking any basic merit consume a disproportionate amount of effort on the part of VA's adjudication division, thus impairing its ability to service veterans with legitimate claims. For example, during fiscal year 1976, over 30 years after World War II, VA processed over 1,700 new disability compensation claims. Of these claims only 20, or about 1 percent, were allowed.

The former director of VA's Manila office summarized this situation in his fiscal year 1974 budget presentation, stating: "The activities of claims fixers, operating openly in a foreign country where penalties fixed by U.S. laws are not applicable, and where local laws are not properly enforced, create a continuing problem for this office \* \* \*."

The present director stated that claims fixers are still a problem and that VA efforts to assist Philippine authorities in curtailing their activities have been useless.

The Administrator, Philippine Veterans Affairs Office—PVAO—informed us that PVAO has no problem with claims fixers. A VA official attributed this to the significantly lower level of monetary benefits paid by PVAO.

Senator PROXMIRE. It sounds as if the claim-fixer problem is not a problem of improper claims being acted on by the VA and improper payments being made. It seemed to be a problem in two other ways.

No. 1: It requires an enormous amount of time for VA personnel to check out these fraudulent and erroneous claims.

No. 2: It obviously is a very tragic kind of imposition on Philippine veterans who try to qualify and are unable to do so. A veteran has high hopes, spends months having a fixer try to qualify him, probably at some charge to him, and doesn't get the claim approved.

Mr. AHART. I think it has both of those effects. Because of the fraudulent documentation problem which I will discuss, we are not at all sure that all the fraudulently documented claims are being caught in the process.

We may well have some improper payments being made as well.

Senator PROXMIRE. This problem is another result of the extraordinary difference between what is paid to a Philippine veteran in his country and an American veteran in this country in relationship to the per capita income of each country.

Mr. AHART. That is right.

## AVAILABILITY OF FALSE DOCUMENTATION

The availability of false documentation compounds VA's problems with claim fixers. According to officials of VA, the Social Security Administration—SSA—and the U.S. consulate, the use of false documents is widespread in the Philippines. Because of the unsophisticated

methods of recordkeeping and other factors, false documents of all types are readily procurable.

The head of the SSA office in Manila informed us that because of this continuing problem, SSA has compiled a list of individuals in some Government offices and churches known to issue fraudulent documents and conducts field investigations to authenticate documents issued by these institutions.

A VA official explained that certain false documents can be readily obtained due to the method of recording vital statistics in the Philippines. For example, the recording of deaths requires merely a verbal notification.

Death certificates can, therefore, be issued with no verification that the person had actually died. Additionally, there are false or altered medical certificates, military service or disability, and school attendance records.

Senator PROXMIRE. There is no way you can tell how substantial that problem is?

Mr. AHART. No; not without a very intensive investigation.

Senator PROXMIRE. But, in view of the fact there are so many working at it, apparently it could be very substantial.

Mr. AHART. It could be very substantial. I would say, Mr. Chairman, the fact that there are so many working at it, they must find it profitable. With the ready availability of false documentation, there must be quite a few that get awards where they should not get them.

VA informed us that some claims, particularly those submitted by clever claims fixers, are processed undetected and result in unentitled benefits. The Director of VA's Manila office stated that, although false documentation constitutes a problem for the office, the adjudication staff is well trained and intercepts a large portion of claims based on fraudulent documents.

#### LACK OF JURISDICTION INHIBITS CURBING PROGRAM ABUSES

VA administers benefits in the Philippines under the same policies as in the United States but without availability of the same legal penalties.

VA's policy is to administer the law under a broad interpretation and to resolve any reasonable doubt in favor of the claimant. However, in the Philippines legal penalties—fines from \$1,000 to \$5,000, or imprisonment for up to 2 years, or both—provided for by title 38, United States Code, are not enforceable.

Furthermore, Embassy policy dictates that all U.S. agencies operating in the Philippines avail themselves of the immunity provided by international law. To protect this immunity, the Embassy has directed the agencies not to engage in court actions against Filipinos.

As a result, the only deterrent available to VA in preventing program abuses and protecting the interests of the Government is the administrative forfeiture of benefits. This procedure, however, applies only to claimants, and has no effect on the activities of claims fixers.

Senator PROXMIRE. Has there been any effort that you know of to gain jurisdiction with respect to deliberate attempts to defraud the U.S. Government?

Mr. AHART. I know of no attempt. Perhaps my associates have some knowledge. Apparently, there isn't.

Senator PROXMIRE. The VA programs in the Philippines have been going on for years, and there has been some recognition of widespread fraud, yet there is no penalty applicable to claims fixers because of the fact that we are dealing with a foreign country.

Mr. AHART. That seems to be the situation.

This lack of jurisdiction also affects VA's ability to recover overpayments made to beneficiaries on the basis of inappropriate and fraudulent claims. According to VA officials, unless there is a continuing award, collection efforts for recovery of overpayments are usually unsuccessful.

Therefore, after following established collection procedures, VA generally writes off the overpayments. In the United States, VA can further pursue collection of overpayments in the courts.

In fiscal year 1976 alone, VA's Manila office established 759 indebtedness accounts for \$865,000 in overpayments and since July 1975 has waived or written off overpayments totaling almost \$800,000.

VA's Manila office director stated that certain of the ongoing abuses can be curbed through legislation, but that VA problems with claims fixers and false documentation cannot effectively be dealt with since U.S. laws are unenforceable in the Philippines.

Senator PROXMIRE. That is a very serious problem. We are dealing with a foreign country here. The Philippines have had their independence since 1946. Therefore, we cannot enforce our laws on their nationals. But we are making very substantial payments to citizens of a foreign country, not American citizens. They qualify under VA programs that also apply to American citizens.

Mr. AHART. That is correct.

We would now like to address the medical benefits program. As you know, this program is under special legislation, which is due to expire in September 1978 unless renewed by the Congress.

#### MEDICAL PROGRAM

In 1948, Congress authorized, through Public Law 80-865, a grant program to provide medical benefits to Filipino veterans with service-connected illnesses.

This law also provided authorization for constructing and equipping a hospital in Luzon. The grant was authorized for a 5-year period. The program was to be temporary with the Philippine Government eventually assuming responsibility for funding the program and operating the hospital.

The hospital, built and equipped at a cost of about \$9.4 million, now called the Veterans Memorial Medical Center, was turned over to the Philippine Government in 1955.

Although the program was intended to be temporary, it has been extended in 5-year increments by legislation through September 30, 1978, 30 years since it was initially established. After July 1, 1958, Public Law 85-857, enacted in 1958, changed the basis of funding of the program from a grant basis to a reimbursable contract basis.

Renewal legislation which had the greatest impact on the program was Public Law 89-612, enacted September 1966. In addition to extending the program for another 5-year period, this legislation expanded the program to include medical care for non-service-connected illnesses.

This was done, in part, to supplement the declining patient load at the center—at the time running at less than 75 percent of capacity. Until that time, expenditures charged to the program had been declining. Since then, the cost of the program experienced an upward trend increasing from less than \$300,000 in 1966 to approximately \$2 million in 1974. Since 1974, program costs have remained fairly constant.

Public Law 89-612 also authorized \$500,000 for replacing and upgrading equipment and for restoring the physical plant of the hospital. It further authorized a yearly \$100,000 appropriation for 6 years, beginning in 1967, in grants to the center for medical research and training of health service personnel.

The latest renewal legislation, Public Law 93-82, extended the program through June 30, 1978—subsequently changed to September 30, 1978—and authorized funds up to \$2 million annually for medical care.

The law also provided for annual grants up to \$50,000 for education and training of health service personnel at the center and up to \$50,000 for replacing and upgrading equipment and maintaining the physical plant.

The program is administered on a cost reimbursable basis whereby the center is paid for inpatient care at an all-inclusive per diem rate. The per diem rates are jointly determined by the United States and the Philippine Governments.

#### CENTER FACILITIES AND SERVICES

The Center employs over 1,500 personnel and provides a wide range of inpatient and outpatient services to United States and Filipino veterans.

Its mission was expanded in 1960 from a specialized veterans hospital into a general hospital, offering specialties such as obstetrics-gynecology, pediatrics, and psychiatry. Since then, the center has established specialized services and programs including nuclear medicine, open heart surgery, radiotherapy, and renal dialysis.

In 1960, the Philippine Government also began using the center for its own veterans program. Today, the Philippine program includes service- and non-service-connected care, dependent care, and treatment of civilian patients on a paying basis if beds are available.

To meet the increased demands of the United States and Philippine programs, we were informed that the hospital gradually increased its bed capacity from 700 in 1964 to 1,160 in 1975. Located on a 126-acre site, the center now has a total of 30 buildings, with a variety of recreational facilities including an 18-hole golf course, tennis courts, and a basketball court.

In addition to the center, the Philippines has at least 13 other Philippine-funded medical facilities which may be used by Filipino veterans under the Philippine Government's program.

#### POTENTIAL FOR REDUCING MEDICAL PROGRAM FUNDING

Although the medical care program was established almost 30 years ago as a temporary program to provide medical treatment for service-connected illnesses, legislative amendments have continued the program and have expanded it to include non-service-connected care,

currently representing about 96 percent of all patient days charged under the program.

Moreover, VA's Manila office which screens both United States and Filipino veterans to determine the need for hospitalization at the center, estimates a substantial portion of the care provided on an inpatient basis under the program could be treated more effectively and economically on an outpatient basis under the Philippine Government's program.

In 1976, the VA central office committee commenting on VA's IAS 1973 findings on problems of unnecessary hospitalization recommended that to avoid unnecessary hospitalization veterans with non-service-connected conditions be admitted for hospitalization at the center only when they cannot be treated on an outpatient basis.

The committee further concluded that such outpatient treatment should be the responsibility of the Philippine Government. As of August 1977, the committee's recommendation had not been implemented.

#### PROGRAM FUNDS USED MOSTLY TO TREAT NON-SERVICE-CONNECTED ILLNESSES

By limiting U.S. funding of the program to service-connected illnesses, substantial reductions in funding and the role of VA could be achieved.

In fiscal year 1976, almost 96 percent of the patient-days charged against the program were for non-service-connected illnesses. Moreover, about \$1.6 million of the \$1.9 million cost for the program in fiscal year 1976 was attributable to inpatient care—the only category for which treatment of non-service-connected illness can be authorized under the program. The program could be reduced by about \$1.9 million if treatment was limited to service-connected illnesses.

As I mentioned before, the Congress authorized non-service-connected care under the program in 1966. During the period from 1966–1976, the number of Filipino veterans receiving care at the center for service-connected conditions has declined from 100 percent to about 4 percent.

#### HOSPITALIZATION CAN BE AVOIDED

Many veterans treated at the Center for non-service-connected illnesses would not require hospitalization with proper outpatient treatment. VA's Manila office estimated that substantial reductions in hospital costs could have been realized in fiscal year 1977 if these veterans had received proper treatment on an outpatient basis.

Under current legislation, however, outpatient care is authorized only for those Filipino veterans who have service-connected illnesses. Outpatient treatment for non-service-connected illnesses is available only under the Philippine program.

An indication of the non-service-connected nature of the program, as it now exists, can be shown by the cost for inpatient care—the only category for which medical care is authorized for non-service-connected illnesses. In fiscal year 1976, about \$1.6 million of the \$1.9 million cost of the program was for inpatient care.

In a recent study on unnecessary hospitalization, VA's Manila office sampled 167 patient files related to fiscal year 1976 non-service-connected treatment. Based on its analyses and projections, it estimated that over \$400,000 in fiscal year 1977 hospitalization charges to the program could have been eliminated if proper treatment was provided on an outpatient basis.

Senator PROXMIRE. Let me go back a little bit. You say in the 10 years from 1966 to 1976, the number of Filipino veterans receiving care for service-connected conditions declined from 100 percent to 4 percent, whereas in 1966, all of the veterans were service connected, in 1976 only 1 out of 25 were service connected?

Mr. AHART. That is correct. The program was authorized to treat non-service-connected illnesses for the first time in 1966. Prior to that, only service-connected illnesses could be treated under the program.

#### ALTERNATIVES TO PROGRAM

I would like to skip over, now, Mr. Chairman, if I may, to what the alternatives are as we see them as to where we go from here on these programs which begin on page 38 of my statement.

As you know, the Appropriations Committees last month cut the VA Philippine medical program by \$400,000. If the subcommittee believes that the Government of the Philippines should assume greater responsibility for this program, we recommend that U.S. funding for treatment of non-service-connected illnesses be phased out and that an agreement be negotiated with the Government of the Philippines to provide for a lump-sum payment to fund the program for service-connected illnesses.

We believe that the other benefits programs need to be reassessed. The following options could be included in the reassessment:

Continue the programs in the Philippines but do not increase benefits until the level of benefits to Filipino veterans has been reduced to a comparable level of benefits to American veterans considering the differences in economic conditions of the United States and the Philippines.

Senator PROXMIRE. That would be a long time in view of the fact that the level of benefits is 10 times greater now. That might take until the year 2100 or the year 2200, or some such date. It could be several hundred years from now.

Mr. AHART. It would meet one argument that has been made within the VA in the past. People have become accustomed to a high standard of living. That would be one way to ease it down.

It would take a long time and it would not solve the problem of the incentives for program abuse which exists in the program.

Senator PROXMIRE. It also would be very expensive to the American taxpayer.

Mr. AHART. It would be expensive to the American taxpayer. That is correct.

This would require establishing a separate program for veterans in the Philippines. However, this would not solve the problem of abuses to the programs because benefits would still be high for a long period. Also, the inability of VA to eliminate the high incidence of abuse could perpetuate the life of the programs.

Another option would be to transfer most of VA functions, such as processing of claims to the United States. Whether this would result in cost savings is an open question. Some view it as a move which would seriously handicap claims fixers.

It is likely that this would result in Filipino veterans receiving a reduced level of service than they are now receiving but on a par with service received by VA beneficiaries in other countries.

A more viable alternative would be to negotiate a final settlement with the Government of the Philippines to cover costs for all remaining benefits for Filipino veterans residing in the Philippines.

This action is not without precedence as the United States and the Philippine Government signed an executive agreement in 1967 which provided a lump-sum payment of \$31 million to the Philippine Government for previously unsettled Filipino veteran claims.

A lump-sum payment or the setting up of a type of trust fund would be more politically viable than just reducing benefits. Also it would be consistent with: (1) The U.S. objective of eliminating the special relationship with the Philippine Government; (2) would aid the Philippine Government toward their goal of self-reliance; and (3) would be in line with the U.S. policy of reducing U.S. presence abroad.

It would also add the advantage that if the benefits programs were administered by the Philippine Government under its own laws and jurisdiction, there would be the authority and the penalties to address and take care of program abuses that might result.

A lump-sum payment would also permit the Philippine Government to adjust its own veterans' programs and perhaps enable it to provide additional benefits to its own veterans thereby treating them more equitably when compared to the Filipino veterans that receive VA benefits.

#### CONCLUSION OF STATEMENT

This concludes my statement, Mr. Chairman. We would be happy to respond to any questions you or other members of the subcommittee may have.

Senator PROXMIRE. Thank you very much, Mr. Ahart. You have certainly done a lot of very excellent and helpful work. You have given us a clear picture of what the problem is. Maybe you could do this for the record, if you can't do it now. I would like to have as clear and comprehensive a picture of exactly how this situation came about, in terms of foreign exchange differences, and so forth.

#### RELATIONSHIP OF PESO TO DOLLAR

You have pointed out the relationship of the peso to the dollar and indicated that an adjustment was attempted. But it is not clear in my mind how that situation developed. As the years since 1946 went by, we had a change in foreign exchange which apparently resulted from a different valuation of the dollar and the peso, and which has given us this enormous distortion.

I come back to the fundamental fact that the American veteran gets benefits which are about 70 percent of the average family median income in this country—70 percent of what other American citizens

earn. On the other hand, the Philippine veteran, a foreign citizen, will get seven times as much as the average family median income in his country.

I wonder if you could give me a summary now of just how foreign exchange developments created this monstrous inequity.

Mr. AHART. Let me try to summarize it now. I think it is a combination of factors. We have a little bit more work to do, I think. We would like to lay out the story as completely as we can in the final report that we give to the subcommittee.

Originally, in 1946, recognizing the difference in the economies and the pressures at the time to overcome the VA ruling, which I mentioned, on a full dollar basis, I think the Congress probably took the shorthand answer to it and said let's give them 50 percent benefits and they pegged it at 1 peso per dollar.

The exchange rate stayed fairly stable until about 1960, but by 1964 the exchange rate had grown to about 4 pesos per dollar and in 1966, the proposal was to give them 2 pesos per dollar. But finally they settled on putting it permanently in the law by giving them 50 cents in equivalence in pesos.

I think the exchange rate now is up in the neighborhood of about  $7\frac{1}{2}$  pesos per dollar. In addition to that, in terms of pesos, we have had cost of living increases, and other adjustments over the years—

Senator PROXMIRE. I can see how you can possibly justify some difference because of the changes you have summarized here, but it seems we certainly should have pegged the benefits to the exchange rate.

As you say, the exchange rate was 2 to 1. Now it is 7 to 1. We should have had at least that par adjustment. You still would have that extraordinary advantage for the Philippine veteran. But at least benefits would be based on some kind of sensible recognition of what the exchange rate is.

Mr. AHART. I think it is pegged in the exchange rate now as it has been in 1966. What hasn't been done and as near as I can read the legislative history was to take a look at what that meant in terms of the standard of living and the cost of living in the Philippines because not always does the exchange rate have that direct a relationship to the living conditions in the foreign country.

