Health Programs Rank High on List of Improper Payments

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In many ways a credit card is fraud waiting to happen. A thief doesn't really need your actual card. With the number alone he can start buying things. Even with that vulnerability, however, the fraud rate with credit card companies is less than $1/100^{th}$ of what it is in some government health programs.

Payment Accuracy.gov is an Office of Management and Budget website that tracks "high-error" government payment programs. Of the 14 "high-error" programs listed, six are government run health related benefit programs: Medicaid Fee-for-Service, Medicaid, Medicare Advantage, the Children's Health Insurance Program, the Medicare Prescription Drug Benefit program, and the Supplemental Security Income Program. In 2009, an estimated $47.9 billion of the $422.8 billion spent in the combined Medicare Advantage and Medicare Fee-for-Service programs was "improper." That's more than a dollar for fraud out of every ten dollars of spending.

The Obama administration has attacked this problem with one Executive Order, two memoranda, and "the President's FY 2011 Budget Proposal" which, it claims, allocates more resources to "improve program integrity."

Unfortunately, there is little reason to believe that more government spending will significantly reduce fraud as long as the people receiving the health care have no responsibility for making payments. As Malcolm Sparrow, a professor at Harvard University's Kennedy School pointed out in his 2009 Senate testimony, government run health care programs rely on highly automated payment processes. Without patient oversight, criminals wishing to defraud Medicare simply have to fill out the proper forms to have their claims go through without a hitch.

Professor Sparrow believes that government estimates of fraud are too low. The government studies that have been relied upon for the estimates have been "sadly lacking in rigor, and have therefore produced comfortingly low and quite misleading estimates." He notes that credit card companies consider fraud losses equal to 0.1% of transaction volume an "'acceptable business risk," far less than the figure for health industry fraud, which ranges from 3 to 14 percent.

Chris Edwards and Tad DeHaven of the Cato Institute provide more information on the form that the fraud takes in their 2009 paper, *Fraud and Abuse in Federal Programs.* Along with detailing the fraud in housing subsidies, student aid, and farm programs, they note that New York State's Medicaid program "is especially fraud-ridden. The former chief investigator of the state's Medicaid fraud office believes that about 10 percent of

the state's Medicaid budget is consumed by pure fraud, while another 20 to 30 percent is consumed by dubious spending that might not cross the line of being outright criminal."

If the experience with the Earned Income Tax Credit (EITC) program is any guide, there is literally no hope that the government will make any progress against health payment fraud. The EITC is the largest anti-poverty program in the United States. According to a February 7, 2011 report from the Treasury Inspector General for Tax Administration, between 23 and 28 percent of its total payments are "improper."

The problems with EITC fraud have been known since 2002. However, the Inspector General reports that no progress has been made in protecting taxpayers against it. Worse, no future progress is expected. The title of one section of the report is "The Risk Remains High That No Significant Improvement Will be Made in Reducing Improper Earned Income Tax Credit Payments."

The policy question is whether a program that is unable to prevent ¼ of its expenditures from funding fraudulent enterprises deserves to be continued.