ASSET TESTING FOR ELIGIBILITY: PROFILES OF SIX FEDERAL BENEFIT PROGRAMS

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OFFICE OF INSPECTOR GENERAL

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This inspection, entitled "Asset Testing for Eligibility: Profiles of Six Federal Benefit Programs," was conducted at the request of the President's Council on Integrity and Efficiency. The Council asked (1) how six major Federal needs-based programs define and treat nonliquid assets to determine eligibility for benefits and (2) what prior studies have found in this area.

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EXECUTIVE SUMMARY

PURPOSE:

This inspection was conducted at the request of the President's Council on Integrity and Efficiency to review:

- how six major Federal needs-based programs define and treat nonliquid assets to determine eligibility for benefits; and

- what prior studies on the topic found and what actions they recommended for simplifying asset testing.

BACKGROUND:

The Federal Government's benefit programs for individuals fall into two general categories:

- insurance-based programs in which the individual receives benefits after financially contributing to the programs or serving in the military; and

- needs-based programs in which the individual must demonstrate financial need. The individual neither contributes to the program financially nor renders a service in return for benefits received. Eligibility is based on income and other factors such as assets.

In the second category, the following are the six largest (measured by cash outlay) of the Federal needs-based benefit programs:

- Medicaid, which purchases medical care for persons unable to afford the cost of such care;

- Aid to Families with Dependent Children (AFDC), which provides a monthly cash allowance to children and their caretakers;

- Food Stamp, which provides coupons to households for purchasing food;

- Supplemental Security Income (SSI), which provides cash assistance to individuals who are aged, blind, or disabled;

- Section 8 Low-Income Housing Assistance, which subsidizes rent for families or individuals who are aged or disabled; and

- Pell Grant, which provides cash assistance to students for postsecondary education.

These six programs are examined in this study. They are administered by six different Federal agencies: the Departments of Housing and Urban Development (HUD), Education, Agriculture, and three different operating divisions of the Department of Health and Human Services (HHS). Regulations are developed and enforced by six separate entities.

At the local level, the six programs are administered by four agencies. Public housing authorities manage the Section 8 program; postsecondary institutions administer Pell Grants; the Social Security Administration (SSA) operates the SSI program; and local welfare agencies (under State supervision or administration) determine eligibility for the Food Stamp, AFDC, and Medicaid programs.

METHODOLOGY:

Interviews were conducted with regional and central office officials in the Departments of Agriculture, Education, HUD, and HHS. A review of laws, regulations, and program guidelines was conducted. We also reviewed prior study findings and recommendations on eligibility simplification and streamlining as they relate to asset testing.

FINDINGS:

- These programs operate independently of each other. Property defined as an asset in one program may not be considered for eligibility purposes in another.
- An obstacle to streamlining services to low-income persons is that each program uses its own definition and treatment of assets when determining eligibility. The requirements are a result of different statutes and regulations that govern asset testing.
- Basic eligibility data supplied and verified in one program must be resupplied and reverified for another program.
- There is more discretion in determining the value of assets than in evaluating other eligibility factors.
- Program complexities in the definition and treatment of assets increase the administrative burden of determining eligibility. This can cause eligibility errors which result in misspent funds.

- Previous studies have made a number of recommendations relating to asset testing. The following are most relevant to the purposes of this study:

  - Standardize the definition, verification, and requirements for reporting of assets for needs-based programs.

  - Develop easily understandable and uniform eligibility rules.

  - Adjust asset limits to reasonable levels and update periodically to reflect economic change.

  - Develop a common intake system to centralize the eligibility determination process.

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INTRODUCTION

This study examines the ways in which property assets affect eligibility for six Federal programs of assistance to individuals.

Background

The General Accounting Office (GAO) has identified 150 Federal individual assistance programs. They fall into two groups:[1]

- o Fifty-five (55) <u>insurance-based</u> programs provide benefits to individuals who financially contribute to the programs or serve in the military. Benefits are paid in some cases without regard to the client's income or assets.

- o Ninety-five (95) <u>needs-based</u> programs provide benefits to individuals who demonstrate financial need. The individual neither contributes to the program financially nor renders a service in return for the benefits received. Eligibility is based on income and other factors such as assets.

Assets are generally divided into two categories: liquid and non-liquid. Liquid assets are those readily convertible to disposable income. These assets include cash on hand, checking and savings accounts, and stocks and bonds. Nonliquid assets are real and personal property not readily convertible to disposable income. These include homes, business property, vehicles, life insurance, burial plots, household furnishings, equipment, clothing, and jewelry.

This study concentrates on the six largest (measured by cash outlay) of the Federal needs-based benefit programs. Appendix A provides figures on benefits paid and recipients served. The programs are:

- o Medicaid
- o Aid to Families with Dependent Children (AFDC)
- o Food Stamp
- o Supplemental Security Income (SSI)
- o Section 8 Low-Income Housing Assistance
- o Pell Grant

The following table summarizes the benefits, recipients, an administering agencies of these programs. (More detail can be found in appendix B.)

THE SIX LARGEST NEEDS-BASED PROGRAMS			
PROGRAM	BENEFITS	ISSUED TO	FEDERAL DEPARTMENT
Food Stamp	Coupons to buy food	Households	Agriculture
AFDC	Cash assistance	Families (called "assistance groups")	Health and Human Services (HHS)
SSI	Cash assistance	Individuals or married couples	HHS
Medicaid	Payment for medical care	Individuals	HHS
Section 8	Rent subsidy	Families or individuals	Housing and Urban Development (HUD)
Pell Grant	Cash assistance for postsecondary education	Students	Education

These programs are administered by six different Federal agencies. (Although three of the programs are within the jurisdiction of HHS, they are administered by three separate operating divisions within the Department.) Further, and significant to this inquiry, program <u>regulations</u> are developed and enforced by six separate entities.

At the local level, the six programs are operated by four types of agencies:

- o Public housing authorities (PHAs) manage the Section 8 program.

- o Postsecondary institutions administer Pell Grants.

- o The Social Security Administration (SSA) operates the SSI program.

- Local welfare agencies conduct eligibility determinations for the Food Stamp, AFDC, and Medicaid programs under State supervision or administration. In many local welfare agencies, the same person determines eligibility for all three of these programs.

Purpose and Scope of the Study

This inspection was requested by the President's Council on Integrity and Efficiency (PCIE). The Council asked (1) how six major Federal needs-based programs define and treat nonliquid assets to determine eligibility for benefits and (2) what prior studies have found in this area.

This analysis is limited to a review of Federal requirements for asset testing. Although State and local agencies operating these programs may impose additional eligibility requirements relating to assets, those rules are not considered here.

Methods

Interviews were conducted with regional and central office officials in the Departments of Agriculture, Education, HUD and HHS. Laws, regulations, and program guidelines were reviewed to (1) determine major types of nonliquid assets defined by these programs, and (2) compare definitions and treatment of these assets in determining eligibility.