Senator PROXMIRE. You just told me that it didn't adjust entirely, that there is a 2 to 1 difference here, but there is a 7 to 1 exchange relationship. So you missed by about 350 percent.

Mr. AHART. It has been put in dollar terms now. The equivalent of 50 cents in pesos for every dollar the veteran gets in this country, but what hasn't been done is to relate that to the local economy, what does that buy on the local economy in relation to the standard of living and the cost of living in that country.

Senator PROXMIRE. If the exchange rate is  $7\frac{1}{2}$  pesos per dollar, and we pay 2 pesos per dollar, obviously they are getting  $3\frac{1}{2}$  times as much as they should just on the basis of sheer exchange values.

In other words, they ought to get one-seventh as much. Even then you might have to make a further correction to reflect the cost of living in the Philippines.

Mr. AHART. I think you are right on that. I have to admit that I don't fully understand it either. We will try to lay out the story as completely as we can in our final report to the subcommittee.

## TOTAL PROGRAM COST

Senator PROXMIRE. I understand that in your statement you estimate total program costs would reach \$1.5 billion over the next 20 years. Is that right?

Mr. AHART. That is our estimate.

Senator PROXMIRE. How do you calculate that? What allowance do you make for inflation and so forth?

Mr. BLAIS. Our projections were based on the trend data maintained by VA in the Philippines. It is based on current disbursements without provisions for legislative rate increases. VA estimated that the compensation would cost about \$277 million through fiscal year 1977 to 1980. Educational costs would cost about \$44 million.

Projections by VA indicate a progressive decrease for disbursements for service-connected cases and gradual decreases for non-service connected cases.

To project costs over the next 20 years, we used the trend data and projected that by adjusting increases and decreases in each category of beneficiaries.

Senator PROXMIRE. The \$1.5 billion projection is based on what I perceive, and I think you perceive, too, as a very substantial inequity, at least as far as American veterans and taxpayers are concerned. You are not assuming that we change this situation very much?

Mr. AHART. No; the \$1.5 billion is a straight line projection.

Senator PROXMIRE. It assumes we continue to implement present policies?

Mr. AHART. Yes.

## LUMP-SUM PAYMENT PROPOSAL

Senator PROXMIRE. You say that one way to handle this problem is to make a lump-sum payment. The Philippine Government would then move in and administer the funds themselves, which seems to me to be logical. What kind of payment are you suggesting?

Mr. AHART. We don't have a precise amount in mind. It obviously wouldn't be as much as \$1.5 billion because of the discounting factor you would have to bring in. So I don't think we could reach a very precise figure. I think if you took the cash payment we are talking about which adds up to \$1.5 billion and just cut it back to its present value now, you are talking about a figure somewhere in the neighborhood of less—just about half of the \$1.5 billion.

Senator PROXMIRE. The value of \$1.5 billion, paid over a 20-year period, would be about \$750 million, you estimate?

Mr. AHART. It is something like that.

Senator PROXMIRE. It is substantially less than that if you eliminate the clear inequity.

Mr. AHART. Depending on what factors should be brought into play with the negotiations with the Philippine Government.

Senator PROXMIRE. We now provide a substantial foreign aid commitment to the Philippines, do we not? Something like \$100 million a year?

Mr. AHART. I am not sure about that.

Senator PROXMIRE. You are followed by a State Department witness. We can ask him about that.

## CORRECTING OF ABUSES BY LEGISLATION

Can the abuses or problems you identified in your statement be corrected through legislation?

Mr. AHART. I think so. I would like to have my associates talk about which ones we think might be helped by legislation.

Mr. PECK. We think that possibly the adoption situation and illegitimate children might be curbed by legislation. There might be a limitation on the number of children you are allowed to adopt, for example.

Senator PROXMIRE. How about educational abuses?

Mr. PECK. Yes; I think you can curb that with legislation, too.

Senator PROXMIRE. Would it be, in your view, practical for us to consider legislation that would simply reduce educational benefits by taking into account the possible cost of living and per capita income in the Philippines to some extent?

Mr. AHART. I think that would be one option that could be considered. It is distinguished from the compensation and pension situation by the fact that people do not count on educational benefits for their livelihood, for the long term. It is more of a short term, a 45-month limitation. It seems like you shouldn't have too many people adjusting to a whole standard of living through that kind of short-term benefit.

It would seem that legislative reduction of benefits that would make them more closely aligned to the cost of education would be a viable option.

## RELIEF FOR IMPAIRED LEARNING CAPACITY

Senator PROXMIRE. In the statement that follows yours by Mr. Wilson of the Veterans' Administration, he says, as you know, that the basic purpose of the disability compensation program has been to provide relief for the impaired earning capacity of veterans disabled as a result of their military service.

Obviously, if the purpose is to compensate veterans to some extent for impaired earning capacity, and we give our veterans 70 percent of the average income, I can see no justification at all for providing a Philippine veteran seven times the average income in the Philippines.

This contradicts what we specify in the law. It does not simply restore their impaired earning capacity. It seems to me we could fully justify a sharp reduction. Of course there are other elements we have to consider, including our relationship with the Philippine nation, which we hope is going to continue to be very friendly and constructive.

On the basis of taxpayer equity, I think you can make a pretty powerful case for reducing benefits.

Mr. AHART. Yes; you mentioned we give our veterans 70 percent of the median average. The Philippine Government in the veterans program gives about 72 percent.

Senator PROXMIRE. So they do about the same.

Mr. AHART. Yes; both on the principle of at least partially restoring the earning power of people suffering from disability.

Senator PROXMIRE. Suppose we made a lump-sum payment applying the 72-percent ratio, and thus reducing the benefits, but at the same time, providing some compensation for the country, as a whole, in

recognition of the fact that they did provide enormous help to us in World War II and we shouldn't ever forget it?

Mr. AHART. I think the advantage is both ways.

#### ADOPTION PROBLEMS

Senator PROXMIRE. You say that in 1972, VA's Manila office had notified VA's central office that something needed to be done about adoptions. Was this the only time it was brought to the central office's attention?

Mr. AHART. No; I don't believe it was. Mr. Hightower would have the details on that.

Mr. HIGHTOWER. Yes, Mr. Chairman. They raised the issue on at least three other occasions. They sent letters to the central office in November 1972, October 1974, and April 1975. In addition, the VA IAS, in 1973, mentioned adoption as being a problem.

Senator PROXMIRE. What has the VA central office done in view of all those notices?

Mr. HIGHTOWER. I don't think any action has been taken.

Senator PROXMIRE. No action has been taken?

Mr. HIGHTOWER. No.

#### RECOVERY OF WIDOW RESTORATION CLAIMS

Senator PROXMIRE. You say that the VA initiated a program requiring field investigations for all widows' restoration claims. Were any funds recovered?

Mr. AHART. We don't have the information on the amount of funds recovered, if any. VA does estimate a rather sizable amount, I think in the neighborhood of \$44 million, that they have saved in future payments by detecting the fraudulent claims that did come in prior to 1977.

As I mentioned, there probably still are some there, based on a limited subsequent VA investigation, that were fraudulent and are now receiving benefits to which they are not entitled.

It may be that the VA could use some additional investigation on that.

Senator PROXMIRE. In your prepared statement, you indicated that one family received \$17,000 in 1 year from VA. Recognizing the difference in the cost of living between this country and the Philippines, that would be equivalent to more than \$100,000 in the United States, which would be a nice sum to receive in 1 year.

Can you tell us what is included in that \$17,000?

Mr. AHART. Yes; I think I can. Mr. Peck has a breakdown on that.

Mr. PECK. Mr. Chairman, what is included is the veteran received \$8,300 for compensation and his wife received \$1,400 for educational benefits.

Six of his children received anywhere from \$1,100 to over \$1,300 for educational benefits for that 1 year.

Senator PROXMIRE. I want to thank you very much, Mr. Ahart for a very constructive and helpful statement and for the remarkable investigation that you have made. Usually the GAO does a superlative job in these areas. Please continue that fine tradition.

PREPARED STATEMENT

As I had indicated earlier, Mr Ahart, your prepared statement will be included in the record at this point.

Mr. AHART. Thank you, Mr. Chairman.

[The statement follows:]

PREPARED STATEMENT OF GREGORY J. AHART  
DIRECTOR  
HUMAN RESOURCES DIVISION

Mr. Chairman and members of the Subcommittee, we are pleased to be here today to discuss our review of the VA benefits programs in the Republic of the Philippines. The review was undertaken at your request and as you know we issued our report on the medical program on May 20, 1977.<sup>1/</sup> A report on our review of other VA benefits programs is now being prepared.

BACKGROUND

The Philippines is the only foreign country in which VA operates comprehensive benefits programs. Since 1946, about \$2 billion has been provided under the programs. During fiscal year 1976, \$80 million in benefits were distributed to various categories of eligible veterans and beneficiaries. These programs resulted from:

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

Filipinos with service in the regular components of the U.S. Armed Forces, including those who served before and during World War II as Philippine Scouts, called Old Scouts, are considered U.S. veterans. Approximately 50,000 of these veterans reside in the Philippines.

In addition three other groups of Filipino veterans totaling about 452,000 also are entitled to benefits:

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<sup>1/</sup>"Potential For Reducing U.S. Financial Support And Ending VA Involvement In Medical Program For Filipino Veterans" (HRD-77-95, 5/20/77).

- Filipinos who served in the Philippine Commonwealth Army, which was inducted into the U.S. Armed Forces of the Far East in July 1941 (about 110,000).
- Those who fought during World War II in guerrilla units recognized by the U.S. Army as part of the U.S. Armed Forces (about 312,000).
- Philippine Scouts, called New Scouts, enlisting in the U.S. Armed Forces under provisions of the Armed Forces Voluntary Recruitment Act of 1945 (about 30,000).

It should be noted, however, that although the number of potential beneficiaries total 502,000, only about 56,000 are currently receiving benefits.

#### VA activities

VA is responsible for administering and monitoring both the monetary and medical benefit programs in the Philippines. VA has maintained an office in the Philippines since 1921; before World War II the office was staffed by 13 employees and served approximately 7,500 veterans. However, VA operations have expanded greatly due to the large increase in potential beneficiaries created by legislation providing benefits to World War II Filipino veterans and by continually expanding these benefits over the years. As of March 1977, VA employed 254 persons in the Philippines, including 14 Americans. The VA outpatient clinic employed 64 of these persons, including 2 Americans. Annual operating costs averaged over \$1.8 million for the monetary and medical benefits programs over the last five fiscal years. Annual operating costs for the outpatient clinic were about \$460,000 of the \$1.8 million.

Special legislation which permits VA to operate in the Philippines has been extended in increments by legislation

through September 30, 1978, 56 years since it was initially established.

We would like to address the monetary benefits programs first.

#### MONETARY BENEFITS PROGRAMS

The Congress has enacted several laws that provide Filipino veterans most of the benefits received by American veterans.

In 1946, Public Law 79-301 authorized the payment of monetary benefits to eligible Filipino veterans and their dependents. The law limited benefits under the National Service Life Insurance Act of 1940, and for the payment of pensions on account of service-connected disability or death.

The law required that benefits be paid at the rate of one Philippine peso to each dollar for a veteran who was a member of the U.S. Armed Forces. This provision recognized that the average income, living costs, and other related economic factors in the Philippines were different from those in the U.S. The concept was that one peso would obtain for the Philippine veterans the equivalent of \$1 for the American veteran in the American economy.

Subsequent legislation included additional categories of benefits for Filipino veterans. The 89th Congress authorized educational assistance for children of Filipino veterans who died or were permanently disabled from service-connected causes. Public Law 89-641 increased payments from one peso for each dollar authorized to a rate in Philippine pesos equivalent to \$0.50 for each dollar.

The Congress since 1946 has periodically increased monthly benefits rates for all veterans, including additional benefits for Filipino veterans.

Program expenditures have steadily increased from \$8.1

million in calendar year 1947 to \$78.4 million in fiscal year 1976. The types of program expenditures are:

- compensation which is payable to eligible veterans for service-connected disabilities or their dependents.
- disability pensions which are paid to eligible veterans because of war time service, age, or nonservice-connected disabilities. Unlike compensation, pensions are authorized only for U.S. veterans.
- death pensions which are paid to the dependent spouse and children of U.S. veterans.
- education benefits which are payable to all veterans who served in the regular components of the U.S. Armed Forces, including Old Philippine Scouts, and in certain instances are also payable to widows, wives, and children of veterans. Eligible persons are entitled to educational assistance up to 45 months. Dependents of U.S. and Filipino veterans are paid at half rate.

BASIS FOR COMPUTING VA BENEFITS  
CREATES INEQUITIES

The basis for computing benefits does not adequately consider differences between income levels of the U.S. and the Philippines and has the effect of compensating Filipino veterans at higher levels than their American counterparts in the U.S.

At the time the benefits programs for Filipino veterans were established in 1946, it was generally accepted that one U.S. dollar was worth two Philippine pesos and that one peso would obtain for the Filipino veteran in the Philippine economy the equivalent of \$1 for the American veteran in the American economy. Thereby, Filipino veterans were supposedly placed

on a level equal to American veterans considering the differences in the economies of the two countries.

As a result of a Joint Republic of the Philippines - U.S. Commission study of Philippine veterans' problems, Congress in 1966 authorized a change on how benefits were to be computed.

Adjustment of payment basis  
provides windfall to Filipino veterans

Public Law 89-641, changing the basis for benefit payments to Filipino veterans, had the immediate effect of doubling benefit payments to Filipino veterans, and has provided them with additional windfall benefits due to subsequent legislative increases and currency devaluations.

The intent of the 1966 law was apparently to restore Philippines beneficiaries to approximately their situation in 1946, taking into account the changes occurring in the economies and living standards in the Philippines and the U.S. since 1946. Since the law was enacted, however, legislative increases and devaluations of the peso have provided Filipino veterans with undue increases in benefits and has resulted in Filipino veterans achieving much higher levels of benefits than their counterparts in the U.S.

For example, over the period 1966-1977, benefits for American veterans have been increased by legislation by about 125 percent. However, Filipino veterans receive the same percentage increase as American veterans. As a result of peso devaluation and legislative increases over this period, Filipino veterans have received about a 700 percent increase in benefits in terms of pesos.

Both U.S. and Filipino veterans in the Philippines receiving VA benefits have gained significantly from exchange rate adjustments. This is in addition to benefit increases granted by the Congress apparently to offset inflation or cost-of-living increases in the U.S. Since most expenses

borne by VA beneficiaries in the Philippines are in the local currency, exchange rate fluctuations do not necessarily relate to the cost of living in the Philippines.

Although the amounts differ, these windfall increases apply to all categories of VA benefits paid to Filipino veterans and their beneficiaries.

VA's Internal Audit Service (IAS) in 1973, after its review of the programs, concluded that benefits in the Philippines, even at 50 cents to the dollar, represented a substantial source of income based on the local economy and relatively low standard of living. The study recommended that a relatively simple formula for computation of benefits should be developed with periodic updating to reflect a reasonable average cost of the service or benefit the laws were originally intended to provide

IAS recommended changing legislation to provide for computing benefits conforming to the original intent of the applicable laws.

A VA committee established to consider the recommendations of the IAS study did not concur with the recommendation. In a March 5, 1976, letter, it stated that VA benefits provided a substantial income for most recipients and that most of the beneficiaries had been on the VA rolls for thirty years and their standard of living has been upgraded accordingly. The committee stated that reduction of benefits at this date would drastically affect the standard of living to which the beneficiaries had become accustomed.

Compensation and pension -- in general, compensation payments are provided to U.S. and Filipino veterans or their dependents for the loss of earning power resulting from service-connected disability or death. Pensions are paid to U.S. veterans who are unable to work because of

a nonservice-connected disability and dependents of deceased veterans to provide a measure of security. In the Philippines, however, compensation and pension payments more than compensate the veteran for loss of earning power, and in many cases, provide veterans with income levels higher than they could have possibly achieved had they not been disabled.

In fiscal year 1976 VA distributed approximately \$67 million in compensation and pension payments to over 48,000 beneficiaries in the Philippines. The average payment was \$1,382 a year -- \$2,069 for a U.S. veteran and \$1,080 for a Filipino veteran receiving limited benefits. In comparison, the average annual earnings of all employed wage and salary workers, according to Republic of Philippine statistics, was only about \$455 in 1975 -- less than one-third of the average compensation and pension payment. As shown by a recent Philippine Government salary and wage survey, veterans in the Philippines generally receive more in benefits than they could earn in some trades and professions.

For example, a 50 percent disabled Filipino veteran would receive more compensation than he could expect to earn in many civilian occupations. As the degree of disability increases, the disparity becomes even more pronounced. A Filipino veteran who is 100 percent disabled would receive \$4,794 annually, or more than double the average annual salary of a physician in the Philippines.

In comparison, the Philippine Veterans Affairs Office (PVAO) -- a counterpart agency of VA which administers all programs for Filipino veterans recognized by the Philippine Government, but not recognized by the U.S. -- pays its 100 percent disabled veterans up to

\$320 a year which is about 30 percent less than the average annual earnings in the Philippines. This disparity in benefits is obviously even greater when comparing U.S. veterans' benefits to local income levels.

In addition to disability compensation, VA provides pensions to U.S. veterans and their dependents for nonservice-connected disability and death. In fiscal year 1976, VA distributed \$14 million in pensions to 8,654 beneficiaries in the Philippines. Pensions averaged \$2,117 for veterans and \$1,255 for dependents. The PVAO does not provide pensions for World War II veterans. In contrast, however, the Philippine Social Security System paid its recipients an average annual payment of \$240 for disability pension and \$163 for retirement pension in 1975.

