



# Preserving Assistance For Our State's Truly Needy

## Calendar Year 2012 Report Lottery Winners and Welfare Programs



## Calendar Year 2012 Report: Verifying Assistance Program Eligibility for Lottery Winners

In April 2012, Public Act 77 of 2012 became effective, requiring the Michigan Department of Treasury and the Department of Human Services to automatically cross-check lottery winners with people receiving welfare benefits. Lottery winnings are an asset. With asset tests in place for programs including food assistance and state emergency relief, this monthly cross-check allows DHS to more efficiently evaluate a recipient's eligibility.

The data collected thus far is sobering:

- Nearly 14 percent of all lottery winners are either welfare recipients themselves or reside in a household with welfare recipients.
- Of the 3,544 lottery winners who were identified as welfare recipients or living with welfare recipients between April 2012 and December 2012, DHS was able to close only 565 cases. In the vast majority of these cases, federal policy prohibited closure despite sometimes large winnings.
- Those recipients accounted for \$24,101,074 in lottery winnings during that time frame, an average of \$6,800 per case.

## **Calendar Year 2012 Report: Verifying Assistance Program Eligibility for Lottery Winners**

Welfare benefits should be preserved for those truly in need. The lottery cross-check legislation has provided DHS with a valuable tool. It has also highlighted policies federal and state authorities should change to protect the integrity of welfare programs.

## An Overview of Welfare Programs with Asset Limits

Some welfare programs allow for – and have established – asset limits:

- Food Assistance Program
- Family Independence Program (cash assistance)
- Most Medicaid programs
- State Emergency Relief
- State Disability Assistance
- Refugee Assistance Program

But other welfare programs do not have asset testing, including Child Development and Care (CDC), certain Medicaid programs like Healthy Kids, Group 2 Pregnant Women, Transitional Medical Assistance Plus (TMA-Plus) and the Refugee Assistance Program for Medical.

The absence of any asset limits and other policies creates significant barriers to the preservation of welfare dollars for the truly needy.

In reviewing the data surrounding our lottery cross-check policy, DHS has identified three primary barriers.

## Barrier One:

### Medical Assistance Programs That Lack Asset Tests

The major hurdle with respect to these programs is that any changes that would require an asset test are impeded by federal Medicaid law and the recent Affordable Care Act. These limit the states' abilities to change eligibility standards for Medicaid. To add an asset test to Healthy Kids' eligibility criteria would make it more restrictive than it now is. Similarly, the Affordable Care Act's maintenance of effort requirements prevent states from scaling back their coverage during the period in which the new health care program rolls out.

The four primary medical programs without any asset test are:

- Healthy Kids<sup>1</sup>
- Healthy Kids for Pregnant Women<sup>2</sup>
- Transitional Medicaid Plus<sup>3</sup>
- Refugee Medical Assistance<sup>4</sup>

<sup>1</sup> <http://www.mfia.state.mi.us/olmweb/ex/bem/125.pdf>  
<http://www.mfia.state.mi.us/olmweb/ex/bem/129.pdf>  
<http://www.mfia.state.mi.us/olmweb/ex/bem/131.pdf>

<sup>2</sup> <http://www.mfia.state.mi.us/olmweb/ex/bem/126.pdf>

<sup>3</sup> <http://www.mfia.state.mi.us/olmweb/ex/bem/647.pdf>

<sup>4</sup> <http://www.mfia.state.mi.us/olmweb/ex/bem/630.pdf>

## Scenario\*:

### Medical Assistance Programs That Lack Asset Tests

While pregnant and receiving Medicaid through the Healthy Kids and Pregnant Women Program, Sue Smith won \$300,000 in the Michigan Lottery. Despite her significant winnings, federal policy required that Ms. Smith continue to receive Medicaid. Ms. Smith's coverage continued for two months past the birth of her son, as required by policy. Her son continued to receive Medicaid for one year past his birth.

The Medicaid capitation rate is \$268 monthly, which equates to a potential benefit cost of \$6,164 for the two recipients regardless of the \$300,000 lottery winning.

\* The scenario is based on an investigation by the Office of Inspector General. Identifying information has been changed for privacy protection.

## **Barrier Two: Child Development and Care Does Not Allow for Asset Tests<sup>5</sup>**

Child Development and Care (CDC) is a program formerly housed within DHS and now administered by the Michigan Department of Education (MDE). While the state has the ability to require an asset test, Michigan currently has no asset test in place for the CDC program.

<sup>5</sup><http://www.mfia.state.mi.us/olmweb/ex/bem/400.pdf>

## Scenario\*:

### Child Development and Care Does Not Allow for Asset Tests

John Smith currently receives CDC benefits for his three children. He recently won \$33,000 in the Michigan Lottery, but continues to receive welfare in the form of child care benefits.

Because CDC does not have an asset test, the Smith family will continue to receive \$1,000 in child care assistance each month.

\* The scenario is based on an investigation by the Office of Inspector General. Identifying information has been changed for privacy protection.

## Barrier Three:

### The FNS Buy and Prepare Statute for Food Assistance

U.S.D.A Food and Nutrition Services (FNS) under federal law\* requires states to consider a person who “customarily purchases food and prepares meals for home consumption separate and apart from the others” as a distinct household group, even though they may reside in the same house with others.

This allows a lottery winner to have an individual case isolated from other household members, while other persons within the home continue receiving benefits.