We reviewed more than 60 studies conducted since 1975 which relate to eligibility in one or more of the six needs-based programs examined here. These prior studies were identified through bibliographies from other studies, journal articles, and discussions with staff at Federal agencies: HHS, Agriculture, Education, HUD, GAO, and the Office of Management and Budget. This report's bibliography identifies those studies.

FINDINGS

Maximum Allowable Assets

All six programs in this study consider assets when determining eligibility; however, the programs vary in their treatment of assets. Four of the programs have set maximum limits for the value of assets an individual or family may own. Two programs have no such specific limits.

In the Food Stamp, AFDC, SSI, and Medicaid programs, the combined value of the assets is compared to the asset maximum allowed for the particular program. Each program sets the maximum at a different level.

The Section 8 and Pell Grant programs do not have specified maximums. In these programs, the value of the applicant's assets is combined with the income and then compared to a maximum. Section 8 eligibility limits are based on the median income of the geographic area. Pell Grant eligibility limits are set for each school year by the Department of Education.

To be eligible for the four programs which count assets independent of income, applicants may not have liquid and nonliquid assets combined exceeding these amounts:

FOOD STAMP	AFDC	SSI	MEDICAID
$2000 per household $3000 per household with member(s) age 60 or older	$1000 per assistance group (At State's option, may be less)	01/01/88: $1900 for individual $2850 for couple 01/01/89: $2000 for individual $3000 for couple	SSI-related Medicaid: SSI limit* AFDC-related Medicaid: State's AFDC limit* Medically needy: Set by the States

*Eligibility based on requirements for either SSI or AFDC.

Treatment of Assets by Program

The following explains how the treatment of assets varies in each program:

Food Stamp: Benefits are funded totally by Federal monies. States must adhere to the eligibility criteria set by Federal regulation. Therefore, the eligibility criteria and benefit amounts are the same in every State.

To be eligible for food stamps a household's income and assets must be below the amount set by the Federal regulations. The income limit is based on household size. The asset limit is the same for all size households, although the limit is higher if the household has a member age 60 or older. Once eligibility has been established, Food Stamp benefit amounts, called coupon allotments, are based only on household size and income. Assets are not included in the calculation of coupon allotment.

Households are certified to receive food stamps for a specified length of time, usually 6 months to 1 year, depending on the anticipated stability of the household circumstances. At the end of the certification period, every element of eligibility is reviewed. However, if the household's assets ever exceed the maximum limit, even during a certification period, the household is no longer eligible for the program.

Aid to Families with Dependent Children (AFDC): Federal regulations specify AFDC eligibility criteria. However, States may make the criteria more restrictive. For example, States may count some assets which the Federal regulations allow to be excluded.

Both income and assets are used to determine eligibility, and each must be below a specified amount. States set the income limits, which depend on the size of the assistance group (usually a family). Federal regulations set the asset limit at $1,000, regardless of the family size. However, States may set a lower limit.

As in the Food Stamp program, assets are used only to determine eligibility and do not affect the amount of benefits. While a family is eligible, benefits are based only on family size and income. Assets are evaluated at every review--usually every six months. At any time the assets exceed the limit, the assistance group becomes ineligible.

Supplemental Security Income (SSI): The eligibility criteria for SSI are uniform nationwide. Both income and assets must be below specific amounts for the individual or couple to be eligible. Once eligibility is established, however, the monthly benefits are based solely on income.

The regulations specify different asset limits for individuals and for couples. If a recipient's marital status changes, the asset limit changes. If assets ever exceed the appropriate limit, the individual or couple becomes ineligible.

Medicaid: This program does not have a single set of eligibility requirements. Medicaid eligibility is determined by applying the AFDC or SSI program criteria to applicants who are potentially eligible for those two programs. Applicants who qualify for Medicaid in this way, along with other specific groups of people Congress has designated, are termed "categorically eligible."

For the most part, the Medicaid asset limit for the AFDC-related "categorically eligible" coverage groups is the same as the State's AFDC asset limit. The Medicaid asset limit for SSI-related "categorically eligible" coverage groups is the same as the SSI asset limit.

Those who do not qualify for AFDC or SSI because their income or resources are above the program's limits may still qualify for Medicaid as "medically needy." For these applicants the eligibility rules are based on AFDC or SSI but with modification. For example, children may qualify for Medicaid as "medically needy" if they meet all the AFDC criteria except the income limitation. "Medically needy" presumes they are not poor enough to require cash assistance, but they still may not be able to afford medical care.

For the "medically needy" coverage groups, States set their own asset limits. The Federal regulations require only that the limits be based on family size, be uniform for individuals within a coverage group, and be reasonable.

For the past several years, Congress has been adding more coverage groups to the Medicaid program. Each group has its own set of eligibility criteria. Although the asset requirements remain similar to those of the cash assistance programs (AFDC and SSI), the eligibility policies are generally more liberal and allow States greater flexibility.

Section 8 Low-Income Housing Assistance: Although PHAs have some flexibility in the administration of the Section 8 program, the Federal regulations provide guidelines for the treatment of assets. There is no asset limit per se; either the income derived from the asset or a percentage of the assets' value is combined with the family's projected annual income to determine the family's eligibility and its share of the rent.

If the assets' value totals $5000 or less, only the income from the assets is counted. If the value exceeds $5,000, the greater of either the income from the assets or a percentage of the assets' value (currently 5.5 percent) is counted.

Pell Grant: This program uses both income and assets to determine the financial ability of the applicant and his/her family to pay the costs of postsecondary education. A formula is used to determine the amount of income and assets considered in the calculation of eligibility and grant amount.

The formula combines income and assets of both the parents and student. For the asset portion of the calculation:

1. The equity value of the asset is determined.
2. A specified amount of the equity is disregarded. Only the excess is used in further calculations.
3. A percentage of the amount from step 2 is combined with the income to determine eligibility and grant amount.

The basic formula for assessing the countable assets has several exceptions:

- o Assets are not counted at all for families with a total income of $15,000 or less if they file the 1040A or 1040EZ tax forms, or do not file taxes at all.
- o Homeplace value is not counted for displaced homemakers or dislocated workers.
- o Assets are fully counted (i.e. no portion is disregarded) if owned by a dependent student or a single independent student with no dependents.

Specificity of Federal Regulations

Federal regulations regarding the types of nonliquid assets to be counted or excluded are more specific for some programs than for others. For example, Food Stamp regulations provide fairly explicit guidelines, whereas Section 8 regulations have very little written guidance regarding assets. The policies which are less specific are subject to varying interpretations by all levels of staff involved with the programs.

Determining Value

When determining the value of an asset, the six programs generally consider the equity value (fair market value less encumbrances). However, exceptions to the equity value policy do occur. The Food Stamp program, for example, counts the full fair market value of certain vehicles and real property. Still another variation is the Section 8 program which deducts from the value reasonable costs incurred in converting the asset to cash.

Specific Types of Assets

The general premise for needs-based programs is that assets count toward the determination of eligibility. However, in most of the programs, certain types of nonliquid assets are either totally excluded or have a specified amount of their value excluded from the determination calculations.