Educational benefits -- the educational assistance program established by the Congress aids veterans and children in attaining the educational status they might not have otherwise aspired to and to better enable wives and widows to support their families. Educational payments are intended to help meet, in part, the cost of obtaining an education which includes tuition, fees, books, supplies, and subsistence. In the Philippines, however, because educational costs are so low, students need only a small percentage of their allowance payments to defray educational expenses.

From 1946 to 1976, the education program has cost nearly \$145 million. The annual cost has increased from about \$300,000 in calendar year 1946 to over \$11 million in fiscal year 1976.

In the Philippines, U.S. veterans are entitled to full educational benefits, whereas eligible dependents of U.S. and Filipino veterans are limited to half rate. At current levels, VA educational benefits in the

Philippines provide students with sizable incomes after deducting expenses associated with obtaining an education.

Almost one-half of all VA student beneficiaries attend 11 college level institutions and one vocational school in the Philippines. At four of these institutions monthly tuition averaged only about \$11 at the colleges and was less than \$4 at the vocational school. A Philippine Government survey published in 1974 estimated that total educational costs including subsistence were about double the cost of tuition.

In fiscal year 1976 the average veteran retained about \$331 per month and dependents \$113 per month for full-time college study after deducting educational expenses.

In the Philippines, veterans' dependents earned about as much from their educational assistance payments as the average college professor with a master's degree (\$118 per month), and a veteran earns almost twice as much as college deans (\$179 per month).

On an annual basis veterans and dependents would obtain an average of about \$3,972 and \$1,356 -- after educational expenses -- respectively, from educational benefits which is more than the average VA compensation payment and also more than could be earned in many occupations in the Philippines.

Additionally, most dependents receiving educational assistance payments are also direct or indirect beneficiaries of other VA monetary benefits, such as death or disability compensation.

Some dependents' families received an average of three checks per month and their annual income from VA benefits averaged \$6,083 during fiscal year 1976. In one family, eight members received VA payments during the year

totaling over \$17,000. Also, a substantial percentage of veteran students are Navy retirees receiving retirement pay of over \$300 per month.

We would now like to discuss abuses to the benefits programs.

#### PROGRAM ABUSES

As presently structured, VA monetary benefits are so relatively high to the Philippine levels of income that they provide an incentive for certain individuals to try every conceivable ploy to obtain VA benefits.

Because VA has never accomplished a complete file search to insure that only eligible beneficiaries are receiving benefits, and does not maintain records which readily identify the incidence of program abuses, we were unable to determine the full extent of these abuses. We are, therefore, presenting examples and information available illustrating the various types of program abuses and problems encountered by VA in administering benefits programs in the Philippines, along with actions taken by VA to remedy these problems.

#### Fraudulent claims under widows' restoration program

Although the VA office in Manila cannot estimate the number of fraudulent cases in the Philippines, it reported that such claims acted upon locally number in the thousands. The VA Widows' Restoration Program clearly illustrates this problem in the Philippines.

In 1970, Public Law 91-376 provided for the restoration of VA benefits to widows. Because of the high potential for fraud under this law, VA's Manila office in 1971 initiated a program requiring field investigations for all widows' restoration claims. Through April 1977 more than 5,000 widows applied for restoration of benefits under the provisions of the law.

However, after investigation, only 2,613, or about 50 percent, had their benefits restored. Of the remainder, 1,910 claims were determined to be fraudulent and resulted in forfeiture of benefits, and another 640 were disallowed for other reasons.

#### Adoptions and illegitimate children

Philippine adoptions for the purpose of gaining additional benefits have long been recognized as a problem by VA. The VA, however, has not studied the potential abuse resulting from illegitimate children being entitled to VA benefits in the Philippines.

Adoptions -- In 1972, VA's Manila office recommended to VA central office that a more stringent statutory requirement be instituted for Philippine adoptions. VA reported numerous instances of aged and disabled veterans adopting children for the sole purpose of qualifying them for benefits. Several examples reported by VA are shown below:

--A 70-year-old single veteran adopted his 6-year-old great grandnephew, even though the natural parents were still alive and living with the veteran,

--A single veteran, age 69, adopted two great grandnieces ages 4 years and 8 months. The children remained in the custody of their natural parents, and

--A married veteran, 68 years old adopted four great grandnieces and grandnephews, even though two of the children never lived with the veteran.

Since the adoptions were granted by Philippine courts, VA recognized them as valid and awarded increased benefits because of the children. The children can often continue

receiving benefits through age 23, and in some cases can receive education benefits thereafter. A VA official informed us that the Manila office processes about 50 adoption cases each year, but because of recently liberalized adoption laws -- permitting persons with natural children to adopt -- this number could increase in the future.

In March 1976, the VA committee considering VA's IAS recommendations concurred that a more stringent statutory requirement was needed for Philippine adoptions, and recommended that the VA General Counsel formulate appropriate guidelines for a change in legislation. As of August 1977, VA has not implemented this recommendation:

According to a former director of VA's Manila office, the practice of allowing veterans, who receive sizable benefits from VA, to adopt children of relatives solely for the purpose of providing financial support for these children and their natural parents defeats the philosophy, both in law and in intent, of providing benefits to children legitimately adopted by veterans.

Illegitimate children -- A VA official informed us that in the Philippines, married veterans frequently sire illegitimate children. These illegitimate children, so long as the veteran acknowledges paternity, are entitled to the same benefits as the veteran's legitimate children. VA officials acknowledged that the recognition of illegitimate children in the Philippines has potential for abuse, particularly for veterans with a disability rated at 50 percent or more (comprising more than 25 percent of Filipino veterans receiving disability compensation) since increased benefits are paid for each child.

VA's Manila office maintains no statistics on illegitimate children, nor has it studied potential abuses associated with their entitlement to VA benefits. Probably the most blatant example in VA files is the case of

--a veteran, who was shot by a guard while returning from being absent without leave, was rated 100 percent disabled with additional compensation for loss of use of extremities. Since incurring his disability, the veteran fathered 26 children; 11 by his wife and 15 illegitimately by his wife's sister. The last illegitimate child was born in December 1976. The veteran, formerly a farmer, receives \$627 per month at half benefits plus an additional \$204 per month for 18 children under 23 years old. Since the veteran incurred his disability in 1947, the VA has paid him \$89,100 in benefits, and to his children \$9,900 in educational benefits. If the veteran lives to his life expectancy, we estimate that at current rates, VA will pay him an additional \$192,000 in benefits and his children up to \$118,000 in education benefits.

Prolonging illness to  
extend monetary benefits

A large number of veterans receiving 100 percent disability compensation in the Philippines are either no longer totally disabled or remain disabled by not cooperating with medical treatment plans furnished by VA. These veterans receive disability compensation on account of pulmonary tuberculosis (PTB), a disease which can be arrested or controlled within a short time with proper medical treatment.

A VA official informed us that nearly 600 veterans in the Philippines receive 100 percent disability compensation

on account of PTB. This represents about 68 percent of all veterans receiving 100 percent disability. According to the VA official, about 70 percent of these veterans have been rated 100 percent disabled for more than 20 years, even though VA has provided the medicine necessary to arrest the disease. Under 38 U.S.C. 110, a rating of total disability which has been continuously in force for 20 or more years cannot be reduced except if the rating was based on fraud. In contrast, only 2.5 percent of all 100 percent disabled U.S. veterans worldwide are disabled due to PTB.

At our request, VA reviewed a sample of Filipino veterans whose 100 percent disability is protected under 38 U.S.C. 110. In 13 out of 24 cases reviewed, the PTB was arrested at the time of the last examination and the veterans were no longer considered 100 percent disabled. However, since the veterans' disability ratings are protected, VA cannot reduce their compensation accordingly.

In April 1964, VA's Manila office reported to the central office the problem of veterans not cooperating with VA's prescribed treatment. A clinical study performed by VA at that time showed that over 60 percent of PTB patients tested were not taking medicine provided by VA on a regular basis. They attributed this lack of cooperation to the fact that the veterans received more money from VA than they could have possibly earned if they recovered.

VA's central office replied in August 1964 that, short of legislative action, nothing could be done to correct this problem, and that for the time being such action was not appropriate.

In 1973 the VA IAS reported that, for PTB patients refusing to take medication, a statement was being proposed for development to the effect that failure of the patient

to respond to treatment over the normal course of the treatment period for such cases was presumptive evidence that the patient was refusing to follow medical advice and therefore grounds existed for reducing compensation.

This procedure was not adopted, and as a result many veterans' 100 percent disability ratings have become protected.

Attending school for  
income from VA benefits

VA educational benefits provide students in the Philippines with sizable incomes after deducting educational expenses. As a result, many students often enroll in courses for the income provided. VA officials acknowledge that providing such generous educational benefits in the Philippines encourages abuse of the program.

According to registrars of the two colleges in the Philippines with the largest VA enrollment, few VA students finish their studies and other requirements and graduate. One registrar explained that by taking the minimum full-time load, 46 months of study are required to graduate and VA benefits are exhausted after 45 months. The registrar informed us that VA students seldom attend the last month in order to graduate -- they simply drop out.

VA performs no followup evaluation of students who have received educational benefits. At our request, VA contacted eight dependents who recently completed training with VA educational assistance. This limited survey indicated that few students had gained employment using skills acquired with the educational assistance and that some students were not even interested in getting jobs. Of the eight dependents contacted, one was self-employed using her skill part-time in her home, five were unemployed (three of whom expressed no intention of seeking employment), and two were employed

at jobs unrelated to their training -- one as a sea shell vendor and another as a horse cart driver.

Activities of claims fixers

An acknowledged problem in VA's administration of benefits programs in the Philippines is the acceptance and widespread use of claims fixers -- individuals who prepare and submit claims on the behalf of the claimants -- by veterans and their beneficiaries. The fixers initiate voluminous numbers of claims which VA is required to act on. The fixers often work on a contingent fee basis, in that if the claim is successful, the fixer receives a share of the benefits paid to the claimant. A VA official said many claims fixers are ruthless extortionists who intimidate their clients into paying a share of their benefits.

Fixer-type claims, lacking any basic merit consume a disproportionate amount of effort on the part of VA's adjudication division, thus impairing its ability to service veterans with legitimate claims. For example, during FY 1976 over 30 years after World War II, VA processed over 1,700 new disability compensation claims. Of these claims only 20, or about 1 percent, were allowed.

The former director of VA's Manila office, summarized this situation in his FY 1974 budget presentation stating, "The activities of claims fixers, operating openly in a foreign country where penalties fixed by U.S. laws are not applicable, and where local laws are not properly enforced, create a continuing problem for this office \* \* \*." The present director stated that claims fixers are still a problem and that VA efforts to assist Philippine authorities in curtailing their activities have been useless.

The Administrator, Philippine Veterans Affairs Office (PVAO), informed us that PVAO has no problem with claims

fixers. A VA official attributed this to the significantly lower level of monetary benefits paid by PVAO.

Availability of false documentation

The availability of false documentation compounds VA's problems with claim fixers. According to officials of VA, the Social Security Administration (SSA), and the U.S. Consulate, the use of false documents is widespread in the Philippines. Because of the unsophisticated methods of recordkeeping and other factors, false documents of all types are readily procurable.

The head of the SSA office in Manila informed us that because of this continuing problem, SSA has compiled a list of individuals in some government offices and churches known to issue fraudulent documents and conducts field investigations to authenticate documents issued by these institutions. A VA official explained that certain false documents can be readily obtained due to the method of recording vital statistics in the Philippines. For example, the recording of deaths requires merely a verbal notification. Death certificates can therefore be issued with no verification that the person had actually died. Additionally there are false or altered medical certificates, military service or disability and school attendance records.

VA informed us that some claims, particularly those submitted by clever claims fixers, are processed undetected and result in unentitled benefits. The director of VA's Manila office stated that although false documentation constitutes a problem for the office, the adjudication staff is well trained and intercepts a large portion of claims based on fraudulent documents.

Lack of jurisdiction inhibits curbing program abuses

VA administers benefits in the Philippines under the same policies as in the U.S. but without availability of the

same legal penalties. VA's policy is to administer the law under a broad interpretation and to resolve any reasonable doubt in favor of the claimant. However, in the Philippines legal penalties (fines from \$1,000 to \$5,000 or imprisonment for up to 2 years or both) provided for by Title 38, U.S.C. are not enforceable.

Furthermore, Embassy policy dictates that all U.S. agencies operating in the Philippines avail themselves of the immunity provided by international law. To protect this immunity, the Embassy has directed the agencies not to engage in court actions against Filipinos. As a result, the only deterrent available to VA in preventing program abuses and protecting the interests of the Government is the administrative forfeiture of benefits. This procedure, however, applies only to claimants, and has no effect on the activities of claims fixers.

This lack of jurisdiction also affects VA's ability to recover overpayments made to beneficiaries on the basis of inappropriate and fraudulent claims. According to VA officials, unless there is a continuing award, collection efforts for recovery of overpayments are usually unsuccessful. Therefore, after following established collection procedures, VA generally writes off the overpayments. In the U.S., VA can further pursue collection of overpayments in the courts.

In fiscal year 1976 alone, VA's Manila office established 759 indebtedness accounts for \$865,000 in overpayments and since July 1975, has waived or written off overpayments totaling almost \$800,000.

VA's Manila office director stated that certain of the ongoing abuses can be curbed through legislation, but that VA problems with claims fixers and false documentation cannot effectively be dealt with since U.S. laws are unenforceable in the Philippines.

We would now like to address the medical benefits program. As you know, this program is under special legislation which is due to expire in September 1978 unless renewed by the Congress.

#### MEDICAL PROGRAM

In 1948, Congress authorized, through Public Law 80-865, a grant program to provide medical benefits to Filipino veterans with service-connected illnesses. This law also provided authorization for constructing and equipping a hospital in Luzon. The grant was authorized for a 5 year period. The program was to be temporary with the Philippine Government eventually assuming responsibility for funding the program and operating the hospital. The hospital, built and equipped at a cost of about \$9.4 million, now called the Veterans Memorial Medical Center, was turned over to the Philippine Government in 1955.

Although the program was intended to be temporary, it has been extended in 5 year increments by legislation through September 30, 1978, 30 years since it was initially established. After July 1, 1958, Public Law 85-857, enacted in 1958, changed the basis of funding of the program from a grant basis to a reimbursable contract basis.

Renewal legislation which had the greatest impact on the program was Public Law 89-612, enacted September 1966. In addition to extending the program for another 5 year period, this legislation expanded the program to include medical care for nonservice-connected illnesses. This was done in part to supplement the declining patient load at the Center -- at the time running at less than 75 percent of capacity. Until that time, expenditures charged to the program had been declining. Since then, the cost of the program experienced an upward trend increasing from less than \$300,000 in 1966.

to approximately \$2 million in 1974. Since 1974, program costs have remained fairly constant.

Public Law 89-612 also authorized \$500,000 for replacing and upgrading equipment and for restoring the physical plant of the hospital. It further authorized a yearly \$100,000 appropriation for 6 years, beginning in 1967, in grants to the Center for medical research and training of health service personnel.

The latest renewal legislation, Public Law 93-82 extended the program through June 30, 1978 -- subsequently changed to September 30, 1978 -- and authorized funds of up to \$2 million annually for medical care. The law also provided for annual grants up to \$50,000 for education and training of health service personnel at the Center and up to \$50,000 for replacing and upgrading equipment and maintaining the physical plant.

The program is administered on a cost reimbursable basis whereby the Center is paid for inpatient care at an all-inclusive per diem rate. The per diem rates are jointly determined by the U.S. and the Philippine Governments.

#### Center facilities and services

The Center employs over 1,500 personnel and provides a wide range of inpatient and outpatient services to U.S. and Filipino veterans. Its mission was expanded in 1960 from a specialized veterans hospital into a general hospital, offering specialties such as obstetrics-gynecology, pediatrics, and psychiatry. Since then, the Center has established specialized services and programs including nuclear medicine, open heart surgery, radiotherapy, and renal dialysis.

In 1960, the Philippine Government also began using the Center for its own veterans program. Today, the Philippine program includes service- and non-service-connected care,

dependent care, and treatment of civilian patients (on a paying basis if beds are available).

To meet the increased demands of the U.S. and Philippine programs, we were informed that the hospital gradually increased its bed capacity from 700 in 1964 to 1,160 in 1975. Located on a 126-acre site, the Center now has a total of 30 buildings, with a variety of recreational facilities including an 18-hole golf course, tennis courts, and a basketball court.

In addition to the Center, the Philippines has at least 13 other Philippine-funded medical facilities which may be used by Filipino veterans under the Philippine Government's program.

#### POTENTIAL FOR REDUCING MEDICAL PROGRAM FUNDING

Although the medical care program was established almost 30 years ago as a temporary program to provide medical treatment for service-connected illnesses, legislative amendments have continued the program and have expanded it to include nonservice-connected care, currently representing about 96 percent of all patient days charged under the program. Moreover, VA's Manila office which screens both U.S. and Filipino veterans to determine the need for hospitalization at the Center, estimates a substantial portion of the care provided on an inpatient basis under the program could be treated more effectively and economically on an outpatient basis under the Philippine Government's program.

In 1976, the VA central office committee commenting on VA's IAS 1973 findings on problems of unnecessary hospitalization recommended that to avoid unnecessary hospitalization veterans with nonservice-connected conditions be admitted for hospitalization at the Center only when they cannot be treated on an outpatient basis. The committee further concluded

that such outpatient treatment should be the responsibility of the Philippine Government. As of August 1977, the committee's recommendation had not been implemented.

Program funds used mostly to treat nonservice-connected illnesses

By limiting U.S. funding of the program to service-connected illnesses, substantial reductions in funding and the role of VA could be achieved.