It also opens the door to fraud and abuse within the Food Assistance Program. By creating distinct groups within the home, recipients can drastically increase the amount of food assistance received. The difference can total hundreds of dollars per month.

Eligibility specialists are now required to ask the “buy and prepare” question in a manner that leads the applicants to answer most often that, indeed, they do buy and prepare their food separately. While Office of Inspector General agents investigate these cases aggressively, it is obviously difficult to prove that the household does buy and prepare their food together.

\*7 USC 2012(n) (1); 7 CFR 273.1 (a)

## Scenario\*:

### The FNS Buy and Prepare Policy for Food Assistance

Robert Jones lives in a home with his two adult children. Mr. Jones recently won \$125,000 in the Michigan Lottery. While the asset test affected Mr. Jones' food assistance benefit, it did not affect his children's individual benefits.

By declaring that he, his daughter and his son **each** purchase and prepare their food separately, the household will continue to receive \$400 per month in federal food assistance regardless of Mr. Jones \$125,000 lottery winning.

Households in which several individuals with children reside can potentially receive thousands of dollars of monthly benefits by claiming that each group purchases and prepares food separately.

\* The scenario is based on an investigation by the Office of Inspector General. Identifying information has been changed for privacy protection.

## Opportunities:

Two current examples may show the path forward:

### **New York Lottery Intercept Program**

New York uses a lottery intercept program for the repayment of public assistance under state law. This program is established specifically for the New York Department of Social Services. Under current New York law and code\*, up to 50% of any lottery prize of \$600 or more is intercepted from any individual who has received public assistance benefits within a period of up to 10 years prior to the issuance of the prize. This legislation was passed in 1995 and took effect April 1996. The philosophy in New York focuses on the repayment of all assistance, not only on debts or overpayments from public assistance. The proceeds from the intercept are applied to a client's oldest eligible assistance payment first, and payments issued to a client under the age of 21 are excluded. The lottery winner is afforded certain protections, including notice. In the first year of operation, the intercept collected over \$1.5 million; over \$3.7 million was collected in fiscal year 2010-2011. Since 1996, the lottery intercept has collected more than \$33 million.

\*NY CLS Soc. Serv. (§ 131-r) NY CLS Tax Law (§ 1613-b) and NY code (18 NYCRR §396.1).

## Opportunities:

### **Michigan: Unemployment Insurance Agency, amendment to the Lottery Act.**

Michigan also uses a lottery intercept system. At the end of the 2011-2012 legislative session, the Unemployment Insurance Agency led efforts to successfully pass legislation\* that amended the Lottery Act. This amendment requires payment of a lottery winner's unemployment compensation debt from a prize of \$1,000 or more, after other priority distributions of the prize are made. The following priority of payments exists under the current Lottery Act: first, to any liability to the State, other than an assigned delinquent account owed to a court or an unemployment compensation debt; second, to any support arrearage; third, to any unemployment compensation debt; fourth, to any assigned delinquent account of money due to a court, and; fifth, to the lottery winner, if any balance remains. Michigan also provides protections to the individual, including notice provisions.

\*MCL §432.32

## Opportunities:

DHS suggests statutory changes similar to that taken with the UIA as a first step.

DHS will continue to evaluate how best to implement New York's approach as well.

DHS officials will seek congressional action to revise the current definition, under federal law\*, of what constitutes a household group.

Each of these steps will help us in our efforts to ensure that taxpayer dollars are used efficiently and effectively, and can be targeted to those most in need.

\*7 U.S.C. § 2012 (n) (1); 7 CFR 273.1 (a)

## Conclusion

With 14 percent of lottery winners receiving welfare benefits or living in a household where others receive welfare benefits, the integrity of both state and federal safety net programs is threatened. Taxpayers rightfully reject the premise that those who have won thousands of dollars should still benefit from the programs aimed at providing a helping hand to the needy.

The data available by cross-checking lottery winners with welfare recipients is telling. Only one-third of those who have won the lottery while receiving welfare will be required to put those winnings toward self-sufficiency. Federal and state policies often prohibit the application of an asset test, allowing recipients with thousands of dollars at their disposal to continue on welfare.

It is equally troubling that current federal law encourages families to indicate they purchase and prepare their food separately in order to exponentially increase the food assistance received by the household.

It is time to advocate for change, for self-sufficiency and for the integrity of these important programs.



# Nearly Two-Thirds of Lottery Winners Continue to Receive Welfare Benefits Because of Federal and State Policy

## Verifying Assistance Program Eligibility for Lottery Winners

Winning Value	Number of Clients	Number of Cases Closed	Case Closed for Other Reasons	Case Reviewed But Still Open Due to Policy	Winner is a member of the household, but not active on the case
\$1,000 - \$2,000	791	41	105	602	43
\$2,001- \$4,000	1,775	214	262	1,181	118
\$4,001 - \$5,000	385	109	65	174	37
\$5,001 - \$9,999	265	92	51	105	17
\$10,000 - \$14,999	130	43	28	55	4
\$15,000 - \$29,999	137	43	28	52	14
\$30,000 - \$100,000	37	16	5	7	9
More than \$100,000	24	7	5	7	5
<b>Total</b>	<b>3,544</b>	<b>565</b>	<b>549</b>	<b>2,183</b>	<b>247</b>