Little consistency exists among the programs in the treatment of specific assets. Treatment of an automobile is an example. The AFDC program counts the equity value which exceeds $1500. The Section 8 program excludes one automobile and the Pell Grant program excludes all automobiles. Exclusions in the SSI and Food Stamp programs depend on the automobile's use. Appendix C shows how each of the six programs counts specific assets most frequently owned by individuals who apply for assistance.

Jointly-Owned Assets

All six programs generally agree on the treatment of nonliquid assets owned jointly by the applicant and a nonapplicant. The programs count only that part of the asset available to the applicant for liquidation. The Food Stamp and Section 8 programs specifically define the portion considered available to the applicant. The other programs have less specific regulations which are subject to varying interpretations by the agencies which determine eligibility. The Pell Grant program does not mention joint ownership at all.

Disposing of Assets

Four of the six programs have rules governing disposal of assets at less than fair market value for the purpose of qualifying for assistance. Pell Grant and AFDC Federal policies do not provide for penalties for disposing of assets. However, in the AFDC program, States have the option of imposing such penalties. The chart on the following page illustrates the rules and associated penalties of the other four programs.

POLICIES FOR DISPOSING OF ASSETS			
PROGRAM NAME	IF DISPOSITION OF ASSETS OCCURS WITHIN...	THE PROGRAM...	THE PENALTY REMAINS IN EFFECT FOR...
Food Stamp	3 months prior to application	disqualifies the applicant.	up to 12 months, based on difference between fair market value and amount of compensation.
SSI* (for assets transferred prior to 7/1/88)	24 months prior to application	counts in determining eligibility the difference between fair market value and amount of compensation.	up to 24 months, based on type of asset and uncompensated value.
Medicaid (Institutionalized individuals only**)	30 months prior to institutionalization	counts in determining eligibility the difference between fair market value and amount of compensation.	based on uncompensated value.
Section 8	24 months prior to application	counts in determining eligibility the difference between fair market value and amount of compensation.	24 months from date of disposition.

*Transfers occurring after 7/1/88 have no effect on SSI eligibility.

**Medicaid does not penalize individuals living in the community for disposing of assets to qualify for the program.

REVIEW OF PRIOR STUDIES

Many studies have been done since 1975 on various aspects of welfare reform and integration of services. Relatively few of them specifically address asset testing for eligibility determination. The vast majority of prior studies, when eligibility factors are examined, focus on income testing. We have selected 16 prior studies which specifically identify the testing of nonliquid assets in one or more of the six programs we examined. The following is a summary of those studies. Many of the findings they report are confirmed by our own research. Appendix D contains brief descriptions of the findings and recommendations of individual studies as they relate to asset testing.

Treatment of Assets

Programs administering benefits for low-income persons do not operate as a system. They operate independently of each other. An asset in one program may not be considered an asset for eligibility purposes in another program.[2] One of the obstacles to streamlining services to low-income persons is that each needs-based program uses its own definition and treatment of assets when determining eligibility. For example, asset limits are defined differently among the programs.[3]

Each Federal agency providing benefits follows different asset-test requirements when determining eligibility. The requirements are a result of different statutes and regulations which govern asset testing. Not only are the asset-test requirements different from program to program but they are also complicated to administer within each program. Complexity of asset rules and variations from one program to another are hindrances to meeting the basic needs of clients.[4] A recipient can be "poorer" by one program's rule--and, thus, qualify for its benefits--while ineligible in another.[5] A family can have income low enough to qualify for both AFDC and food stamps, only to be found ineligible for AFDC because the family car is worth too much.[6]

These overlaps, gaps, and program complexities in asset-tested programs cause administrative inconsistencies and coordination problems which not only increase the burden of determining eligibility[7] but can also cause eligibility errors which result in misspent funds.[8]

Verification of Assets

While this study did not address the verification of assets, prior studies found variances in the verification methods.

Differences in the definition and treatment of assets from program to program (and in some cases from State to State[9]) contribute to assets being verified in different ways by each program.[10]

Eligibility data supplied and verified in one program must be resubmitted to another program and reverified.[11]

Verification of the value of assets can also differ from worker to worker within each program. There is more administrative difficulty and discretion in valuing assets than any other of the eligibility determination factors.[12]

Verification requirements and practices are not adequate to prevent improper payments. The requirements are either extremely vague or overly restrictive and can result in erroneous eligibility payments.[13]

Elimination of Asset Tests

While asset testing and verification varies from one program to another and causes inconsistencies, removal of assets as an eligibility determinant would be costly. Asset testing excludes many applicants from the programs. For example, asset tests in the Food Stamp program reduced eligibility by 12.3 million persons at a savings of $2.9 billion a year.[14]

Recommendations of Prior Studies

Previous studies have made a number of recommendations relating to asset testing. The following are most relevant for purposes of this study:

- Standardize the definition, verification, and requirements for reporting of assets for needs-based programs.

- Develop easily understandable and uniform eligibility rules.

- Adjust asset limits to reasonable levels and update periodically to reflect economic change.

- Develop a common intake system to a centralize the eligibility determination process.

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APPENDIX A

BENEFITS PAID AND RECIPIENTS SERVED

According to a Congressional Research Service for Congress, the six needs-based programs discussed in this report paid out $100 billion in Fiscal Year (FY) 1986:

BENEFITS PAID FY 1986 (BILLIONS)

	Federal	State/Local	Total
Medicaid	$24.995	$19.730	$44.725
AFDC	9.536	8.221	17.757
SSI	10.307	2.514	12.821
Food Stamps	12.528	.938	13.466
Section 8	7.430	0	7.430
Pell Grants	3.862	0	3.862
Total	$68.658	$31.403	$100.061

According to the same Congressional study, the numbers of program recipients in Fiscal Year 1986 were:

RECIPIENTS SERVED FY 1986 (MILLIONS)

	Recipients	Period
Medicaid	22.592	Annual
AFDC	10.995	Monthly Average
SSI	4.449	Monthly Average
Food Stamps	20.900	Monthly Average
Section 8	2.143*	Annual
Pell Grants	2.881	Annual

* Families (Dwellings Units)

Source of Information: Congressional Research Service. Cash and Noncash Benefits for Persons with Limited Income: Eligibility Rules and Expenditure Data, FY 1984-86. By Vee Burke. Rept. no. 87-759 EPW, Washington, D.C.: Library of Congress, 1987.

APPENDIX B

DESCRIPTION OF PROGRAMS

FOOD STAMP

Purpose: To promote the general welfare and to safeguard the health and well-being of the nation's population by raising the level of nutrition among low-income households.

Description: This program provides free coupons for eligible households to use for purchasing food in retail stores. The benefits are not expected to meet the household's full need for food, but rather supplement the funds they have available for this purpose. The coupons are issued monthly. Although the program is administered by States through local public welfare agencies, States have few options in how the program is managed. The Federal regulations establish the eligibility criteria and benefit amounts to which States must adhere.

Funding

Benefits:	100 percent Federal
Administration:	Federal/State Federal share is based on the State's error rate and is generally 50-60 percent.