In fiscal year 1976, almost 96 percent of the patient days charged against the program were for nonservice-connected illnesses. Moreover, about \$1.6 million of the \$1.9 million cost for the program in fiscal year 1976 was attributable to inpatient care -- the only category for which treatment of nonservice-connected illness can be authorized under the program. The program could be reduced by about \$1.9 million if treatment was limited to service-connected illnesses.

As I mentioned before, the Congress authorized nonservice-connected care under the program in 1966. During the period from 1966 to 1976, the number of Filipino veterans receiving care at the Center for service-connected conditions has declined from 100 percent to about 4 percent.

Hospitalization can be avoided

Many veterans treated at the Center for nonservice-connected illnesses would not require hospitalization with proper outpatient treatment. VA's Manila office estimated that substantial reductions in hospital costs could have been realized in fiscal year 1977 if these veterans had received proper treatment on an outpatient basis.

Under current legislation, however, outpatient care is authorized only for those Filipino veterans who have service-connected illnesses. Outpatient treatment for nonservice-connected illnesses is available only under the Philippine program.

An indication of the nonservice-connected nature of the program, as it now exists, can be shown by the cost for inpatient care -- the only category for which medical care is authorized for nonservice-connected illnesses. In fiscal year 1976, about \$1.6 million of the \$1.9 million cost of the program was for inpatient care.

In a recent study on unnecessary hospitalization, VA's Manila office sampled 167 patient files related to fiscal year 1976 nonservice-connected treatment. Based on its analyses and projections, it estimated that over \$400,000 in fiscal year 1977 hospitalization charges to the program could have been eliminated if proper treatment was provided on an outpatient basis.

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WHAT CAN BE DONE?

U.S. policy has been that the medical program was a temporary program and that the Government of the Philippines would eventually be responsible for it. As we stated in our May 20, 1977, report, if the Subcommittee believes that it is now time for the Philippine Government to assume greater responsibilities for providing medical care to Filipino veterans, we recommended that it

--take appropriate steps to not fund the program as authorized in current legislation due to expire on September 30, 1978. However, because of our commitment to provide medical treatment to Filipino veterans for service-connected illnesses, it should take action to change the program from a reimbursable contract basis to a fixed-sum grant basis to provide annual funding for only service-connected care at the Center. The fixed-sum grant could be determined using

the cost experience over the past several years for treating service-connected illnesses at the Center.

We believe that the other VA benefits programs in the Philippines needs to be reassessed. A reassessment was last done in 1966 and the lucrative benefits structure provides incentives for program abuse. The high rate of benefits paid beneficiaries results in attempts to circumvent the intent of the programs to obtain these benefits.

As an example of inequality in benefits, a totally disabled service-connected American veteran with a wife and two children would have received compensation totaling \$9,588 in 1976 as compared with the median family income in the U.S. of about \$13,700. Therefore, the American veteran received about 70 percent of the median family income. In contrast, the most current information available shows the median family income in the Philippines to be about \$643 a year, and comparable totally disabled U.S. and Filipino veterans received \$9,588 and \$4,794, respectively, or about 15 and 7 1/2 times more than the Philippine median family income.

If American veterans in the U.S. were paid equal benefits on the same ratio to median family income as a Filipino veteran, a totally disabled veteran with a wife and two children would receive about \$102,750 per year.

In comparison, the PVAO pays compensation to its World War II totally disabled veterans, with a similar family, \$465 per year or about 72 percent, of the median family income in the Philippines.

While we are not recommending on what basis benefits should be computed, we would like to discuss the effect a couple of simple changes would have on the program. For example, compensation and pension benefits are basically intended to compensate the veteran or his dependents for the loss of earning power

resulting from the veteran's disability or death. Aligning the level of VA monetary benefits to prevailing wage rates in the Philippine economy and PVAO benefits would result in substantial savings. Currently, these payments are more than three times the average wage and more than compensate for the loss of earning power.

Reducing the average compensation and pension entitlement of U.S. and Filipino veterans to 33 percent of that entitled to American veterans would result in an average payment of \$460, which is more than the average Philippine annual wage. Based on fiscal year 1976 compensation and pension costs of \$67 million, the U.S. could save about \$44.6 million a year. Reducing the benefits for Filipino veterans only could save the U.S. about \$20.9 million a year.

This type of action would align compensation and pension payments with the average Filipino wage and PVAO benefits. It would also eliminate the inequity between Filipino beneficiaries who are able to live much better than many other Filipinos and their American counterparts living in the U.S.

American beneficiaries, including those residing in the Philippines, receive the same VA compensation and pension payment when living in any foreign country as do those residing in the U.S. However, unlike Filipino beneficiaries, they must make social readjustments and leave their homeland to take advantage of the lower cost of living in other countries.

If educational benefits were brought in line with actual costs for an education in the Philippines, program costs could save about \$10.2 million a year by limiting educational benefits to the average cost of an education in the Philippines.

One factor to be considered in reassessing the programs is the potential for fraud and abuse which have the effect of increasing costs and prolonging the life of the programs.

Both VA and Embassy officials believe the benefits

programs to be declining, however, statistics show that costs are increasing.

Although the number of beneficiaries has declined, annual expenditures have steadily increased since 1946. Thirty years after World War II, through fiscal year 1976 VA benefits, including the medical program and operating costs, have amounted to about \$2 billion. From fiscal years 1973 to 1976 compensation and pension expenditures steadily increased by \$10 million, from \$57 million in fiscal year 1973 to \$67 million in fiscal year 1976.

Without provision for legislative rate increases, VA estimates the compensation and pension programs will cost about \$277 million for fiscal years 1977 to 1980, and beneficiaries will decrease by 1,150. Education benefits are estimated to remain relatively stable averaging about \$11 million a year and totaling about \$44 million.

On the basis of current disbursement, without new beneficiaries added to the rolls or legislative rate increases, costs of the programs for the next 20 years are estimated by us to be about \$1.5 billion.

#### ALTERNATIVES FOR THE FUTURE

As you know, the Appropriations Committees last month cut the VA Philippine medical program by \$400,000. If the Subcommittee believes that the Government of the Philippines should assume greater responsibility for this program, we recommend that U.S. funding for treatment of nonservice-connected illnesses be phased out; and that an agreement be negotiated with the Government of the Philippines to provide for a lump-sum payment to fund the program for service-connected illnesses.

We believe that the other benefits programs need to be reassessed. The following options could be included in the reassessment:

- Continue the programs in the Philippines but do not increase benefits until the level of benefits to Filipino veterans has been reduced to a comparable level of benefits to American veterans considering the differences in economic conditions of the U.S. and the Philippines. This would require establishing a separate program for veterans in the Philippines. However, this would not solve the problem of abuses to the programs because benefits would still be high for a long period. Also, the inability of VA to eliminate the high incidence of abuse could perpetuate the life of the programs.
- Another option would be to transfer most of VA functions, such as processing of claims to the U.S. Whether this would result in cost savings is an open question. Some view it as a move which would seriously handicap claims fixers. It is likely that this would result in Filipino veterans receiving a reduced level of service than they are now receiving but on a par with service received by VA beneficiaries in other countries.
- A more viable alternative would be to negotiate a final settlement with the Government of the Philippines to cover costs for all remaining benefits for Filipino veterans residing in the Philippines. This action is not without precedence as the U.S. and the Philippine Government signed an executive agreement in 1967 which provided a lump-sum payment of \$31 million to the Philippine Government for previously unsettled Filipino veteran claims.

A lump-sum payment or the setting up of a type of trust fund would be more politically viable than just reducing benefits. Also it would be consistent with (1) the U.S. objective of eliminating the "special relationship" with the Philippine Government, (2) would aid the Philippine Government toward their goal of self-reliance, and (3) would be in line with the U.S. policy of reducing U.S. presence abroad.

A lump-sum payment would also permit the Philippine Government to adjust its own veterans' programs and perhaps enable it to provide additional benefits to its own veterans thereby treating them more equitably when compared to the Filipino veterans that receive VA benefits.

This concludes my statement Mr. Chairman.

## DEPARTMENT OF STATE

### EAST ASIAN AND PACIFIC AFFAIRS

#### STATEMENT OF ROBERT B. OAKLEY, DEPUTY ASSISTANT SECRETARY OF STATE FOR EAST ASIAN AND PACIFIC AFFAIRS

##### MORAL AND LEGAL COMMITMENT OF PHILIPPINE VETERANS

Senator PROXMIRE. Our next witness is Mr. Robert Oakley, Deputy Assistant Secretary of State for East Asian and Pacific Affairs. We are honored to have you with us this morning.

You have a nice concise statement. Go right ahead. We would be happy to have you deliver it.

Mr. OAKLEY. Mr. Chairman, members of the subcommittee, thank you for the opportunity to appear before you today and present the State Department's views in regard to the veterans' benefit programs of the United States in the Philippines. These programs potentially affect some 50,000 U.S. veterans and 452,000 Filipino veterans entitled to benefits under various provisions of U.S. legislation as well as their dependents.

We view our moral and legal commitments to these people who fought with us at a time when the national fortunes of the United States seemed very low as forming an important part of the overall relationship between the United States and the Philippines. This relationship is of longstanding and a unique nature. It is now in a particularly sensitive period.

The United States has strong and unique historical ties with the Philippines, as well as an important military interest in that country because of its strategic location. Our security relationship is defined in three major agreements: The 1948 Military Base Agreement, the 1951 Mutual Defense Treaty, and a Military Assistance Agreement, revised in 1953.

##### U.S. SECURITY TIES WITH PHILIPPINES

Our security ties with the Philippines and our military facilities there serve important U.S. national interests today, just as they did in World War II, the Korean war and the Vietnamese conflict. They contribute significantly to the maintenance of stability in East Asia, to our worldwide logistic, communications, and training network and to our ability to react to various strategic contingencies, as well as to our ability to keep vital sealanes open in the event of hostilities. Our bases also contribute to our ability to meet our obligations under the bilateral mutual defense pact with the Philippine Government concluded in 1951. Our economic ties to the Philippines formed prior to 1946 and nurtured until 1974 under the Laurel-Langley Economic Agreement remain strong despite the expiration of that agreement.

### U.S. INVESTMENT IN PHILIPPINES

U.S. investment in the Philippines exceeds \$1 billion. Last year, two-way trade totaled \$1.7 billion, of which \$883 million represented U.S. imports and \$819 million in exports.

### U.S. ECONOMIC ASSISTANCE TO PHILIPPINES

U.S. economic assistance to the Philippines is now averaging about \$100 million a year. Our efforts toward helping to meet basic human needs in the Philippines reflect our view that essential economic goals for the individual Filipino remain to be met.

This is part of the problem we get into. We compared what is adequate because the Philippine standard of living is indeed considerably below that of the United States, whether it is satisfactory or not, is another question.

### HUMAN RIGHTS CONDITIONS IN PHILIPPINES

Human rights conditions in the Philippines have been the object of considerable concern in the United States. Since January 20, we have made clear to Philippine Government officials, including President Marcos, the seriousness of our concern. Some positive steps have been taken but problems obviously remain.

We keep under continuous review how we may best play a useful role in the promotion of human rights in the Philippines and elsewhere, bearing in mind that the ultimate test of the effectiveness of any steps we may take is their effect upon the conditions actually being faced by those directly concerned.

### REVIEW OF SECURITY AND ECONOMIC ASPECTS OF RELATIONSHIP

Both the security and economic aspects of our relationship are now under review by our two governments in an effort to adjust to the evolution which has taken place in both countries during recent years.

The security problems are no longer as intense as they had been. There is a growing maturity on both sides.

In addition to the bilateral considerations I have just mentioned, we must take into account changing circumstances in East Asia. As you know, new approaches to a number of issues are in various stages of formulation or implementation, such as the reduction of our ground forces in Korea, which increase the necessity for sea- and airpower in that part of Asia, and the increasing importance for our normalization of diplomatic relations with the People's Republic of China; and the renegotiation of our use of military facilities in the Philippines.

All of the above factors cause us to counsel caution before undertaking any substantial reduction or elimination of programs affecting the Philippines. At the same time, we applaud the efforts of this subcommittee and of the General Accounting Office to undertake an overall review of the program.

Initial reading of the Draft Statement of Facts which we have just received from the GAO would indicate that such immediate review is very much in order. The Department of State will cooperate fully

with this committee, GAO, and Veterans' Administration in the development of proposals on how we might better and more economically meet our obligations to veterans genuinely entitled to benefits under U.S. programs consistent with economic conditions as they exist today and with principles of effective management.

We believe that careful structuring of such proposals can assist our mutual efforts with the Government of the Philippines to develop a balanced basis for our relationship. It can serve as an example of how the United States continues to meet its commitments in a changing world.

Equally important, it can demonstrate our strong commitment to the rights, dignity, and economic well-being of individuals for whom we recognize a responsibility and reinforce our efforts to foster a similar recognition of responsibilities in other nations.

#### U.S. OBLIGATIONS IN PHILIPPINES

I would just like to add one general comment before responding to the questions I am sure you will have. That is, in familiarizing myself with all this information, several things stand out:

First: We have a longstanding obligation under legislation, an obligation which in terms of the extent of the benefits and the value of the benefits leaped upward and outward in 1966 right at the time we were doing the best we could to encourage the Philippines and Koreans and others to join us in the Vietnam war. Look at the actions of the 89th Congress. You find substantial expansion of the benefits. That is when the value of the benefits was pegged at 50 cents on the dollar. According to GAO's statement, this increased the relative amounts payable to veterans in the Philippines by 100 percent right there.

Second: While there has been a certain continuity in terms of legislative action, at the same time, abuses stand out very clearly. The State Department favors vigorous action by the Veterans' Administration. We are prepared to deal with these abuses, both the ones that result from the legislative framework and those which result from the operation of the program, by working to see what we can do to perhaps have a more sound legislative basis.

#### PHILIPPINE COOPERATION WITH U.S. IMPERATIVE

My final point is that if we do this, there is one thing which I think is terribly important both to our overall relationship with the Philippines, but also in terms of effective reform; that is to do our best to obtain the cooperation of the Filipino Government, something that isn't nearly as effective as it should be today.

A lump-sum payment would involve them taking on certain added responsibilities, something I think is worth considering. But we want to make sure it is done in a way that will be effective and we are not paying out a lot of money not knowing where it is going.

#### INEQUITABILITY OF CURRENT VETERANS PROGRAM

Senator PROXMIRE. Thank you very much. We appreciate the State Department's testimony because it goes right to the heart of our problem here. I cannot think, for the life of me, of a less efficient

or satisfactory way to maintain a strong and constructive relationship with the Philippines than to have a grossly inequitable, extravagant, wasteful program of payments to selected Philippine nationals.

Some of the recipients are fine people who served our country and their country well. But as we pointed out, 24 out of 25 of the people getting medical benefits at the medical center are non-service connected. Their illnesses had nothing to do with service in the military. In many cases, many of the beneficiaries are the children of veterans, some adopted, some illegitimate, with no connection whatsoever with the service of this country.

I think that a plain, ordinary, common Philippine citizen must resent this kind of program. It creates inequities in their system. It provides favors and benefits for a selected few. It would seem to me to be far better from every standpoint to have the Philippine Government itself handle this whole matter, especially since, as you point out, 90 percent of the people involved here are Philippine Scouts. About 10 percent are Philippines who served in the Philippine Armed Forces.

I am talking about the potential beneficiaries. Of the people who actually get the benefits now, I understand even a higher percentage are Philippine Scouts.

I think that this situation really calls out for action, I hope prompt action, rather than some detailed kind of study that is going to amble on for another few years and be forgotten with no action taken. A continuation of the status quo would be a great expense to the American taxpayer and I think appalling for Philippine citizens, too. I am sure the overwhelming majority resent this system.

#### POLITICAL EFFECT OF CURTAILING PHILIPPINE VA BENEFITS PROGRAM

In the past, I understand that the State Department has opposed any reduction in medical benefits because of the adverse effect such a reduction may have on United States-Philippine relations.

About 56,000 Philippine veterans would be affected by a curtailment of monetary benefits. Is the State Department similarly opposed to curtailing the monetary benefits, and if so, what practical or political effect would reducing monetary benefits to 56,000 people have on United States-Philippine relations?

Mr. OAKLEY. Mr. Chairman, in general, we do favor an overhaul of the program. As I say, we want to work with the Veterans' Administration.

We would like to take a comprehensive approach. I gather that my colleagues in the Veterans' Administration say they do have certain plans in the medical field. We have no problems with that. They will tell you in some detail what they have in mind.

#### ACROSS-THE-BOARD CHANGES IN BENEFITS PROGRAM

Across the board, we do favor not only an end to the abuse, but putting the program on a more effective basis. I think this can be done. I would rather not comment right now, give an opinion on various aspects of it as to what sort of reforms could be made because we haven't had time to study it in detail.

I would like to point out some of the options in the statement that we just heard from Mr. Ahart, in fact, could be combined. They

are not really substitutes for one another. They are various approaches to the problem. Some VA functions could perhaps be transferred to the United States, but this is not a substitute for a lump-sum final settlement for Filipino veterans.

#### UNITED STATES-PHILIPPINE RELATIONSHIP PRIMARY CONSIDERATION

Senator PROXMIRE. What you are advising us is that we proceed with some caution, that we be fully aware of the relationship between this country and Philippines and its great importance to us from a military standpoint.

Mr. OAKLEY. That is right. We also want to take a careful look at the totality of the program and what areas we think can be changed without any major upset, where we think the Philippine Government can become deeply involved and do a better job.

We are very much in favor of them assuming more responsibility for their own people.

