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Section A. General Information on Income and Net Worth Development

Overview

Introduction This section contains the following topics:

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1. The Effect of Income/Net Worth on Benefit Entitlement

Introduction	<p>This topic contains information on the effect of income and net worth on benefit entitlement, including</p> <ul style="list-style-type: none">• the effect of income on benefit entitlement• the definition of <i>net worth</i>• the applicability of net worth to pension and Parents' Dependency and Indemnity Compensation (DIC) claims• the purpose of the pension program and the underlying basis for evaluating a claimant's net worth• handling a pension claim in which net worth is a factor• an example of determining value of net worth, and• determining net worth in cases that involve<ul style="list-style-type: none">– Section 306 Pension, or– Improved Pension.
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a. Effect of Income on Benefit Entitlement	<p>In Department of Veterans Affairs (VA) income-based benefit programs, the amount of a beneficiary's income for VA purposes (IVAP) determines the VA benefit rate payable. The higher a beneficiary's IVAP, the lower the benefit rate.</p>
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Deny a claim for an income-based benefit if a claimant's IVAP exceeds the applicable income limit or maximum annual pension rate (MAPR).

Reference: For information on the MAPR, see [M21-1, Part I, Appendix B](#).

b. Definition: Net Worth	<p><i>Net worth</i>, or "corpus of estate," means the market value, less mortgages or other encumbrances, of all real and personal property owned by the claimant and/or spouse, except the claimant's single-family dwelling and reasonable personal effects.</p>
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Note: Unsecured debts, which do not affect the market value of an asset, are not a factor in determining a claimant's net worth.

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1. The Effect of Income/Net Worth on Benefit Entitlement, Continued

c. Applicability of Net Worth to Pension and Parents' DIC Claims

In claims that involve

- Section 306 Pension or Improved Pension, net worth *is* a factor, and
 - Old Law Pension or Parents' Dependency and Indemnity Compensation (DIC), net worth *is not* a factor.
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d. Purpose of the Pension Program and the Basis for Evaluating a Claimant's Net Worth

The pension program is

- intended to afford beneficiaries a minimum level of security, and
- *not* intended to protect substantial assets or build up the beneficiary's estate for the benefit of heirs.

The Veterans Service Representative (VSR) determines whether or not the claimant's financial resources are sufficient to meet his/her basic needs without assistance from VA. If a claimant's assets are large enough that the claimant could use these assets to pay living expenses for a reasonable period of time, net worth is considered a bar.

e. Handling a Pension Claim in Which Net Worth Is a Factor

When handling a claim in which net worth is a factor

- consider whether it is reasonable, under all circumstances, for the claimant to consume some of his/her estate for maintenance, and
 - deny the pension claim if a formal finding determines that the claimant's net worth *should* be consumed for maintenance.
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1. The Effect of Income/Net Worth on Benefit Entitlement, Continued

**f. Example:
Determining
the Value of
Net Worth**

Claimant's Financial Situation:

- The claimant owns a duplex with a current market value of \$200,000 and occupies half of the duplex.
- The claimant owes \$50,000 on the mortgage on the property.
- The claimant owns
 - clothing and personal articles worth about \$1,000
 - a car worth \$7,000
 - stereo equipment worth \$500
 - a television set worth \$200, and
 - furniture worth \$800.

Determining Net Worth Exclusions/Inclusions:

- Automatically exclude \$100,000 of the market value of the duplex since half of it is the claimant's dwelling.
- Reduce the remaining \$100,000 of the value of the duplex by the \$50,000 mortgage, leaving real property \$50,000 for net worth purposes.
- Exclude the value of the claimant's personal effects, such as the
 - car
 - furniture, and
 - clothing.

Total Net Worth:

The total net worth for VA purposes is \$50,000 in real property.

**g. Considering
Net Worth in
Section 306
Pension Cases**

Per [38 CFR 3.263](#), consider only the net worth of the primary beneficiary for Section 306 Pension purposes.

**h. Considering
Net Worth in
Improved
Pension Cases**

For Improved Pension purposes, per [38 CFR 3.274](#), consider the net worth of both a Veteran and spouse and also the net worth of a Veteran's or surviving spouse's child.

Important: If a child's net worth is determined to be excessive, remove the child from the award as a dependent. Do not, however, deny a Veteran's or surviving spouse's claim because of a child's net worth.