Federal Agency:	Department of Agriculture Food and Nutrition Service
Authorization:	Food Stamp Act, 1964
Regulations:	7 CFR 271-279 et seq.

AID TO FAMILIES WITH DEPENDENT CHILDREN (AFDC)

Purpose: To encourage the care of dependent children in their own homes or in the homes of relatives by enabling States to furnish financial assistance to the families.

Description: States provide monthly cash assistance payments to meet basic needs of children (and their eligible caretakers) who are deprived of parental support because at least one parent is absent, incapacitated, deceased, or (in some States) unemployed. States establish their own income limits and benefit amounts; however, the asset limit ($1,000) is set by Federal regulation. States administer the program through local public welfare agencies. Recipients of AFDC are automatically eligible for Medicaid benefits.

Funding

Benefits:	Federal/State Federal share is based on State's per capita income. In Fiscal Year 1987, the Federal share ranged from 50-78.5 percent.
Administration:	Federal share is 50 percent, with increased funding for the development of automated systems.

Federal Agency: Department of Health and Human Services
Family Support Administration

Authorization: Social Security Act, Title IV-A

Regulations: 45 CFR 200 et seq.

SUPPLEMENTAL SECURITY INCOME (SSI)

Purpose: To provide supplemental security income to individuals who are age 65 or older, or are blind or disabled.

Description: The Federal Government provides monthly cash assistance payments to low-income individuals who are aged, blind, or disabled. The program is administered by the Social Security Administration. Benefits may be issued to either an individual or to a husband and wife who both meet the eligibility criteria. In most States, eligibility for SSI automatically qualifies the individual for Medicaid. In other States, criteria more restrictive than the SSI standards are used to determine Medicaid eligibility.

Funding: 100 percent Federal

Federal Agency: Department of Health and Human Services
Social Security Administration

Authorization: Social Security Act, Title XVI

Regulations: 20 CFR 401 et seq.

MEDICAID

Purpose: To enable States to furnish (1) medical assistance for families with dependent children and for aged, blind, or disabled individuals whose income and resources are insufficient to meet the costs of necessary medical services and (2) rehabilitation and other services to help such families and individuals attain or retain capability for independence or self-care.

Description: The Medicaid program purchases medical care for low-income families with dependent children and for low-income aged, blind, or disabled individuals. Health care providers bill the State for their services and are paid with a combination of State and Federal funds. The medical care may include prescription drugs, hospital, laboratory, nursing home, and physician services. States may design their Medicaid programs within broad Federal limits. Generally, eligibility can cover two groups of people. The first group is the "categorically needy," which includes persons receiving assistance under the AFDC or SSI program. The second group is referred to as "medically needy." At the option of each State, persons who do not meet the "categorically needy" requirements because of excess income or assets, but cannot afford to pay for necessary health care, can be made eligible for Medicaid under the "medically needy" category.

Medicaid programs differ greatly from State to State because of variations such as benefits offered, groups covered, and income and assets allowed. Eligibility criteria for the "categorically needy" are generally the same as the criteria for either the AFDC or SSI programs. "Medically needy" criteria are usually related to a State's AFDC requirements, but the income and resource limits are higher.

States administer the Medicaid program through local public welfare agencies.

Funding

Benefits:	Federal/State Federal share is based on State's per capita income. For Fiscal Year 1986, the Federal matching rate averaged 55 percent.
Administration:	Federal/State Federal share is generally 50 percent but can be higher for certain items.

Federal Agency: Department of Health and Human Services
Health Care Financing Administration

Authorization: Social Security Act, Title XIX

Regulations: 42 CFR 430 et seq.

SECTION 8 LOW-INCOME HOUSING ASSISTANCE

Purpose: To help lower-income families obtain housing which is decent, safe, and sanitary, and to promote economically mixed housing.

Description: The Federal Government pays a rent subsidy for low-income or displaced families and individuals who are aged or disabled. The program is administered through local Public Housing Authorities (PHA). The PHAs contract with private building owners, who lease the units to the low-income families. The family pays a portion of the rent and the Federal Government subsidizes that amount to cover the total monthly housing cost (including an allowance for utilities).

Eligible families select their own places of residence. Their portion of the housing cost is the greater of either 30 percent of their monthly income after specified deductions or 10 percent of their monthly income with no deductions. The PHA uses Section 8 monies to supplement that payment up to the amount specified in a contract with the owner of the unit.

Funding: 100 percent Federal

Federal Agency: Department of Housing and Urban Development

Authorization: Housing and Community Development Act of 1974 (Public Law 93-383)

Regulations: 24 CFR 812 et seq.

PELL GRANTS

Purpose: To provide financial assistance for educational costs to undergraduate students who are in financial need.

Description: Postsecondary institutions receive Federal funds to assist students who demonstrate need for help with the costs of undergraduate education. Both income and assets are used to determine the student's eligibility and the amount of assistance. Whether the parents' income and assets are included depends on whether the student is considered to be dependent on, or independent of, the parents.

A formula is used to determine eligibility and grant amount. Assets are evaluated to assess the family's total financial strength. The value of assets is combined with the income determined by the formula to be available for education. The formula takes into account factors such as marital status, family size, and number of children in school. The formula protects a portion of income and assets to reserve them for retirement and emergencies.

Funding: 100 percent Federal

Federal Agency: Department of Education

Authorization: Higher Education Act, 1965, Title IV-A

Regulations: 34 CFR 690

APPENDIX C

NONLIQUID ASSETS COUNTED BY PROGRAM

The following matrix shows how each of the six programs counts specific assets most frequently owned by individuals who apply for assistance.

	FOOD STAMP	AFDC	SSI	MEDICAID	SECTION 8	PELL GRANT*
HOMEPLACE	Excluded	Excluded	Excluded	Excluded Exception: Equity is counted if individual is institutionalized and: o does not plan to return home; and o has no spouse, child under age 18, or disabled adult child living at home.	Equity counted.	Equity in excess of $30,000 counted. Exceptions: Total equity counted if single independent students with no dependents. Value excluded if a displaced homemaker or dislocated worker.
AUTOMOBILE	Based on use: o Fair market value over $4500 counted if the only vehicle or if employment-related. o Excluded if used to: - produce income; - travel long distances for employment; - transport physically handicapped; or - live in. o Higher of either the fair market value or equity counted for all other vehicles.	Equity in excess of $1500 counted for one automobile. Total equity counted for other vehicles.	Totally excluded if needed for employment or medical treatment, if modified for handicapped person, or if necessary because of climate, terrain, distance, etc. to perform essential daily activities. Otherwise, fair market value in excess of $4500 for one automobile counted. Total equity counted for other vehicles.	Either AFDC or SSI policy applied.**	One automobile excluded. Equity counted for all others.	Excluded

*Assets of both student and parents, except where noted.