Senator PROXMIRE. You have no clear policy position with respect to limiting monetary benefits. You want to be consulted when and if a specific policy is considered.

Mr. OAKLEY. That is right.

#### MEDICAL CARE PROGRAM

Senator PROXMIRE. The general tone of the GAO statement and its May report on the medical care program in the Philippines seems to suggest that the time may come for the Philippine Government to take over both the medical care and benefits programs from the VA.

Could you give the subcommittee your reasons why the Philippine Government could or could not handle the additional load of both the VA medical care and benefits programs? What are the primary obstacles?

Mr. OAKLEY. I am not in a position to comment in detail. I will take the question and get you a statement for the record.

But in general, I would say that the obstacle is one of efficient management as well as the willingness of the Philippine Government to do this.

I don't see any super obstacle to the first. It might be something could be worked out for the second. Certainly it seems to me we ought to do our best to put it in that direction.

#### TRANSFER OF VA ADMINISTRATIVE FUNCTIONS FROM PHILIPPINES TO UNITED STATES

Senator PROXMIRE. As you know, Mr. Oakley, the GAO is suggesting as one possible approach that the VA functions be moved from the Philippines to the United States. That would give the VA more control over the processing of claims, reduce the incidence of fraud and reduce the influence of claim fixers in the Philippines.

Would the State Department be willing to pick up the VA functions if the VA was to close its office and move most of its operations back to the States? In other words, if VA closed up shop?

Mr. OAKLEY. We certainly would be willing to pick up some of the administrative support functions. I gather from the Veterans' Ad-

ministration that they have some reservations in terms of preventing abuses as to whether or not it would be advantageous for them to move completely to the United States or not. That is a question I really can't comment on.

I don't believe the State Department or the Embassy would be in a position to investigate abuses and take the place of the Veterans' Administration's investigators.

On the other hand, we certainly would be prepared to take up whatever remains to be done on the administrative side.

#### INCREASED COSTS AND PERSONNEL NECESSITATED BY MOVE TO UNITED STATES

Senator PROXMIRE. Would you need additional personnel? Do you have any notion of how substantial an increase in cost would be involved?

Mr. OAKLEY. It would depend upon what functions and how many people were moved by the VA to the west coast and what sort of thing would be ongoing. I would imagine the question of how many of their local employees would remain active in the Philippines would be a determining factor.

But we, in principle, would support a reduction and would be able to provide the administrative services that would be curtailed because of that.

#### CLAIM-FIXER PROBLEMS IN OTHER PROGRAMS

Senator PROXMIRE. Are you aware of any problems having to do with claim fixers in U.S. programs in the Philippines other than the VA's programs, or is this a unique problem?

Mr. OAKLEY. I think it is probably not unique. I am not an expert on the Veterans' Administration, but from what I have read in the papers, including some of the other hearings you have had, some of the problems strike me as similar to those that we have in the United States.

Senator PROXMIRE. I am talking about the Philippines.

Mr. OAKLEY. I know, but that type of problem is prevalent in the Philippines under other programs as well, probably not to this degree. Fraudulent claims, people applying for programs which they are not legitimately entitled to; yes, it does go on.

Senator PROXMIRE. I would like to know about such abuses. We are not aware of them. I would appreciate if you could refer examples to us. The abuses discussed here today are at enormously high levels because there is a great discrepancy between benefits for veterans and the general income of the population, and because we can't pursue any fraud action against the people who try to fix claims.

You have an unusual situation, but in other programs you don't have quite that situation, do you?

Mr. OAKLEY. No; because the U.S. Government doesn't have precisely this type of program. My only point is that in the Philippines generally, you do find things of this nature. Fraud is not something which is found uniquely in the Veterans' Administration. It is found in programs of the Filipino Government. Certainly our military is wrestling with this type of thing all the time. They have certain problems in other areas.

They have problems involving thefts from commissaries and things of this sort. There is a very flourishing black market going on. It is hard to cut down on. But this sort of thing is there in the Philippines, just as some of the abuses mentioned are here in the United States, pseudoeducational institutions who sort of make a deal with the veteran to share the money, if you will.

#### U.S. NAVY RECRUITMENT OF PHILIPPINE NATIONALS

Senator PROXMIRE. As I understand it, the Navy continues to recruit about 25 Filipinos per month. Do we recruit the nationals of any other country in this systematic way?

Mr. OAKLEY. I am not certain, Mr. Chairman, whether we do or not. I am aware that there are about 40 Filipinos continuing to be recruited. Certainly, the State Department has no reason to suggest that this should be continued or that the Defense Department should not put an end to it.

#### USE OF FILIPINOS AS MESS ATTENDANTS

Senator PROXMIRE. Are these Filipinos still being used as mess attendants and if not, do they perform any unique tasks as a group?

Mr. OAKLEY. I have seen some here around town, so I assume they are.

Senator PROXMIRE. What would be the impact on our relationships with the Philippine Government if we stopped this particular program?

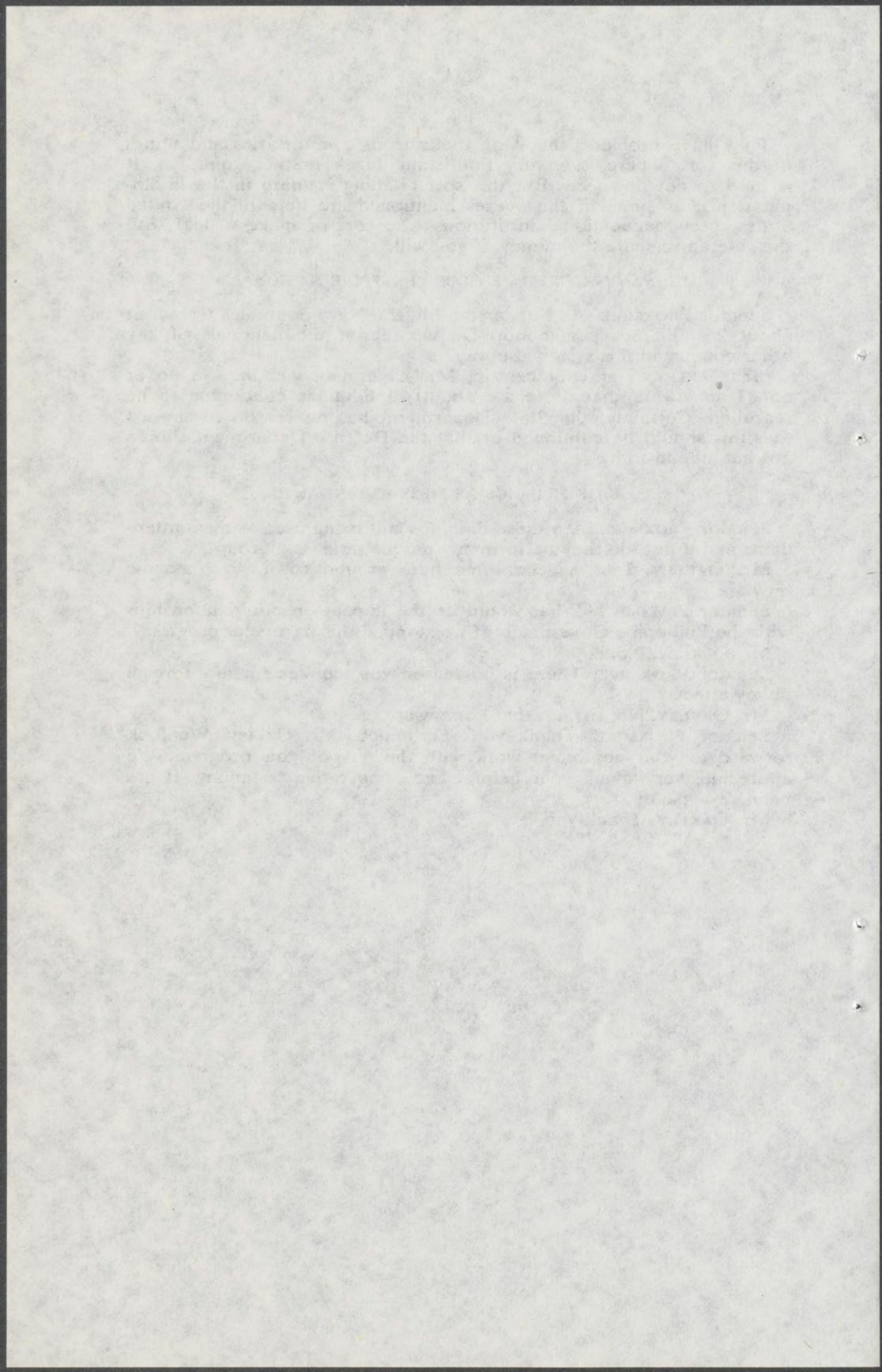
Mr. OAKLEY. None.

Senator PROXMIRE. There is no reason you can see for any foreign policy effects?

Mr. OAKLEY. No, sir, not that I am aware of.

Senator PROXMIRE. Thank you very much, Mr. Oakley. We look forward to your continued work with the VA on this program. We appreciate very much your helpful and cooperative testimony. It has been very useful.

Mr. OAKLEY. Thank you.



**VETERANS' ADMINISTRATION**

**STATEMENT OF RUFUS H. WILSON, DEPUTY ADMINISTRATOR,  
VETERANS' ADMINISTRATION**

**ACCOMPANIED BY:**

**DR. LARRY FOYE, DEPUTY CHIEF MEDICAL DIRECTOR, VA  
DOROTHY STARBUCK, CHIEF BENEFITS DIRECTOR, VA  
ROBERT COY, DEPUTY GENERAL COUNSEL  
CHARLES PECKARSKY, DIRECTOR, COMPENSATION AND PEN-  
SION SERVICE**

**INTRODUCTION OF ASSOCIATES**

Senator PROXMIRE. Our final witness this morning is Mr. Rufus H. Wilson of the Veterans' Administration. We are honored and delighted to have you with us.

Mr. WILSON. Thank you, sir.

Senator PROXMIRE. If you would introduce your colleagues, we would appreciate it. Then proceed as you will.

You have a very substantial statement. If you would like to summarize your statement, we would appreciate that. We could then go right to the questions.

Mr. WILSON. I am accompanied by Dr. Larry Foye, Deputy Chief Medical Director; Dorothy Starbuck, Chief Benefits Director; Mr. Robert Coy, Deputy General Counsel; and Mr. Charles Peckarsky, Director, Compensation and Pension Service.

Mr. Chairman, I will be pleased to summarize my statement.

**PREPARED STATEMENT**

Senator PROXMIRE. The statement will be printed in full in the record.

[The statement follows:]

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## PREPARED STATEMENT OF RUFUS H. WILSON

I am pleased to appear before you today and discuss the veteran programs administered by the VA in the Philippines which have recently been commented on by the General Accounting Office.

I think it is essential in this discussion that we clearly identify the groups of veterans concerned. The GAO reports refer to "U.S. veterans", "Filipino veterans", and "American veterans". For convenience and clarity in this discussion I will use those terms.

"U.S. veterans" refers to those Filipinos who served in the Armed Forces of the United States. Included in this group are former members of the "old" Philippine Scouts.

The term "Filipino veterans" contemplates those Philippine nationals who served (1) as members of the Philippine Commonwealth Army with the U.S. Armed Forces, (2) as members of recognized guerrilla forces during World War II, and (3) as members of the "new" Philippine Scouts authorized by the Armed Forces Voluntary Recruitment Act of 1945.

I will refer to those American citizens who have served in the United States Armed Forces as "American veterans."

First, Mr. Chairman, I would like to discuss the medical program.

Since the enactment of Public Law 865, 80th Congress, approved July 1, 1948, there has been a special program of financial aid to the Republic of the Philippines to assist in providing hospitalization for Commonwealth Army veterans who sustained disabilities during their service in World War II. This law authorized construction funds out of which the Vet-

erans Memorial Hospital in Manila was constructed, and it was dedicated in November 1955. An initial five-year program of grants to cover hospitalization expenses for Commonwealth Army veterans who served with the U.S. Armed Forces in World War II was also authorized, but limited to those with service-connected disabilities. These grants were continued by Public Law 421, 83rd Congress, for five additional years to extend through 1959 on a decreasing annual scale of payments.

Public Law 85-461, approved June 18, 1958, extended, with modifications, for a five-year period beginning July 1, 1958, the program of payments for hospital care for these service-connected veterans and also authorized the VA to furnish outpatient treatment for their service-connected conditions during the extended period. Public Law 88-40, approved June 13, 1963, extended both the hospitalization and outpatient programs for this group for an additional five years which terminated June 30, 1968. Public Law 89-612 approved September 30, 1966, expanded and extended for an additional five-year period ending June 30, 1973, this program of grants-in-aid to the Republic of the Philippines. This law, in addition to extending the authority to pay for the expenses of hospitalization and outpatient programs under previous laws for Commonwealth Army veterans for service-connected disabilities, broadened that authority to include payments for hospital care at the Veterans Memorial Hospital of such veterans for nonservice-connected disabilities if they were unable to defray the expenses of necessary hospital care. Moreover, it authorized such care for new Philippine Scouts who enlisted before July 1, 1946, for either service-connected or nonservice-connected disabilities, if they qualify as veterans of a war unable to defray expenses.

Finally, Public Law 93-82, approved August 2, 1973, extended through June 30, 1978, the grant authority for hospital

care and medical services for eligible veterans at a level of \$2 million annually, and authorized that an amount not to exceed \$250,000 of that amount could be used to provide nursing home care for eligible veterans requiring such care. That law also provided for an annual grant of \$50,000 for education and training of health service personnel at the Veterans Memorial Medical Center, and \$50,000 for replacing and upgrading equipment and rehabilitating the physical plant through June 30, 1978.

\$2,100,000 was appropriated for Fiscal Year 1977 (\$2,000,000 for medical care and treatment; \$50,000 for training of health service personnel; and \$50,000 for hospital equipment and facilities for rehabilitation). The agency's proposed budget for Fiscal Year 1978 has been reduced to \$1,700,000.

I might point out for the information of the Subcommittee, that both the House and Senate Committees on Veterans' Affairs have this year considered bills which would extend this program for an additional period of time. Both Committees considered an Administration proposal which would have extended the program until September 30, 1983. The House Committee decided that they had not had an opportunity to make an on-site inspection of the program, and that such an inspection should be made before making a long-term commitment. Therefore, they reported H.R. 5027, 95th Congress, which would extend the program one year -- until September 30, 1979.

The Committee stated:

"A 1-year extension of current law, rather than a 5-year extension as proposed by the Administration, should not be interpreted to mean that the Committee or the Congress is giving serious thought to reducing the medical benefit program in the Philippines. The Committee recognizes the Nation's responsibilities to the Commonwealth Army veterans and eligible Philippine Scouts who fought so gallantly with the United States Armed Forces against a common enemy in World War II."

That bill, as reported, was passed by the House. The Senate Committee on Veterans' Affairs held hearings on the bill on April 27, 1977, but no further action has been taken on that provision.

The Comptroller General has provided the Veterans Administration with copies of the May 20, 1977 General Accounting Office (GAO) report, "Potential for Reducing U.S. Financial Support and Ending VA Involvement in Medical Program for Filipino Veterans."

Since the VA was not asked to formally comment on the GAO report, and the recommendation it contains is directed toward the Congress, the response to such recommendation is properly left to that body. However, it has been the United States' position throughout that the Philippine Government would eventually be expected to assume full responsibility for the operation and maintenance of the Veterans Memorial Medical Center.

It is to be noted, Mr. Chairman, that the formal agreement between the Government of the United States and Republic of the Philippines will terminate on September 30, 1978.

I would next like to discuss the Veterans Administration's compensation and pension programs.

As you know, the basic purpose of the disability compensation program (ch. 11, title 38, United States Code) throughout its history has been to provide relief for the impaired earning capacity of veterans disabled as the result of their military service. The amount payable varies according to the degree of disability which, in turn, is required by the law (38 U.S.C 355) to represent, to the extent practicable, the average impairment in earning capacity resulting from such disability or combination of disabilities in civil occupations. Additional statutory awards are provided for certain severe disabilities or combinations of disabilities, and additional

compensation for dependents is payable to any veteran entitled to basic compensation for disability rated at not less than 50 percent.

Under chapter 13 of the cited title 38, dependency and indemnity compensation payments are made to surviving spouses and certain parents and children of veterans who die of service-connected causes. For surviving spouses, the monthly rates are geared to the pay grade of the deceased veteran, ranging from \$260 for the surviving spouse of an E-1, to \$664 for the surviving spouse of an O-10. The applicable surviving spouse's rate is increased by \$31 for each child of the veteran under age 18. For children, where no surviving spouse is entitled, the monthly rates range from \$131 for one child to \$243 for three children (plus \$49 for each additional child). Parents' benefits are provided on a sliding scale based on annual income.

The current pension program under chapter 15 of title 38, United States Code, provides monthly nonservice-connected disability or death pension to permanently and totally disabled veterans of the Mexican border period, World War I, World War II, the Korean conflict, and the Vietnam era, and their surviving spouses and children. Benefits are provided on a sliding scale according to income and family status, with the greatest amounts of pension payable to those with the greatest need. Basic disability pension rates for veterans range from \$5 to \$209 per month with a maximum annual income limitation as high as \$4,760, according to number of dependents. The rate of pension otherwise payable to a veteran is increased by 25 percent upon his attaining age 78.

The death pension rate for a surviving spouse without a child ranges from \$5 to \$125 per month, with a maximum annual income limitation of \$3,540. In the case of a surviving spouse with one child, the monthly rate can go as high as \$149, with a

maximum annual income limitation of \$4,760. There is an allowance of \$24 per month for each additional child. For children, where no surviving spouse is entitled, monthly death pension of \$57 is payable for one child, and \$24 for each additional child, the total payable in equal shares.

The rates of pension and limitations on annual income are different with respect to persons who were receiving pension on June 30, 1960, and who continue to receive benefits under that prior system pursuant to the savings provisions of section 9(b) of the Veterans' Pension Act of 1959 (Public Law 86-211). Applicable annual income limitations are \$3,100 for a veteran unmarried and without a child, a widow without a child or a child alone; and \$4,460 for a veteran married or with a child, and for a widow with a child.

Section 107 of title 38, United States Code, authorizes the payment of certain monetary benefits to (1) persons who served in the organized military forces of the Government of the Commonwealth of the Philippines while such forces were in the service of the United States pursuant to the military order of the President of the United States dated July 26, 1941, including recognized guerrilla forces, and (2) Philippine Scouts enlisted between October 6, 1945, and June 30, 1947, inclusive under the provisions of Public Law 190, 79th Congress (so-called "new" Philippine Scouts) even though such service is not deemed to be active service. Nonetheless, disability compensation, death compensation, dependency and indemnity compensation and burial allowances under these provisions are payable at a rate in Philippine pesos equivalent to \$0.50 for each dollar authorized.

The foregoing provisions do not apply to members of the "old" Philippine Scouts (which was a component of the regular United States Army), or to any Filipinos who served directly in the Armed Forces of the United States. Such veterans are eligible for all benefits to the same extent as all other veterans of our Armed

Forces, and monetary benefits to which they become entitled are payable on a dollar-for-dollar basis.

As pointed out by the GAO, the Veterans Administration paid over \$67 million in compensation and pension benefits in the Philippines during Fiscal Year 1976. The number of cases and the expenditure by type of benefit shown appear to be essentially correct. Their figures indicate that compensation and DIC payments were made in 6,235 cases involving U.S. veterans, totalling \$16.8 million, and in 33,779 cases involving Filipino veterans at a cost of \$36.5 million. Of this amount, \$17.8 million was paid in compensation, \$35.5 million in DIC.

Disability pension of \$7.7 million and death pension of \$6.3 million were paid during the same period. Entitlement to these benefits is limited to U.S. veterans and their survivors.

The GAO points out that the rates of Veterans Administration benefits payments to Filipinos have become considerably higher than those received by their American counterparts in relation to the prevailing income levels and standards of living in the two countries. They recommend an initial reduction in the rates of compensation and pension paid to Filipino and U.S. veterans of Philippine Nationality to one-third of that to which American veterans are entitled. It is proposed that one of three alternative future courses of action then be pursued. The first would have the regional office functions remain in the Philippines, with no future increases in the rates. This course of action, it is maintained, would probably over time bring the level of benefits more nearly in line with the Philippine economy. Divorcing the rates from those paid American veterans would require amending title 38, and would, in the case of the U.S. veterans, raise serious due process questions. Other aspects of this proposal also deserve serious consideration, among them whether such a tailoring of rates to the local economy is a wise precedent in view of the disparate costs and standards of living

where American veterans reside, both within the United States and abroad. Considerations may also be in order concerning any such plan's potential disruption of the standards of living to which the current beneficiaries have become accustomed.

The second alternative proposal contained in the reports is the movement of some or all of the functions of the Veterans Administration Regional Office in the Philippines to the United States. It is argued that the relatively light adjudicative caseload there could easily be absorbed by the stateside offices. The proposal also raises several questions, including whether stateside employees, lacking in knowledge of Asian customs and philosophy, would be capable of recognizing and handling these unique claims as well as their Filipino counterparts. Other considerations, such as the language translation of incoming correspondence and the difficulties which might arise by virtue of having support personnel such as field examiners several thousand miles away from the adjudication process, should be made.

The final alternative, which is listed by the GAO as being "more politically viable than just reducing benefits," is a final negotiated lump-sum payment to the Republic of the Philippines to cover all benefits for Filipino veterans, although potentially U.S. veterans could also be included in the settlement. This would be coupled with a bar to future enlistments by Filipino nationals in the United States Armed Forces. At least in terms of the U.S. veterans, such a prospect raises the same constitutional questions as the first alternative. The lump-sum approach to compensation or pension is, of course, a marked departure from the present scheme of continuing income maintenance with periodic adjustments to take into account such variables as increases or decreases in the levels of disability, numbers of dependents and outside income.

Mr. Chairman, I would now like to briefly discuss our educational benefit programs as administered in the Philippines. It should be noted that the law makes no distinction in education entitlement between Filipino nationals and United States citizens who serve in our Armed Forces.

Under current law, educational assistance allowance is provided under chapters 32, 34, and 35 of title 38, United States Code. These benefits are designed to assist the individual to meet, in part, the costs of an education, and to provide a measure of monetary assistance to facilitate course pursuit. The allowance is payable directly to the beneficiary, generally, on a regular monthly basis.

The chapter 34 program which sets out the educational benefits for veterans is the largest of the programs. The underlying purpose of the chapter 34 benefits program is to enhance service in the Armed Forces of the United States and to help veterans adjust from military to civilian life by affording them monetary aid to attain a vocational or educational status they might normally have attained had they not served their country. Eligibility is based on qualifying active-duty service for a continuous period of more than 180 days, any part of which occurred between January 31, 1955, and January 1, 1977. A veteran is entitled to educational assistance allowance under this chapter for a period of 1 1/2 months for each month of service on active duty after January 31, 1955, up to a maximum of 45 months entitlement. Eighteen months continuous service after January 31, 1955, automatically establishes maximum entitlement.

Chapter 34 benefits are payable for pursuit of an approved program of education leading to a recognized educational, vocational, or professional objective. The amount of monthly benefits is determined by the type of program pursued, the training time, and the number of dependents. Effective October

1, 1976, the full-time rate for institutional training for a veteran with no dependents is \$292; with one dependent is \$347; and with two dependents, \$396. An additional \$24 is payable for each dependent in excess of two. The law makes no provision for paying a different rate to eligible Filipino nationals.

The GAO report states (at page 9) that "[E]ducational benefits are payable to all U.S. veterans, including Old Philippine Scouts." It is misleading, however, to include the so-called "Old" Philippine Scouts in this category. Such individuals, having served before and during World War II, had entitlement to educational benefits under prior laws. However, since their active-duty service terminated prior to February 1, 1955, they do not meet the service requirements for basic eligibility under the "current" GI Bill. Filipinos who have established basic eligibility for educational assistance through service with the U.S. Armed Forces are, of course, entitled to chapter 34 benefits the same as any other U.S. veterans.

It may be noted that the so-called "Filipino veterans", that is, those Filipinos who served with or under the U.S. Armed Forces in either the Philippine Commonwealth Army, recognized guerrilla units, or the "New" Philippine Scouts, during or immediately following World War II, have never been entitled to educational assistance allowance. Under section 107 of title 38, United States Code, such service is not deemed to be active service for the purpose of paying educational benefits.

In Fiscal Year 1976, approximately 2,500 veterans and 2,400 in-service persons in the Philippines received VA educational assistance averaging \$246 a month for the academic year.

Concerning the Dependents' and Survivors' Educational Assistance Program, under chapter 35 of title 38, United States Code, the VA administers benefits to facilitate the

educational pursuits of a child, spouse, or surviving spouse of a veteran whose death or permanent and total disability was the result of service in the Armed Forces of the U.S., after the beginning of the Spanish-American War on April 28, 1898. The underlying purposes of this program are (1) to provide continued educational opportunities and aid to children whose educational pursuit otherwise would be interrupted, whose educational aspirations otherwise would be completely dashed by the loss of the veteran parent's support, and (2) to assist the spouses and surviving spouses in preparing to support themselves and their families in a manner which the veteran, were it not for his or her death or disability, could have been expected to provide.

Such eligible persons are entitled to chapter 35 educational assistance allowance for a maximum of 45 months. As is the case with chapter 34 benefits, a monthly allowance is paid directly to the beneficiary. Effective October 1, 1976, the full-time rate is \$292 a month.

Generally, a child's eligibility for chapter 35 benefits extends from age 18 until age 26. This period of eligibility may be extended under certain circumstances, but not beyond age 31. The eligibility for a spouse or survivor extends to November 30, 1978, or 10 years from the date the veteran was first found to have a permanent and total service-connected disability or from the date of death, whichever is later.

It should be mentioned that chapter 35 also contains provisions establishing eligibility for spouses of service personnel missing in action, captured in line of duty, or forcibly detained or interned in line of duty.

On September 30, 1966, Public Law 89-613 amended title 38, United States Code, to recognize the service of

"Filipino veterans" for the purpose of entitling their children to educational assistance under chapter 35, when these Philippine Commonwealth Army and "New" Philippine Scout veterans died or suffered permanent and total disability as a result of such service. These provisions mandated that such children were to have the same eligibility and entitlement provisions applied to them as were applicable to eligible children of U.S. veterans, except that the educational assistance allowances otherwise authorized were to be paid at a rate in Philippine pesos equivalent to \$0.50 for each dollar.

Because of distinctive requirements for payment to children of "Filipino veterans," and the relatively small number of such accounts, the VA administers such benefits using a manual payment system. Our Regional Office in Manila maintains award account cards, and furnishes information necessary for preparation of payment listings to the Treasury regional disbursing office in Manila. The disbursing office then prepares and sends a payment listing to our Manila office for review and updating prior to issuing checks.

I should perhaps emphasize that this payment system has not detrimentally effected our timeliness in servicing these Filipino beneficiaries. Just as the law makes no distinction between chapter 35 eligibility and entitlement requirements for children of U.S. veterans and for the children of "Filipino veterans" deemed to have qualifying service, so does the VA make no distinction between them in its obligation to administer their benefits.

While I am on the subject of distinction, if I may digress for a moment, I would like to correct another misstatement by the GAO concerning chapter 35 eligibility. It indicated that chapter 35 benefits are available to wives

and widows of "Filipino veterans." Such dependents, however, have never been included within the statutory of definition of persons eligible for this benefit.

In Fiscal Year 1976, 2,511 chapter 35 dependents in the Philippines received educational benefits averaging \$117 per month for the academic year.

Finally, a new contributory education program, chapter 32, was established by Public Law 94-502 for individuals entering the U.S. Armed Forces on or after January 1, 1977. Under this program the service person contributes a minimum of \$50 per month from his or her military pay, which contributions are matched by the VA on a 2 to 1 basis and placed in a special fund. Payments can later be made from this fund to such individual when pursuit of a program of education is commenced. Filipino nationals recruited into the U.S. armed forces have the same rights of participation in this program as have American citizens entering the Armed Forces.

The GAO raises some valid questions concerning the desirability of continuing or modifying the current Veterans Administration programs in the Philippines which warrant careful study. The problems and questions raised are many and multi-faceted, and do not lend themselves to simple solutions.

Mr. Chairman, that completes my presentation. My associates and I will be pleased to respond to any questions you may have.

## MEDICAL GRANTS

Mr. WILSON. The first part of the statement defines exactly who it is we are talking about and makes distinctions between actual veterans of the United States, guerrillas, and actual veterans of the Philippine Commonwealth Army. Then we discuss the various benefits that we have provided over the years.

## MEDICAL GRANT-IN-AID

We then talk about the various times that the medical program has been extended over there in terms of the grant-in-aid. I think it has been extended five times. It is currently due to expire in September 1978.

This year, during the course of the appropriation process, the amount of the grant had been reduced to \$1,700,000. The Veterans' Administration has no objection and, in fact, favors the phasing out of that program.

We state that we have received copies of the recent GAO statement of facts. We have not been asked formally to comment upon it because its recommendations are primarily directed toward the Congress. But, of course, we have some concerns with it and we have some comments to make on it.

## COMPENSATION

Previously, in the hearing this morning, Mr. Chairman, you quoted from our prepared statement about the definition of compensation.

I would only state that that is the correct definition of compensation. I would stress that it is based upon, in terms of the law, the average earning impairment. That would be a worldwide situation because we have veterans all over the world drawing benefits, with the vast majority of them, of course, being here in the United States.

Our statement defines certain of our benefits. It mentions compensation, education, and various benefits for spouses and dependent children. We are talking here about actual U.S. veterans and not veterans of the Philippine Commonwealth Army.

## EDUCATION BENEFITS

You made reference to the people who get currently recruited in the Philippine Islands. They make up a number of the people who later go on to school under the GI bill. I do not have the number, but I am confident that a certain number of American citizens, who are in the Philippine Islands, also go to school and take advantage of the GI bill.

Senator PROXMIRE. I don't think there are very many American citizens involved, but I may be wrong. Would you tell us for the record how many American citizens receive GI bill benefits?

Mr. WILSON. We can find it, sir. I am not sure I have the figure available now.

[The information follows:]

The VA does not have a means by which beneficiaries in foreign countries can be identified as citizen or non-citizen.

Mr. WILSON. I have a little difficulty understanding how the number of people who are going to school over there could come from that number of people who are being recruited by the Department of Defense, if it is only 25 or 30 a month, because there are some 2,500 veterans going to school there now under the GI bill.

Senator PROXMIRE. They are the children of World War II veterans. There are cases of people in their sixties and seventies adopting kids, in some cases their own grandchildren and great-grandchildren.

Mr. WILSON. There are also about an equal number of veterans going to school. There are about 2,500 veterans, as I understand it; actual veterans.

Our statement speaks to the General Accounting Office basic recommendations. The prime one would be that the amount of compensation or other monetary benefits paid in the Philippine Islands be reduced to one-third of what American veterans are entitled to in this country. It then proposes that one of three alternative future courses of action could then be pursued.

#### FUTURE COURSES OF ACTION TO BE PURSUED

First, to have the regional office functions remain in the Philippines. This course of action, it is maintained, would probably, over time, bring the level of benefits more nearly in line with the Philippine economy. As the chairman pointed out earlier, this could take a considerable amount of time for that to happen.

The second alternative is to move some or all of the functions of the VA regional office in the Philippines to the United States. It is argued that the relatively small adjudication caseload there could easily be absorbed. Our statement raises several questions as to this alternative including whether stateside employees, lacking in knowledge of Asian customs and Filipinos, would be capable of recognizing and handling these claims as well as their Filipino counterparts.

Other considerations such as the language, translation of incoming correspondence and the difficulties which might arise by virtue of having support personnel such as field examiners, several thousand miles away from the adjudication process are also mentioned.

We point out that the people who work in the Philippine Regional Office with the exception of 13 Americans get paid in pesos. If that function were to be stateside, they would then be paid in dollars. There would be a resulting increase in terms of administration costs.

#### PERSONNEL REQUIREMENTS

Senator PROXMIRE. Would you need as many people under those circumstances?

Mr. WILSON. We would need roughly the same number of people minus the supervision structure. If the function were moved to San Diego, for example, we already have division chiefs there. But we would have to have workers roughly in the same ratio that we have in the islands.

We also have about 25 people in our Manila office who work on social security benefits on a reimbursable basis from social security. That would be a consideration.

The final alternative is a final negotiated lump-sum payment to the Republic of the Philippines to cover all benefits of the Filipino veterans, although potentially U.S. veterans could also be included in the settlement. This would be coupled with a bar to future enlistments by the Filipino nationals in the U.S. Armed Forces.

Our statement says that, at least in terms of the U.S. veterans such a prospect raises possible constitutional questions. The lump-sum approach is a marked departure from the present scheme of continuing income maintenance with periodic adjustments to take into account increases or decreases in the levels of disability and outside income.

Having said that, we certainly agree with our colleagues in the State Department that it is something that we ought to consider. It is something that we ought to put on the front burner and not have a 2-year study as suggested, but something we should come to a definite administration position on.

#### EDUCATIONAL BENEFIT PROGRAM

In our statement we discuss our educational benefit program. We mention that our chapter 34 program provides educational benefits for veterans and that it is the largest of the programs. The underlying purpose of the chapter 34 benefits program is to enhance service in the Armed Forces of the United States and to help veterans adjust from military to civilian life by affording them monetary aid to attain a vocational or educational status they might normally have attained had they not served their country.

#### ELIGIBILITY REQUIREMENTS FOR EDUCATION BENEFITS

Eligibility is based on qualifying active-duty service for a continuous period of more than 180 days, any part of which occurred between January 31, 1955, and January 1, 1977. A veteran is entitled to educational assistance allowance under this chapter for a period of 1½ months for each month of service on active duty after January 31, 1955, up to a maximum of 45 months entitlement. We mention that the program is declining because of the delimiting date which affects certain veterans each month.

Eighteen months continuous service after January 31, 1955, automatically establishes maximum entitlement.

Chapter 34 benefits are payable for pursuit of an approved program of education leading to a recognized educational, vocational or professional objective. The amount of monthly benefits is determined by the type of program pursued, the training time, and the number of dependents. Effective October 1, 1976, the full-time rate for institutional training for a veteran with no dependents is \$292; with one dependent is \$347; and with two dependents, \$396.

An additional \$24 is payable for each dependent in excess of two. The law makes no provision for paying a different rate to eligible Filipino nationals.

The GAO report states that "Educational benefits are payable to all U.S. veterans, including old Philippine scouts."

That would be true if any of the old Philippine scouts were still eligible, but they are not. Their eligibility has long since run out.

We say that it is misleading to include the so-called "old" Philippine Scouts in this category. Such individuals, having served before and during World War II, had entitlement to educational benefits under prior laws. However, since their active-duty service terminated prior to February 1, 1955, they do not meet the service requirements for basic eligibility under the current GI bill. Filipinos who have established basic eligibility for educational assistance through service with the U.S. Armed Forces are, of course, entitled to chapter 34 benefits the same as any other U.S. veterans. They are paid at the 50-cent rate or the peso rate.