**At State's option, treatment of asset can be more liberal than AFDC or SSI policy.

	FOOD STAMP	AFDC	SSI	MEDICAID	SECTION 8	PELL GRANT*
PERSONAL PROPERTY (Household goods, clothing, etc.)	Excluded	State's option to exclude or count.	Equity in excess of $2000 counted.	Either AFDC or SSI policy applied.**	Excluded	Excluded
REAL PROPERTY (Not income producing)	Fair market value counted.	Equity counted but can be excluded for six months if making a good faith effort to sell.** AFDC received during six months must be paid back.	Equity counted, but can be excluded for nine months if making a good faith effort to sell. SSI received during nine months must be paid back. If land used to produce food for home consumption, first $6000 of equity excluded.	Either AFDC or SSI policy applied.** Exception: Repayment of benefits received while making good faith effort to sell not required.	Equity counted.	Equity in excess of $25,000 counted. Exception: Total equity counted if student has no dependents.
INCOME-PRODUCING PROPERTY (Land, buildings equipment, supplies, vehicles, etc.)	Excluded if annually produces income consistent with fair market value; otherwise, equity counted.	Equity counted but can be excluded for six months if making a good faith effort to sell.** AFDC received during six months must be paid back.	Equity below $6000 excluded if produces net annual income of at least 6 percent. If doesn't produce 6 percent, entire equity counted.	Either AFDC or SSI policy applied.** Exception: Repayment of benefits received while making good faith effort to sell not required.	Excluded if equity under $5000. If value exceeds $5000, percentage of value, based on current passbook savings rate, or income from property is counted, whichever is greater.	If a business, asset equity in excess of $80,000 counted. If a farm, equity in excess of $100,000 counted.
LIFE INSURANCE	Excluded	Cash surrender value counted.	Cash surrender value counted if total face value of all policies on individual exceeds $1500. If does not exceed $1500 cash surrender value excluded.	Either AFDC or SSI policy applied.**	Cash surrender value counted.	Excluded

*Assets of both student and parents, except where noted.

**At State's option, treatment of asset can be more liberal than AFDC or SSI policy.

APPENDIX D

REVIEW OF PRIOR STUDIES

Prior Study Quick Reference Guide

This guide gives a quick look at reports briefly described on the following pages.

AGENCY CONDUCTING STUDY	YEAR OF REPORT	PROGRAM(s) REVIEWED	DEFINITION & TREATMENT OF ASSETS ADDRESSED?	VERIFICATION OF ASSETS ADDRESSED?	RECOMMENDATIONS FOR SIMPLIFYING OR STREAMLINING ASSET TESTING?	REF NO.
Illinois Bureau of Budget	1976	AFDC, SSI, Medicaid, Food Stamp, Section 8 Housing, Pell Grant	YES	YES	YES	1
HEW	1977	AFDC, SSI, Medicaid, Food Stamp	YES	NO	YES	2
GAO	1978	AFDC, SSI, Food Stamp	YES	NO	YES	3
Federal Interagency Group	1980	AFDC, SSI, Medicaid, Food Stamp, Section 8 Housing	YES	NO	YES	4
Dept. of Agriculture	1981	Food Stamp	YES	NO	NO	5
GAO	1981	Section 8 Housing	NO	YES	YES	6
GAO	1981	SSI	NO	YES	YES	7
GAO	1982	AFDC, SSI, Medicaid, Food Stamp, Section 8 Housing	NO	YES	YES	8
GAO	1985	AFDC, SSI, Medicaid, Food Stamp, Section 8 Housing, Pell Grant	NO	YES	YES	9

Prior Study Quick Reference Guide (Continued)

AGENCY CONDUCTING STUDY	YEAR OF REPORT	PROGRAM(s) REVIEWED	DEFINITION & TREATMENT OF ASSETS ADDRESSED?	VERIFICATION OF ASSETS ADDRESSED?	RECOMMENDATIONS FOR SIMPLIFYING OR STREAMLINING ASSET TESTING?	REF NO.
Amerian Public Welfare Association (APWA)	1986	AFDC, Food Stamp	YES	NO	YES	10
GAO	1987	AFDC, SSI, Medicaid	YES	NO	NO	11
Dept. of ED Contract/ Advanced Technology Inc. & Westat Inc.	1987	Pell Grant	NO	YES	YES	12
GAO	1987	AFDC, Medicaid, Food Stamp, Section 8 Housing	YES	NO	YES	13
Southern Governors' Association	1988	AFDC, Medicaid	YES	NO	YES	14
HHS	1988	Medicaid	YES	YES	YES	15
HHS	1988	Medicaid	YES	YES	YES	16

Selected Prior Study Findings and Recommendations

Title of Report #1: Streamlining Social Benefit Programs

Agency Conducting Study: Illinois Bureau of the Budget (HEW Grant)

Date of Release: Fall, 1976

Programs Reviewed: AFDC, SSI, Medicaid, Food Stamp, Section 8 Housing, Pell Grant

Findings and Recommendations: Forty-two needs-based programs were included in the study. Nineteen of these programs consider assets in eligibility determination. Since over half the programs have no asset test, it is possible for low-income persons to be eligible for one program without asset screens but ineligible for another program where assets are considered. The treatment of assets varies greatly among programs which consider them in eligibility determination. One reason for the disparity could be the lack of acceptable standards for what constitutes a "reasonable" level of assets. Where assets are treated differently from program to program, a recipient appears "poorer" in some programs than others.

The study also found there is more difficulty and discretion in valuing assets than in any of the other eligibility determination factors. In some programs, the caseworkers themselves must assess the value of real and personal property. This may result in an unparallel assessment if each caseworker is responsible for determining the value of the assets.

Complex eligibility determinants, such as nonliquid assets, confuse both the applicant and the caseworker, making it difficult for the applicant to understand whether or not he or she is eligible for various benefits. A growing opinion is that reform of these programs is needed. Each program has its own narrowly defined eligibility rules, resulting in administrative inefficiencies.

The report recommends a common intake system in each State to centralize eligibility determination. Applicants for any of the needs-based programs (with the exception of Pell Grants) would have eligibility determined through this single intake system. After intake, the client would be directed to the appropriate agency.

Title of Report #2: Welfare Reform: National Summary Report On Regional Outreach

Agency Conducting Study: HEW

Date of Release: April 1977

Programs Reviewed: AFDC, SSI, Medicaid, Food Stamp

Findings and Recommendations: The HEW regional offices conducted a survey of the welfare system. Over 10,000 individuals and organizations provided oral and written comments. The agreement was that income and, to a lesser extent, assets must continue to be priority considerations in needs-based programs. However, program complexity of rules and variations from one program to another were hindrances to meeting basic needs. Because of this, there was strong and widespread support for easily understandable and uniform eligibility rules.

Title of Report #3: Federal Domestic Food Assistance Programs: A Time for Assessment and Change (CED-78-113)

Agency Conducting Study: GAO

Date of Release: June 1978

Programs Reviewed: Food Stamp, AFDC, SSI

Findings and Recommendations: This study reviewed eligibility criteria in 13 major food assistance programs, one of which was the Food Stamp program. The study also examined AFDC and SSI programs as general cash assistance programs designed to provide recipients with cash for food and other basic needs.

The study found benefit overlaps and gaps, eligibility differences, administrative inconsistencies, and coordination problems among the programs. With regard to asset eligibility criteria, the study found that the treatment of assets in the AFDC, SSI, and Food Stamp programs differs substantially.

The GAO believes there should be a single definition of needy persons and uniform criteria for eligibility. The report recommended that Congress and the Federal agencies administering these programs propose consistent income and asset eligibility requirements. The report also recommended that the effects of eligibility requirements and procedures on program participation, program costs, and work incentives be studied. The results of these studies should be reported to Congress along with recommendations for authorizing legislation.

Title of Report #4: Eligibility Simplification Project

Agency
Conducting Study: Federal Interagency Policy Steering Group

Date of Release: October 1980

Programs Reviewed: AFDC, SSI, Medicaid, Food Stamp, Section 8 Housing

Findings and Recommendations: A Federal interagency policy steering group, cochaired by OMB and HHS, conducted this study. Other agencies participating included HUD, Agriculture, Labor, and the Community Services Administration. The study team developed a comprehensive analysis and recommendations for simplifying and standardizing client eligibility among major public assistance programs.

While various programs may have similarities in goals, requirements, and procedures in eligibility determination, the programs do not operate as a system to provide services and benefits to people. Each program operates in a highly independent fashion. An asset in one is not considered an asset in another. Eligibility data supplied and verified in one program must be resubmitted to another program and reverified.

To enable all programs to agree on basic eligibility requirements, the study team formulated a standard glossary of definitions of the elements of income and assets. Standardizing the identification of assets was intended to establish common definitions for Federal agencies in developing legislation and regulations regarding eligibility requirements.

The study team also addressed standardizing the treatment of assets among programs. This would enable programs to gather and record basic data on an applicant in a uniform manner, and reduce the need for multiple forms. Once data are gathered in this fashion, verification by one program should be sufficient for others. Determining financial eligibility for all programs can be carried out through one central source. With the use of computers, determinations would be more accurate since financial rules regarding eligibility determination are easily programmed. The study team believed that these recommendations would lay the groundwork for fundamental reform and improvement in the system. Some of those recommendations have been implemented by the administering agencies since this report was issued.

Specific recommendations relating to nonliquid assets are:

Income-Producing Property: All programs should adopt a standard exclusion from the resource test of nonbusiness property which produces a 6 percent rate of return annually on its fair market value. This recommendation does not apply to Section 8 Housing since it already inputs income from property.

Converted Excluded Assets: Food Stamp and AFDC should adopt the SSI policy of excluding the proceeds from the sale of a home for up to 6 months.

Restricted Use/Inaccessible Assets: All programs should adopt the study team's common definition governing the availability or accessibility of assets: Resources shall be considered available to the applicant or recipient and their value included in the calculation of gross resources if the applicant or recipient has the right, authority, or power to liquidate the resources, or his/her share of the resource.

Excluded but Commingled Assets: Programs should adopt the Food Stamp policy of excluding commingled assets (joint ownership) for 6 months after initial receipt. Beyond 6 months the exclusion should continue only if the excludable resource is maintained in a separate account.

Household Goods and Personal Effects: All programs should exclude these from assets and use a common definition for these items.

Vehicles: All programs should exclude from assets vehicles used to produce income or modified for use by handicapped persons. Further, all programs should adopt the Food Stamp requirement which includes the fair market value of another vehicle in excess of $4,500. This exclusion amount should be adjusted annually based on the increase in automobile cost.

Life Insurance Policies and Burial Plots/Funds: All programs should exclude the value of burial plots. Also, all programs should set the maximum exclusion on the cash value of life insurance policies and burial funds together at $2,500 per person and $5,000 per household or family whichever is less. Amounts in excess of these limits would be countable assets for eligibility.

Title of Report #5: Assets of Low-Income Households: New Findings on Food Stamps Participants and Nonparticipants

Agency Conducting Study: Food and Nutrition Service U. S. Department of Agriculture

Date of Release: January 1981

Programs Reviewed: Food Stamp

Findings and Recommendations: The report presented findings on the types and value of assets held by Food Stamp participants and nonparticipants. The principal data base for analysis was a 1979 Survey of Income and Program Participation sample of 11,300 households at all income levels. The study concluded that limits placed on assets exclude many applicants from the program. Asset limits reduce eligibility for food stamps by 12.3 million persons at a savings of $2.9 billion annually (based on 1979 data).

Data from this study revealed the following:

- Almost half (49 percent) of the Food Stamp households have no countable assets and 91 percent have $500 or less.

- Food Stamp recipients tend to have little in liquid assets.

- Half of the Food Stamp households have no car, only 36 percent own homes, and only 9 percent have life insurance. No Food Stamp households in the sample have farm or business interest, undeveloped land, estates, or trusts.

- Assets owned by Food Stamp recipients tend not to be worth large amounts. For example, 70 percent either do not own a car or have less than $500 equity in the car.

- Elderly households generally have assets of greater value.

- Households disqualified from the Food Stamp program solely because their assets exceed allowable limits are relatively well-off as a group in terms of the types and value of the assets they own. Two-thirds of these households have assets (not including equity in homes) in excess of $5,000.

Title of Report #6: Further Actions Needed to Improve Management of HUD Programs (CED-81-41)

Agency Conducting Study: GAO

Date of Release: February 1981

Programs Reviewed: Section 8 Housing

Findings and Recommendations: This report is a compilation of prior GAO reports on HUD housing programs. With regard to Section 8 Housing programs, the report cites two prior studies (CED-79-51 and CED-80-59). Both document high program costs and program weaknesses. For example, GAO found that unreported income and assets are a problem in Section 8 housing projects in Chicago. Agency staff rely heavily on statements by prospective tenants.

Little attempt is made to detect unreported assets. Forty-three percent of the files sampled in four housing projects had inadequate documentation supporting income and other allowances such as assets. Because of improper verification by public housing agencies, the accurate calculation of a tenant's allotted rent is not possible.

In testimony before the Subcommittee on Housing and Community Development, House Committee on Banking, Finance and Urban Affairs, Congressman Andrew McGuire, in April 1979, stated:

> "At the present time, Section 8 functions on the principle that a program recipient will in all cases totally divulge his assets and income in the verification process. Given the fact that any understatement of income will translate into a decreased rent payment, it does not seem unreasonable to assume that such reporting may occasionally be incomplete. Section 8 has no method to discover all sources of household income, if the household does not volunteer those sources."

The GAO recommended that HUD strengthen procedures to verify tenant income and other allowances such as assets by:

- o highlighting to all Section 8 program administrators and beneficiaries the serious regard HUD places on this matter;
- o reaffirming and restating, as necessary, the duties and responsibilities of HUD field offices, housing owners, and PHAs in carrying out this important function;
- o monitoring more aggressively the verification efforts of housing owners and PHAs; and

- devising appropriate penalties for owners and PHAs who fail to adequately perform their verification duties and responsibilities, and tenant families who willfully attempt to defraud the Federal Government by inaccurately reporting income and allowances.