It may be noted that the so-called "Filipino veterans", that is, those Filipinos who served with or under the U.S. Armed Forces in either the Philippine Commonwealth Army, recognized guerrilla units, or the "new" Philippine scouts, during or immediately following World War II, have never been entitled to educational assistance allowance. Under section 107 of title 38, United States Code, such service is not deemed to be active service for the purpose of paying educational benefits.

In fiscal year 1976, approximately 2,500 veterans and 2,400 in-service persons in the Philippines received VA educational assistance averaging \$246 a month for the academic year.

#### DEPENDENTS AND SURVIVORS EDUCATIONAL ASSISTANCE PROGRAM

Concerning the dependents' and survivors' educational assistance program, under chapter 35 of title 38, United States Code, the VA administers benefits to facilitate the educational pursuits of a child, spouse, or surviving spouse of a veteran whose death or permanent and total disability was the result of service in the Armed Forces of the United States, after the beginning of the Spanish-American War on April 28, 1898. The underlying purposes of this program are: (1) To provide continued educational opportunities and aid to children whose educational pursuit otherwise would be interrupted, whose educational aspirations otherwise would be completely dashed by the loss of the veteran parent's support; and (2) to assist the spouses and surviving spouses in preparing to support themselves and their families in a manner which the veteran, were it not for his or her death or disability, could have been expected to provide.

Such eligible persons are entitled to an educational assistance allowance for a maximum of 45 months. As is the case with chapter 34 benefits, a monthly allowance is paid directly to the beneficiary. Effective October 1, 1976, the full-time rate is \$292 a month.

Generally, a child's eligibility for chapter 35 benefits extends from age 18 until age 26. This period of eligibility may be extended under certain circumstances, but not beyond age 31. The eligibility for a spouse or survivor extends to November 30, 1978, or 10 years from the date the veteran was first found to have a permanent and total service-connected disability or from the date of death, whichever is later.

It should be mentioned that chapter 35 also contains provisions establishing eligibility for spouses of service personnel missing in action, captured in line of duty, or forcibly detained or interned in line of duty.

## ELIGIBILITY REQUIREMENTS FOR CHILDREN OF PHILIPPINE VETERANS

On September 30, 1966, Public Law 89-612 amended title 38, United States Code, to recognize the service of Filipino veterans for the purpose of entitling their children to educational assistance under chapter 35, when these Philippine Commonwealth Army and "new" Philippine Scout veterans died or suffered permanent and total disability as a result of such service. They are paid 50 percent at the peso rate.

These provisions mandated that such children were to have the same eligibility and entitlement provisions applied to them as were applicable to eligible children of U.S. veterans, except that the educational assistance allowances otherwise authorized were to be paid at a rate in Philippine pesos equivalent to 50 cents for each dollar.

Because of distinctive requirements for payment to children of Filipino veterans, and the relatively small number of such accounts, the VA administers such benefits using a manual payment system. Our regional office in Manila maintains award account cards, and furnishes information necessary for preparation of payment listings to the Treasury regional disbursing office in Manila. The disbursing office then prepares and sends a payment listing to our Manila office for review and updating prior to issuing checks.

I should perhaps emphasize that this payment system has not detrimentally affected our timeliness in servicing these Filipino beneficiaries. Just as the law makes no distinction between chapter 35 eligibility and entitlement requirements for children of U.S. veterans and for the children of Filipino veterans deemed to have qualifying service, so does the VA make no distinction between them in its obligation to administer their benefits.

## CHAPTER 35 ELIGIBILITY

While I am on the subject of distinction, if I may digress for a moment, I would like to correct a misstatement in the GAO report concerning chapter 35 eligibility. It indicated that chapter 35 benefits are available to wives and widows of Filipino veterans. Such dependents, however, have never been included within the statutory definition of persons eligible for this benefit.

In fiscal year 1976, 2,511 chapter 35 dependents in the Philippines received educational benefits averaging \$117 per month for the academic year.

Of course, as the chairman knows, we have a new contributory GI bill that is now getting off the ground. Those people currently being recruited into our armed forces would be eligible for that in the future.

On the subject of adoptions, we certainly agree with the comments that have been made. We have had as part of our legislative package a proposal to correct that situation and get away from the kinds of glaring examples mentioned in the GAO report.

We have previously sent this proposal in our legislative package to the Office of Management and Budget. However, we have not pursued it to the extent that we should but we will now pursue it vigorously.

We are currently, I am told, putting about 12 dependent children on the roles involving 7 or 8 veterans per month on the average.

Mr. Chairman, that concludes my summation. My colleagues and I will be pleased to respond to any questions or comments that you may have.

#### VA DELAY IN IMPLEMENTING RECOMMENDATIONS

Senator PROXMIRE. Let me review several recommendations that the VA has been slow to implement.

You said in the case of adoptions that a recommendation considered as long ago as March 1976 by the VA has not been acted upon.

Mr. WILSON. Has not been acted on, sir, except to the extent that we sent a copy of our proposal to the House and Senate Veterans' Affairs Committees.

Senator PROXMIRE. Then in 1973, VA's internal audit service, according to GAO, proposed that failure to respond to treatment in TB cases would be presumptive evidence that the patient refused to follow medical advice and would be grounds for a reduction in payment.

That proposal was not adopted. As of now, 4 years later, no action has been taken.

Mr. WILSON. That proposal would require legislation. The internal audit report was just that. It was only a proposal. It was not concurred in by the then administration. As to the medical aspects of it, I would suggest that Dr. Foye might want to comment on the medical consequences of not taking medicine.

I need to point out that many of those kinds of cases are covered by still another law. They are protected by what is called the 20-year rule. They cannot be reduced after 20 years.

#### VETERANS REMAINING ON MEDICAL ROLES

Senator PROXMIRE. They have an incentive for not getting well, for not taking the medicine needed to heal them, because if they get healed in less than 20 years, then they no longer can get the benefits. If they can stay sick for 20 years, then they receive compensation until they die.

Mr. WILSON. The kind of example that you use is correct.

Senator PROXMIRE. The recommendation was that if they refused to take their medicine, they should be disqualified or the benefits reduced. Why wasn't that carried out?

Mr. WILSON. I can only say that it would take a change in the law.

The proposal was not adopted by the then administration nor by this one.

Senator PROXMIRE. Was a change in the law requested?

Mr. WILSON. No such recommendation was made. Is that correct, Dr. Foye?

Dr. FOYE. Right. I think we can empathize with the frustration expressed by the person who made that recommendation. It would be the first time I think anybody ever passed a law saying it is a crime not to get well.

Senator PROXMIRE. We don't say it is a crime not to get well. We just don't want to subsidize a person for deliberately staying sick.

Dr. FOYE. The recommendation was if the person failed to respond to treatment, that it would be presumptive evidence that he did not recover because of his not taking the medication.

Senator PROXMIRE. That would be very unjust. Obviously you can't do anything about that. What we are talking about is failing to take medication that you are required to take.

Dr. FOYE. We really have no way of enforcing that on patients, that they take medication. We don't enforce that in this country.

Senator PROXMIRE. Don't you have anyway of meeting that problem? You just accept it?

Dr. FOYE. Not with equanimity.

Senator PROXMIRE. That doesn't help the taxpayer much. You still accept it.

Dr. FOYE. I would know of no way to enforce the legislation were it passed. But we couldn't do anything without legislation. The recommendation was actually if they did not improve, it was presumptive evidence that they had not taken their medicine.

Senator PROXMIRE. I won't agree with that. That would be unjust, but if they did not agree to the course of treatment that the VA's doctors prescribed, in other words if they refused to take the medicine and do other things, refused to stop drinking, whatever—why wouldn't that be a proper discipline?

Dr. FOYE. I know of no way to enforce it. We don't enforce it in this country.

Senator PROXMIRE. We don't have any abuses?

Dr. FOYE. We treat alcoholics whether they drink or not.

Mr. WILSON. There are people in this country—

Senator PROXMIRE. But not on this basis. You see, one answer is to cut benefits sharply, so they wouldn't have so much at stake. The difficulty in comparing Philippine and American beneficiaries, as you know far better than I, is that as long as Filipinos get disability benefits, they get far more than the average Filipino gets.

That is not true in this country. You get enough to get along, but you are not made an elite member of a richer group as you are in their country. If you cut the monetary benefits you receive when you are disabled sharply, that would go to the medication problem, would it not?

Mr. WILSON. It would go to it, but the problem is that the GAO report points out, as I recall, that a significant number of these people are already protected by the other 20-year rule; to administer that kind of provision, which in effect says if you don't take a medication prescribed by us, we are going to cut your compensation, would be a tremendous administrative problem.

Senator PROXMIRE. I think you have made a good point. However, your point reinforces the fact that the one way you can get at this problem is to cut overall compensation to a level comparable with what Filipino beneficiaries get from their own government.

If beneficiaries were in that position then they wouldn't have this enormous disincentive to get well. In 1976, the VA central office recommended that veterans with non-service-connected conditions be admitted for hospitalization only when they can't be treated on an outpatient basis.

As of this month, the recommendation had not been implemented.

Mr. WILSON. I think that proposal was coupled with another one that the Philippine Government take over the outpatient activity with the Philippine Government bearing the expenses. You are correct, it has not been implemented.

#### NON-SERVICE-CONNECTED DISABILITIES

Senator PROXMIRE. They handle all outpatient non-service connected cases now, do they not?

Mr. WILSON. No, sir.

Dr. FOYE. A certain amount is handled in the regional office outpatient clinic.

Senator PROXMIRE. Non-service-connected care?

Dr. FOYE. Non-service-connected care for service-connected veterans.

Senator PROXMIRE. The VA handles non-service-connected illness?

Dr. FOYE. Non-service connected U.S. veterans, and regular Philippine Scouts, not to my knowledge, the VA doesn't handle any of that, only in the Philippine hospital program.

Mr. WILSON. We do have some service-connected veterans who get treated for non-serviced-connected problems. They would be veterans who draw 50 percent or in excess of that.

#### REASSESSMENT OF DISABILITY PAYMENTS

Senator PROXMIRE. Public Law 79-301, the legislation that authorized payment of monetary benefits to eligible Filipino veterans and their dependents was based on the view of the Congress in 1946 that the average income, living costs and other related economic factors in the Philippines were different from those in the United States and those differences should be translated into a proportionately lower level of benefits for Filipinos.

However, with the steady currency devaluation in the Philippines over the past 10 years, Filipino veterans' disability benefits increased over 700 percent, whereas comparable American veterans benefits only increased by 125 percent. During that 10-year period, did you ever request the Congress to reassess the levels of payment?

Mr. WILSON. Not to my knowledge, sir.

Senator PROXMIRE. Why not?

Mr. WILSON. I believe the Congress did address itself to the subject on several different occasions. But we did not although we made studies on the overall subject.

Senator PROXMIRE. Why didn't the Veterans' Administration take the lead? We look to you for advice on this sort of issue. You are our experts.

Mr. WILSON. I can't answer fully, Senator, except to say that we have always accepted and supported the theory of paying compensation based on average impairment. We thought that proposal was really a keg of worms on a worldwide basis and we just did not want to adopt it.

#### RECOMMENDATIONS TO REALINE PAYMENTS

Senator PROXMIRE. What recommendation would you make to bring payments more into line?

Mr. WILSON. I just can't say at the moment. With respect to differences in living standards, that is also a problem that exists here in our country. On occasions, there have been suggestions here that some benefit payments be based on where a person lives but we have not adopted that philosophy.

Senator PROXMIRE. You are right. We haven't adopted that philosophy in this country. There is some difference in the cost of living among the States and regions of our country, but it is relatively small. The difference may be of 10 or 20 percent, maybe a little more. But in the Philippine program you have a much greater differential. It creates a very serious inequity and a burden that cannot be justified to the taxpayers.

Mr. WILSON. I am not now prepared to espouse any specific policy change in this field, but the comments made in the GAO report and our own reports, and the suggestions of our people, I think cry out for us to look at it. Both we and the Senate Veterans' Affairs Committee did address part of the overall question primarily in the medical field 2 or 3 months ago.

I think the committee concluded that prior to the time they did anything, that they wanted to get the GAO report. The administration, at that point in time, had recommended a 5-year extension of the medical program. The House passed a 1-year extension and the matter is now pending in the Senate.

But during the course of the hearings, they did talk about this overall problem. I would have to say the Veterans' Administration is going to have to also address it in its many specifics.

#### VA INTERNAL AUDIT REPORT

Senator PROXMIRE. In 1973, a VA internal audit report recommended that benefits be scaled to the Filipino economy. The VA committee appointed to study the program did not concur in this recommendation. The committee said that "a reduction in benefits would drastically affect the standard of living to which they have become accustomed."

You alluded to the problem in your testimony. Frankly, I find that rationale alarming. Why do you think the American taxpayers should continue to fund a program, particularly one in which fraud and abuse is so rampant simply to maintain a standard of living to which someone became accustomed; a lifestyle totally out of proportion to that generally available to nonveterans in the Philippines?

Mr. WILSON. That report also alluded to the fact that a great number of these people have been drawing this benefit for more than 30 years.

Senator PROXMIRE. All the more reason to cut it out. It seems to me you have a stronger case than if they had been receiving inflated benefits for 6 months.

Mr. WILSON. I can only say with respect to the internal audit report is that is what it was, a report. It was not adopted by the then administrator or then officials of the Veterans' Administration. This particular committee was set up to study the entire matter. The Veterans' Administration received advice as best it could. And it concluded at that time, that that was not the thing to do.

Senator PROXMIRE. That is like some divorce settlements. The divorcee will say she has become accustomed to a beautiful style of living, swimming pools and yachts and limestone mansions and chauffeurs and maids and therefore should be entitled to continue that style of living. If the husband is that wealthy, I presume they could make a case for it.

In this case, it makes no sense to try to apply that kind of reasoning in a situation that has developed because of exchange rate changes and adjustments in the cost of living. You have this gross discrepancy for thousands of people with a burden on the American taxpayer. It just seems to me it is an appalling rationale, particularly in view of the fact that the fundamental law, as you say so well in your statement, is to provide some kind of reimbursement for the impairment in earnings power suffered by veterans because of the service that they have given to either our country or the Philippines.

Mr. WILSON. I think the committee rationale back in those days—of course, I can't really speak for all of it—but they were concerned about the worldwide implication of this. They were also concerned about the fact that the Filipinos have a particular place in our system because of what they did in World War II.

Senator PROXMIRE. You raise issues that would concern the State Department. The State Department said they have an open mind on this. They recognize that there are abuses here.

Mr. WILSON. I heard the statement of the gentleman from the State Department, but that was not then the prevailing view of the State Department.

Senator PROXMIRE. I would think that people in the Philippines who are veterans and being compensated by the Philippine Government, getting 72 percent of the per capita income there, would deeply resent a program which is so discriminatory in providing far more for veterans paid by the U.S. Government.

Mr. WILSON. I would suspect that that is certainly true in many instances. On the other hand, I was at the American Legion National Convention when a delegation of Filipinos was there asking for even more benefits than they currently receive.

The Legion did not adopt those proposals, by the way. There was a strong sentiment among the leaders against an expanded program.

Senator PROXMIRE. I would imagine there was. Of course, these fellows are living the life of Reilly. They have a terrific advantage. I would want increased benefits if I were in their shoes. I imagine the claim fixers support these benefits, too. That doesn't mean it is right.

These are 56,000 out of 20 or 30 million people? How big is the Philippines?

Mr. WILSON. I don't know, sir.

Senator PROXMIRE. It is not a small country.

Mr. WILSON. One of my colleagues just handed me a note here. We have over 70,000 foreign beneficiaries—but the Philippines is the only place where we pay any benefit at this 50-percent rate. But 50 percent is, of course, still substantially higher than the local economy.

Senator PROXMIRE. The Philippines is the only country in which the VA operates a program. Do we pay monetary benefits to citizens of other countries?

Mr. WILSON. Yes, sir.

Senator PROXMIRE. What countries?

Mr. WILSON. All across the world.

Senator PROXMIRE. Give us some idea of how much this amounts to. I am talking about non-U.S. citizens, not American citizens abroad.

Mr. WILSON. I will have to submit that for the record, but I know there are a number of veterans who lived in Italy, for instance.

Senator PROXMIRE. Italian citizens?

Mr. WILSON. They were Italian citizens who came to this country and became American citizens, or served in our armed forces and then returned to Italy.

Senator PROXMIRE. I am talking about a situation comparable to the Philippines, where they were never American citizens.

Mr. WILSON. Yes.

Senator PROXMIRE. We pay those who have never been American citizens?

Mr. WILSON. If they served in our armed forces, yes, sir.

Senator PROXMIRE. Would you give us a rundown of those beneficiaries?

Mr. WILSON. Yes, sir. I will.

Senator PROXMIRE. Can you also tell us how many of those receiving benefits in the Philippines are U.S. citizens? Find that out and let us know.

Mr. WILSON. Yes, sir.

[The information follows:]

The VA does not have a means by which beneficiaries in foreign countries can be identified as citizen or noncitizen.

#### WIDOWS' PROGRAM

Senator PROXMIRE. GAO indicates that you saved the U.S. taxpayers about \$44 million in accrued and future benefits by investigating claims under the widows' program. Can you tell me how much was recovered in claims that have already been paid out?

Mr. WILSON. I would have to submit that. That was a program established when the President signed a bill into law saying that widows who had gotten remarried and who had now lost their second husband could return to the rolls. On a crash basis we investigated all of those cases in which it appeared that those widows may have submitted false statements to us in times past. If that appeared to be the case, we conducted a field examination following which a significant number of those cases were then disallowed.