<u>Title of Report #7</u>: Millions Can Be Saved by Identifying Supplemental Security Income Recipients Owning Too Many Assets (HRD-81-4)

<u>Agency Conducting Study</u>: GAO

<u>Date of Release</u>: February 1981

<u>Programs Reviewed</u>: SSI

<u>Findings and Recommendations</u>: In Fiscal Year 1979, more than $125 million was overpaid in assets due to incorrectly reported value and ownership of bank accounts and real property. The SSA estimates that $20 million was overpaid to SSI recipients owning real property other than a home, such as land valued at more than the asset limits for eligibility.

Social Security employees failed to identify real property when recipients did not report it. Interview questions and procedures did not emphasize real property. The SSA's regional Office of Assessment staff found that SSA could better establish ownership by improved interviewing techniques; yet, SSA, according to GAO, had not adopted the suggested improvement. The GAO believed that the procedural improvements suggested by regional assessment staff were reasonable. The HHS agreed with the GAO recommendation and was acting to improve interviewing techniques in the SSI claims process.

Title of Report #8: Legislative and Administrative Changes to Improve Verification of Welfare Recipients' Income and Assets Could Save Hundreds of Millions (HRD-82-9)

Agency Conducting Study: GAO

Date of Release: January 1982

Programs Reviewed: AFDC, SSI, Medicaid, Food Stamp, Section 8 Housing

Findings and Recommendations: Underreporting of assets by recipients in needs-based programs results in erroneous payments of $332 million, annually as follows:

Program*	Asset-Related Erroneous Payment (Millions)	Time Period
AFDC	$ 40	FY 1979
SSI	103	FY 1979
Medicaid	151	FY 1979
Food Stamp	38	CY 1978
	$332	

*No information available for Section 8 Housing for the time period.

Current verification requirements and practices are not adequate to prevent improper payments. Not only do verification requirements vary widely, but they are either extremely vague or overly estrictive. In addition, some Federal laws and regulations preclude the use of information that would significantly enhance the verification process.

Improved verification systems would help identify unreported or underreported assets, thereby reducing the amount of improper payments.

Title of Report #9: Eligibility Verification and Privacy in Federal Benefit Programs: A Delicate Balance (HRD-85-22)

Agency Conducting Study: GAO

Date of Release: March 1985

Programs Reviewed: AFDC, SSI, Medicaid, Food Stamp, Section 8 Housing, Pell Grant

Findings and Recommendations: Inadequate verification of clients' eligibility contributes to erroneous payments of several billion dollars annually. The definitions and treatment of assets vary from program to program (and State to State in some instances) and thus contribute to similar items being considered or verified in different ways. The report describes the lack of uniformity among programs in how reported recipient data are verified. To ensure proper eligibility decisions, GAO believes that the information must be complete, accurate and current. Eligibility verification becomes important to assure the right amount of benefits is being paid to the right person.

The report presents actions that Congress and others should take in streamlining verification procedures, as follows:

- Congress should legislate changes to make eligibility factors more uniform and allow programs to verify factors in the same way;
- the OMB should aid in simplifying verification across programs; and
- Federal agency program managers should coordinate verification across programs.

Title of Report #10: Comparison of Food Stamp and AFDC Program Requirements with Recommendations for Change

Agency Conducting Study: National Council of State Human Services Administrators of the American Public Welfare Association

Date of Release: July 1986

Programs Reviewed: Food Stamp, AFDC

Findings and Recommendations: The vast majority of low-income families who receive AFDC also receive food stamps. However, agencies providing benefits to these families must follow different Federal requirements to determine eligibility. These requirements differ greatly because the statutes and regulations which govern these programs have not been closely coordinated. As a result, erroneous payments occur. State and local agencies administering the AFDC and Food Stamp programs have expended significant resources to reduce eligibility errors that cause erroneous payments. Simplification of eligibility determinations is essential error reduction. The report recommendations are based on the premise that needs should be defined the same in programs that often serve the same population.

With regard to asset testing, the report recommends that Congress should:

Resource Limits: Permit States to allow AFDC recipients to retain assets equal to the Food Stamp limit.

Vehicles: Allow all households to have one automobile. If this is not feasible, allow all households to have one automobile whose equity value in excess of $4,500 would be applied to the resource limit.

Life Insurance: Follow the Food Stamp policy and exempt from consideration the value of life insurance policies in the AFDC program. State experience indicates that most AFDC recipients do not have policies whose value would make them ineligible. The administrative burden and expense in verifying this factor is not cost-effective.

Transfer of Asset Policy: Amend the Food Stamp Act to allow States flexibility in developing transfer of asset policies to coincide with AFDC policy.

Prepaid Burial Plans: Amend the Food Stamp Act to coincide with AFDC policy exempting funeral agreements with an equity value not in excess of $1,500 for each member of the household.

Title of Report #11: Medicaid: Interstate Variations in Benefit Expenditures (HRD-87-67BR)

Agency Conducting Study: GAO

Date of Release: May 1987

Programs Reviewed: Medicaid, SSI, AFDC

Findings and Recommendations: This briefing report to Congress identified the trends and variations among States in Medicaid spending. One objective was to compare eligibility criteria. While Federal statutes mandate the rules for determining eligibility, discretion is given to the States in defining Medicaid eligibility.

Asset limits for Medicaid "medically needy" programs vary from State to State but must be (1) as liberal as the highest asset limits allowed for cash assistance recipients (AFDC and SSI) and (2) the same asset limit for all covered groups. In 1984, the asset limits for a family of two ranged from $2,250 in 21 States to $9,500 in North Dakota.

No recommendations were made.

Title of Report #12: Title IV Quality Control Project: Stage Two Executive Summary

Agency Conducting Study: Advance Technology Inc. and Westat, Inc. for U. S. Department of Education

Date of Release: August 1987

Programs Reviewed: Pell Grant

Findings and Recommendations: Fifty-four percent of recipients of Pell Grants received incorrect awards (within a $50 tolerance) in 1985-86, totalling $763 million. This represents 21 percent of all Pell Grant funds paid. About one-third of the award errors were caused by incorrect information on student applications. With regard to reported assets, errors in home equity accounted for $64 million in net payment errors. Home equity errors were the second largest cause of errors. Dependent students' net assets was the fourth largest cause of errors, accounting for $35.5 million in net payment errors.

Since the first nationwide study on errors in 1978-79, considerable attention has been placed on lowering the error rate in the Pell Grant Program. The 1978-79 study found an error rate of 31 percent (compared to 21 percent in 1985-85). Increasing the validation of student application data, redesigning forms and procedures, and conducting quality control have been effective in reducing some errors. Yet, errors continue to be high in spite of corrective actions already taken. One area that continues to be high is in asset testing for eligibility. The following table is a comparison of how student errors in asset-reported items ranked in 1982-83 and 1985-86.

Asset-Reported Items	Rank	
	1985-86	1982-83
Home Equity	2	5
Dependent Student's Assets	4	6
Investment Equity	10	11
Business Farm Equity	13	15
Cash/Checking/Savings	14	16

A significant percent of misreporting home equity, savings, and dependent students' assets was found to be due to reporting a zero value for these assets. The study found that erroneously reporting zero could be cross-checked on the Federal tax form filed either by the student or the parents. Information on the tax return can indicate areas where a data item exists but was not reported on the application.

With regard to further reducing payment errors through corrective action, the study found that 80 percent of all Pell Grant recipients are already undergoing some type of validation. Further reduction in errors will not come from validating more applications. The most likely way to reduce errors through validation is by developing better techniques for targeting validation towards applications and data items (e.g. home equity) that have proven to be more error-prone.

The report concludes that the Department of Education must either accept the magnitude of error rates that currently exists by relying on costly after-the-fact inspection techniques, or restructure the delivery system to design errors out of the process.

Title of Report #13: Integration of Services for Low-Income Families/Testimony Before Select Committee on Hunger, House of Representatives

Agency Conducting Study: GAO

Date of Release: September 1987

Programs Reviewed: AFDC, Food Stamps, Medicaid, Section 8 Housing

Findings and Recommendations: The testimony was based on four GAO reports on integration of services. One of the reports surveyed 50 States to obtain their views on obstacles and actions needed to enhance integration of services. One of the obstacles is that programs use different definitions. For example, asset limits are defined differently among the AFDC, Food Stamp, and Section 8 Housing programs.

The GAO reported that States desire more simplified and uniform eligibility requirements among the programs and improved coordination among legislative committees, levels of government, Federal agencies, and programs within the same Federal agency. States also desire increased funding for integration demonstration projects.

One option for standardizing or eliminating program differences is to make all AFDC families categorically eligible for Food Stamps and Section 8 Housing. All AFDC families are currently categorically eligible for Medicaid, and about 65 percent of AFDC families are eligible for Food Stamps.

The GAO testimony concluded that, while eligibility differences among the various needs-based programs may be more difficult to resolve than procedural or administrative differences, many procedural improvements cannot be made until the eligibility requirements are simplified.

Title of Report #14: Study of AFDC/Medicaid Eligibility Process in the Southern States

Agency Conducting Study: Southern Governors' Association

Date of Release: April 1988

Programs Reviewed: AFDC, Medicaid

Findings and Recommendations: A family can have income low enough to qualify for AFDC/Medicaid benefits but still be found ineligible because its assets exceed allowable levels. For example, to be eligible for AFDC/Medicaid, an applicant cannot have over $1,500 equity in a vehicle. This equity value was established in 1979 as a result of a survey which showed that 96 percent of Food Stamp recipients own vehicles which had equity value of $1,500 or less. This limit has not been adjusted since 1979. Yet, inflation between 1979 and 1987, based on the Consumer Price Index, would move the equity value of a vehicle from $1,500 in 1979 to $2,348 in 1987. Asset limits have become more restrictive since 1979 without inflationary adjustments. Asset limits on vehicles appear to be counterproductive for work incentive purposes: having a job requires dependable transportation.

To address the problem of outdated asset limits, the study recommended that the asset limitations in AFDC/Medicaid should be adjusted to a reasonable level and reviewed periodically.

Title of Report #15: Eligibility Errors Resulting in Misspent Funds in the Medicaid Program

Agency Conducting Study: Office of Inspector General
Department Of Health and Human Services

Date of Release: May 1988

Programs Reviewed: Medicaid

Findings and Recommendations: Eligibility errors in the Medicaid program cost State and Federal Governments approximately $1.1 billion in misspent funds in Fiscal Year 1986. The highest dollar errors occur in cases where the client is in a medical care facility. Because this type of care is so expensive, these eligibility erros are costly. The study found that these errors are frequently attributed to unreported, or inaccurately reported, assets, primarily property and bank accounts.

One reason for errors is that States continually grapple with policy issues that make the containment of errors difficult. This is largely due to untimely and unclear Federal policy and eligibility requirements which are incompatible with medical needs. States have to keep abreast of all Medicaid changes for various categories of assistance. In addition, since Medicaid eligibility policy is tied to cash assistance programs (SSI and AFDC), State agencies administering the Medicaid program must keep up with the changes in those programs.

Another reason for errors is that no formal network exists for States to share information on ways to improve eligibility determinations, and there is no national system to assist States in identifying causes of error and appropriate corrective actions.

The report recommends that Federal Medicaid policy makers issue Medicaid policy in a timely manner. This would provide States with sufficient lead time to properly implement the changes. Federal policies should be written clearly to lessen the likelihood of different interpretations that could cause eligibility errors. The report also recommends offering special assistance to States having difficulty reducing Medicaid eligibility errors. Assistance would include determining the specific causes of errors and assisting in the design of corrective action measures to address the problem.

<u>Title of Report #16</u> : Medicaid Estate Recoveries

Agency
<u>Conducting Study</u>: Office of Inspector General
Department of Health and Human Services

<u>Date of Release</u>: June 1988

<u>Programs Reviewed</u>: Medicaid

<u>Findings and Recommendations</u>: One of the purposes of the study was to evaluate the extent and effectiveness of Medicaid estate recovery programs implemented pursuant to the Tax Equity and Fiscal Responsibility Act (TEFRA) of 1982. Findings indicate that: (1) people with very large assets can receive Medicaid long-term care benefits, although nearly two-thirds of the nation's elderly poor cannot qualify for acute or emergency care under the program; (2) Medicaid eligibility rules are interpreted and enforced differently in almost every State, frequently to the detriment of the poor and to the advantage of the affluent; and (3) billions of dollars in State and Federal funds are expended each year for Medicaid long-term care benefits without adequate Federal oversight and only nominal State attention. The potential exists for recycling scarce resources by recovering benefits erroneously paid to propertied families.

The OIG believes that $500 million per year could be saved by actively promoting Medicaid estate recoveries, even under disadvantageous current laws. Even more importantly, however, the OIG believes that facing the certainty of Medicaid estate recoveries would influence propertied individuals, who now rely on public assistance by default, to purchase private long-term care insurance instead. This would eliminate the risk of catastrophic long-term care costs for such individuals and shift the financing burden to the private sector.

The report recommends that appropriate actions be taken to:

- Change Medicaid rules to allow families to retain and manage property while their elders receive long-term care.

- Strengthen the transfer-of-assets rules so that people cannot give away property to qualify for Medicaid.

- Require a legal instrument as a condition of Medicaid eligibility to secure property owned by applicants and recipients for later recovery.

- Increase estate recoveries as a nontax revenue source for the Medicaid program while steadfastly protecting the personal and property rights of recipients and their families.

- Conduct (1) a thorough audit of current estate recovery programs, (2) a study to determine how much equity is being diverted through liquidation or transfer of assets at the expense of the Medicaid program, and (3) a review to evaluate how large a chilling effect the availability of Medicaid without encumbering assets affects the marketability of private risk-sharing solutions like long-term care insurance.