As to cases that were allowed, we had a field examiner personally deliver the first check back to that restored widow. At that time if there appeared to be something not strictly on the up and up, we took additional action. I don't know how much money was saved at the time except in cost avoidance.

Senator PROXMIRE. Would you provide that for the record?

[The information follows:]

The VA has recovered no money paid to Filipinos on the basis of fraudulent claims. When fraud is discovered forfeiture of benefits follows. Thus there is no continuing award from which to recoup payments. Since U.S. laws are not enforceable in the Philippines and it is impractical to pursue litigations through the Philippine courts there are no collection methods available.

Senator PROXMIRE. I understand that VA's Manila office had begun a followup investigation of widows' claims, but was stopped by VA's central office even though many fraudulent claims were uncovered.

Why was that investigation stopped?

Mr. WILSON. I think that is an inaccurate statement. The investigation, as ongoing, was with respect to those people where there appeared to be something wrong from a previous application. We then had a field investigation of every one of those cases prior to the time of the restoration.

Senator PROXMIRE. The information I just cited was received from the GAO. You are saying they are not correct in stating that the Manila office had done a followup investigation of widows' claims and many fraudulent claims were uncovered, yet the VA's central office stopped the investigation?

Mr. WILSON. I know of no instance where we stopped an investigation.

Senator PROXMIRE. Would you check that out?

Mr. WILSON. Yes, sir. Even now, in every instance where there appears to be something wrong, we are conducting a field investigation and making an appropriate decision. But I will check that out.

Senator PROXMIRE. We will try to give you the precise citation and ask you to give us your response to that.

[The information follows:]

MEMORANDUM REFERRED TO BY SENATOR PROXMIRE

JANUARY 7, 1977.

Widow restoration program under Public Law 91-376.

Your memo dated December 9, 1976.

ADJUDICATION OFFICER, DIRECTOR.

1. During my recent visit to Central Office, I discussed your memorandum concerning the possibility of reopening the Widow Investigation Program with Mr. Peckarsky, Director, Compensation and Pension Service, and members of his staff.

2. Mr. Peckarsky stated that he was not in favor of reopening the Widow Program at this time. He considered this to be a police tactic which has not been followed in any other area and one that has resulted in some criticism.

3. He advised that we should continue to investigate all cases wherein individual reports of alleged relationships are received.

THOMAS H. PRICE, Jr.

VETERANS ADMINISTRATION RESPONSE

As the GAO report points out, PL 91-376 provided for restoration of VA benefits to widows who had ceased living in an ostensible marital relationship. Before approving claims for restoration, field investigations were made and a high percentage of claims were determined to be fraudulent. Following the completion of the 100% review of all cases which had requested restoration, the R.O. returned to the normal practice of investigating those cases where there was some indication of false representation. The DVB Central Office never issued a directive which would prevent the Manila R.O. from investigating widow restoration cases.

The position of the C&P Service is that the Manila R.O. should reinvestigate any case in which there was any indication that benefits may have been wrongfully obtained. This would be done on an individual case basis as time permits. However, it does not appear that a review of every case in which benefits have been awarded under PL 91-376 is warranted in view of the time and additional staff required.

Senator PROXMIRE. According to the GAO, the VA's Manila office maintains no statistics on illegitimate children, nor has it studied potential abuses associated with their entitlement to VA benefits. The

case of the new Scout veteran who sired 15 illegitimate children should be a clear signal to the VA that abuses exist and need to be addressed.

Philippine law is a barrier to a complete crackdown on this problem. What specific legislative steps can you take to curb that flagrant abuse of the benefit program?

Mr. WILSON. I think it would take a change in the law. The instance in the report has been checked out by GAO and by us. The law is if a person admits paternity, that we find him to be the father. In this instance, he has admitted paternity. We think, in fact, he is the father of all those children.

As you suggested, there may be more.

#### RECOMMENDED LEGISLATIVE MEASURES TO ADDRESS ISSUE

Senator PROXMIRE. What specific legislative measures would you recommend to address this issue?

Mr. WILSON. We are going to address it and I suspect we are going to recommend to the Congress that there be a limitation on the number of that kind of dependents, although I can't say that with finality.

Senator PROXMIRE. What is your best estimate of the number of illegitimate children who are entitled to VA benefits and could you tell us how much money is involved?

Mr. WILSON. I don't think we have those figures.

Mr. PECKARSKY. There is no way of telling that. The statutory definition is a natural child, a stepchild, an adopted child.

Senator PROXMIRE. You did check to see whether the children were truly the offspring of the claimed father in at least one case.

Mr. WILSON. We did in that particular instance, because there were so many.

Senator PROXMIRE. You only check in an occasional instance?

Mr. WILSON. When it comes to us—

Senator PROXMIRE. There is such a potential for abuse here because you have this colossal difference between the payment of dependents of veterans in the Philippines and dependents in this country. There is such an enormous benefit, both to the parent and to the child in the Philippines, because of this situation. In view of the great difficulty of determining whether or not a child is actually the child of a particular father, it would seem to me that this would be very widespread abuse. As I say, there is a very high premium on it. There is no basis for prosecution in the event of fraud.

You say you don't investigate unless you have some conspicuous case like this beneficiary who had 15 illegitimate children.

Mr. WILSON. We would investigate the exception, sir.

#### OVERPAYMENTS IN UNITED STATES

Senator PROXMIRE. I am concerned about the level of overpayments in the United States. Obviously your overpayment problem must be more severe in the Philippines due to the number of fraudulent claims and your inability to apply U.S. law in the Philippines.

What is your best estimate of the amount of overpayments made to beneficiaries on the basis of inappropriate and fraudulent claims and what success have you had in reducing overpayments?

Mr. WILSON. I think it is now comparatively minute. Some statistics were mentioned earlier. Of the number of new claims there, only 1 percent was allowed.

The employees over there have become accustomed to recognizing a phony claim when they see it. That is one of the reasons we look with caution upon the idea of moving the office.

These people know who the fixers are in many instances. They recognize a legitimate claim as opposed to one that is illegitimate.

Senator PROXMIRE. You are referring to compensation payments. How about educational benefits?

We have a severe educational overpayments problem in this country. Do you have a similar problem in the Philippines with respect to education payments.

Mr. WILSON. No, sir. There is only an occasional overpayment now. I think I read yesterday of some \$865,000 that was overpaid last year. The large majority of that was in terms of collection efforts because we had no luck in getting it back. Last year, as I recall, you asked a question during the appropriation process as to whether or not we could limit advance payments which caused a great many overpayments. At the time we did not. However, we changed our regulations.

And now we have authority to limit advance payments. Just last night our area field director was talking with the director of our Manila office and he said this new regulation had helped him.

In addition to that, the law passed last year gave us a great many weapons to combat abuse. By the application of those new provisions our overpayment problem in Manila is not bad.

Ms. Starbuck has handed me some notes here. There is a balance of \$157,000 in accounts receivable at this moment. But I would need to add to that that we terminated collection efforts in a substantial number of cases.

#### EDUCATION BENEFITS

Senator PROXMIRE. Let me get into the problem of attending school in order to get the benefit of the relatively great income that a beneficiary attending school can get in the Philippines. According to the GAO, the VA does not conduct an evaluation of Filipino students who have received VA educational benefits, to see if, in fact, the students complete training, graduate, or apply their skills to related employment.

Indications are that few students graduate or are even interested in applying their skills to related jobs. Even college registrars in the Philippines acknowledge that VA students seldom continue their education past the end of their educational benefit entitlement period. They just drop out after the 45 months are exhausted.

At GAO's request, your Manila office did take a brief look at eight dependents and found that five were unemployed and two were working at jobs totally unrelated to their training: One was selling seashells and the other driving a horse cart.

In view of these blatant examples of the failure of the educational benefit program to train Filipinos for meaningful, related employment, why haven't you conducted an in-depth evaluation of this program?

Mr. WILSON. The evaluation office is in the process of conducting, and may have completed a nationwide evaluation of the educational program.

Senator PROXMIRE. In the Philippines?

Mr. WILSON. No sir, I am not sure about the Philippines being included but I think they are.

Senator PROXMIRE. That is what I am interested in this morning.

Mr. WILSON. I think they were included statistically. But I do not believe that that program in the Philippines has ever been looked at in the context which you ask the question except there is now a law on the books related to vocational training in which we find out how many people are really pursuing the education received.

If it is less than 50 percent, that school is terminated as to veterans' enrollment. We do not do that with respect to college training. This is just vocational.

Senator PROXMIRE. You have an obvious indication of abuse. We have this very high payment—

Mr. WILSON. We will certainly look into it and might be prepared to come back with some recommendations.

Senator PROXMIRE. I appreciate that very much because I think this is clearly an area of great cost to the taxpayer.

In discussing the draft report on the medical program, VA officials apparently told GAO that the Department of Medicine and Surgery favored a block grant directly to the Philippine Government and the withdrawal of the D.M. & S. presence from that country. Yet, in commenting to the House Veterans' Affairs Committee on the published GAO report, VA said that it favored extension of the program until September 30, 1983. I have got the letter.

I realize that the D.M. & S. position did not represent the formal VA position on this matter, but I am curious about the opposite viewpoints nevertheless.

To what extent was the D.M. & S. position considered when the official position was formulated?

Mr. WILSON. It was considered, sir. I think the important point is that the current Administrator said, as late as yesterday, that he favors phasing out the program.

Senator PROXMIRE. You said in your statement that it has always been the position of the United States that the medical program would eventually be assumed by the Philippine Government. Yet, in the VA's response to me on June 16, you said that you favored another 5-year extension.

Can you tell me just what you consider a temporary program? After 29 years, don't you think it is time that the United States got out of this temporary program with the Philippine Government and had it assume its full responsibility by taking it over?

Mr. WILSON. Certainly, it has been the decision of the executive branch of Government and the Congress on each of those occasions to extend it.

On each occasion as I recall it, the Veterans' Administration and the Congress said they wanted it to be temporary. With respect to the statement of 6 or 8 weeks ago, I recall to responding to Congressman Roberts on the same general issue, GAO had in a draft report that I seem to remember, a statement that Veterans' Administration

officials agreed with something they had said about phasing out the program immediately.

Congressman Roberts wrote the administrator a letter and said, you wrote in a report that you favored an extension of 5 years. We wrote back and said that is correct that we did say at that point in time that we favored an extension of 5 years.

I think we wrote the same thing to you, Mr. Chairman. Following that, we had several conferences in terms of zero-based budgeting. We have considered the entire matter and the GAO report on the medical program which came out some time ago.

I would repeat our current position is we favor phasing out the program. Congress spoke to that recently by reducing it from \$2 million to \$1.7 million. I think we are in agreement on this.

Senator PROXMIRE. I favor that. You can see why I am confused. I have here a letter dated June 16, 1977, signed by the Acting Administrator, which says:

The VA position concerning medical care provided Filipino veterans who have served under the command of U.S. military forces remains as stated in my March 7, 1977, letter, addressed to the Chairman, House Committee on Veterans' Affairs, commenting on H.R. 2860.

In that letter report, we supported extending the current authority to make grants to the Republic of the Philippines for hospital care and treatment of eligible veterans until September 30, 1983, at the current level of funding.

Mr. WILSON. That was the position then, sir.

Senator PROXMIRE. You don't support that position now?

Mr. WILSON. No, sir. We support phasing out the program.

Senator PROXMIRE. In your statement you indicate that reducing benefits for Filipino veterans to bring them more in line with the local economy may not be a wise move, in view of disparate costs and standards of living where American veterans reside.

What has reducing benefits for foreign nationals had to do with where American veterans reside? Why can't we separate the two?

Mr. WILSON. I think there is a constitutional question if they are actually veterans of our Armed Forces. I think it may be a due process question.

Mr. COY. I think we are talking about the constitutional issues in the broad sense. The Congress has not made a distinction based upon where you live in the United States, nor where you live in other countries.

If you were to now turn them down or reduce the benefit they have depended on, because they choose to live in the Philippines, a question of fairness could certainly be raised.

Senator PROXMIRE. I am talking about non-U.S. citizens. As I understand it they constitute the overwhelming majority of the beneficiaries.

Mr. WILSON. There are certain non-U.S. citizens that served in our Armed Forces. There were certain other non-U.S. citizens who served in the guerrilla forces and the Philippine Army.

The distinction may be that a number of these people served in our army. Those are the people Mr. Coy is addressing.

Senator PROXMIRE. You say you cannot separate out that part of the program benefiting Philippine citizens under the Constitution even though we are talking about foreign nationals?

Mr. COY. We are not saying the issue is that clear. Our whole statutory scheme is based upon service in the U.S. Army or military, rather than citizenship.

We believe there might be a constitutional question, a due process question, if we were to take the benefit away after it has been statutorily provided merely because the veteran chooses to live in the Philippines.

Senator PROXMIRE. Why couldn't you explore that for us and find out? It seems to me it is a constitutional issue that is well worth exploring.

Mr. WILSON. We will.

[The information follows:]

#### CONSTITUTIONAL ISSUES RAISED BY REDUCING BENEFITS TO FILIPINO NATIONALS

We certainly foresee the possibility of challenge on constitutional grounds to any reduction or termination of benefits applicable only to Philippine nationals residing in the Philippines. See, for example, the unsuccessful challenge in *Filipino American Veterans and Dependents Association v. United States*, 391 F. Supp. 1314 (N.D. Cal 1974). As I am sure you are aware, the area of constitutional law, particularly with respect to due process and equal protection, is not only extremely complicated but constantly changing to accommodate changing social and political values of the people. While we want to continue our study of this issue, we now believe, on the basis of our research, that constitutional rights are probably not involved. In the case of *Johnson v. Eisentrager*, 339 U.S. 763 (1950), the Supreme Court discussed the matter of claimed constitutional right by a nonresident alien. The court stated, in part: "But, in extending constitutional protections beyond the citizenry, the Court has been at pains to point out that it was the alien's presence within its territorial jurisdiction that gave the Judiciary power to act. \* \* \*" [339 U.S. at 771.] We also believe at this point in our study that the former status of the Philippines as a territory under the protection of the United States does not give Filipinos constitutional rights not accorded other alien nonresidents. That conclusion comports with the holding in *Rabang v. Boyd*, 353 U.S. 427 (1957).

Senator PROXMIRE. In your statement relating to GAO's final alternative, you say that a lump-sum payment would be a marked departure from the present scheme which takes into account periodic adjustments for such variables as increases or decreases in the level of disability, the number of dependents and outside incomes.

Why would a lump-sum payment in which the Philippine Government would be totally responsible for running the program change the manner in which benefits are determined?

Why wouldn't the Philippine Government determine whether increases or decreases were necessary?

I understand they do this now for their own veterans' programs.

Mr. WILSON. I think our people need to explore this some more. I think it may be possible. The statement was made that there was a marked departure from the way we have done things.

I think the GAO report points out that on one occasion there was an argument made that Filipino guerrillas ought to receive some back payment. Some \$31 million was paid to the Philippine Government in this context.

My understanding is they took that \$31 million, banked it, and used the interest off it to run the Philippine veterans program. Exactly how we would set up a situation of block grants is something which would have to be explored. The Deputy Secretary of State this morning said he thought it ought to be explored and we do, too.

Senator PROXMIRE. Do you know what has happened to the lump-sum payment of \$31 million that was provided to the Philippine Government? Is the money still there? Has it been handled properly?

Mr. WILSON. I am told that the money has been banked. The interest from it has been used to support the Philippine veteran program. As far as I know, it has been used well.

Senator PROXMIRE. I can't understand why a lump-sum payment to the Philippine Government which would be totally responsible for running the program, would change the manner in which the benefits would be determined.

Are you in favor of a lump-sum settlement?

Mr. WILSON. Not at the moment, sir. We have not had time to ingest the full impact of that yet.

Senator PROXMIRE. Let me conclude by saying that I appreciate your taking the time to come up and discuss the VA benefits program carried out in the Philippines this morning. Obviously, there is much that can be done by both the VA and the State Department to improve this program administratively.

However, it is also equally clear that legislation will be needed to correct many of the inequities that have evolved over the 10 years since the program was last reassessed.

Your concluding comment that "The problems and questions raised are many and multifaceted and do not lend themselves to simple solutions" does not seem to be a very adequate response to the GAO testimony.

I would like a commitment from you and your colleagues that you will study the situation and come up with some legislative and administrative initiatives by the time the President's budget for fiscal year 1979 is submitted to the Congress.

That means I would like to have a package by January 1, 1978—in other words, in about 4 months. I would hope that the package would be reflected in a reduced budget request for the various Philippine benefits programs for fiscal year 1979.

Would you make a commitment to work with the State Department and the General Accounting Office on such a package of changes and report back to the subcommittee on, say, January 1, 1978?

Mr. WILSON. I will commit myself to work with them but I cannot, at this moment, commit myself to the fact that there would be a package. I would hope there would be.

Senator PROXMIRE. I am not asking that you necessarily give the kind of answers that I would like to have or the Congress would like to have, or you would like to give, but report back on what you have done by January 1.

Mr. WILSON. We would be pleased to do that.

Senator PROXMIRE. And recommend to the extent that you have recommendations.

Mr. Wilson, Yes, sir.

Senator PROXMIRE. Thank you very, very much. I appreciate your responsiveness and your willingness to come up and testify so fully and completely. It has been very helpful.

Mr. WILSON. Thank you very much.

## CONCLUSION OF HEARING

Senator PROXMIRE. The subcommittee will stand in recess, subject to the call of the Chair.

[Whereupon, at 12:15 p.m., Wednesday, August 31, the hearing was concluded and the subcommittee was recessed, to reconvene at the call of the Chair.]

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