2. Development of Income- and Net Worth-Dependent Cases

Introduction	<p>This topic contains information on the development of income- and net worth-dependent cases, including</p> <ul style="list-style-type: none"> • income development for <ul style="list-style-type: none"> – original and reopened claims, and – Section 306 and Old Law Pension cases • income classification descriptions, and • determining and recording the receipt of income.
Change Date	June 6, 2011
a. Income Development for Original and Reopened Claims	<p>Since two of the three VA pension programs, Section 306 Pension and Old Law Pension, receive a protected rate of payment, income development in connection with original and reopened claims primarily involves the following two programs:</p> <ul style="list-style-type: none"> • Improved Pension, and • Parents' DIC.
b. Income Development for Section 306 and Old Law Pension Cases	<p>Development of income in Section 306 and Old Law Pension cases is necessary only to determine continued entitlement to protected benefits.</p> <p>References: For</p> <ul style="list-style-type: none"> • information on counting income and considering net worth for all three pension programs and Parents' DIC, see M21-1MR, Part V, Subpart iii, 1, and • specific information on <ul style="list-style-type: none"> – Section 306 and Old Law Pension, see M21-1MR, Part V, Subpart iii, 1.C, and – Eligibility Verification Reports (EVRs), see M21-1MR, Part V, Subpart iii, 7.

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2. Development of Income- and Net Worth-Dependent Cases, Continued

c. Income Classification Descriptions

Income can be classified into three separate classifications

- one-time
- recurring, and
- irregular income.

Income Classification Descriptions

One time: A lump sum receipt of income. The receipt of income may occur more than once each year, but each receipt is a separate event.

Recurring: Income that is received on a regular basis and in regular amounts.

Irregular: Income that is received several times a year but at irregular times or in irregular amounts.

d. Determining and Recording the Receipt of Income

Use the table below to determine what information is required for each income classification.

If the income is ...	Then determine ...
one-time income	the specific date of receipt. <i>Example:</i> “The claimant inherited \$5,000 on October 14, 2010.”
recurring income	<ul style="list-style-type: none"> • the frequency of payment (monthly, weekly) • gross amount of payment • the date the payments started, and • if applicable, the date the last payment was received. <i>Example:</i> “The claimant receives Social Security (SS) of \$500 per month. The claimant received her first check on September 23, 2010.”
irregular income, such as earnings from <ul style="list-style-type: none"> • occasional employment, or • interest on a savings account 	the period of time during which the income was received. <i>Example:</i> “The claimant received interest income of \$300 during calendar year 2010.”

3. Income and Net Worth Reporting Periods

Introduction This topic contains information on income and net worth reporting periods, including information on the income reporting periods for

- Parents' DIC
 - Section 306 and Old Law Pension, and
 - Improved Pension.
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Change Date June 6, 2011

a. Reporting Period for Parents' DIC Income for Parents' DIC purposes is counted on a calendar-year basis, meaning that benefit entitlement is based on income received between January 1 and December 31 of any given year.

When developing an original or reopened claim, request

- income information from the date of entitlement through December 31 of the year during which entitlement arose, and
 - expected income for the next calendar year.
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b. Reporting Period for Section 306 and Old Law Pension Income for Section 306 Pension and Old Law Pension is computed on a calendar-year basis. Since there are no new claims for Section 306 or Old Law Pension, the income at issue is always the amount of income

- received from January 1 through December 31 of the current year, and
 - expected during the next calendar year.
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3. Income and Net Worth Reporting Periods, Continued

c. Reporting Period for Improved Pension

Improved Pension income is based on 12-month annualization periods. After the initial year, income-counting periods for irregular income and medical expenses coincide with the calendar year. Income is reported on a calendar-year basis.

Use the table below for information on income counting and reporting for

- original and reopened claims, and
- running awards.

If the case involves ...	Then ...
an original or reopened claim	<p>the initial annualization period extends from the date of pension entitlement through the end of the month that is 12 months from the month during which entitlement arose.</p> <p>Example: If the date of entitlement is October 28, 2004, the initial annualization period extends from October 28, 2004, through October 31, 2005.</p> <p>References: For</p> <ul style="list-style-type: none"> • more information on determining the initial annualization period, see M21-1MR, Part V, Subpart iii, 1.E.34, and • information on irregular income and overlapping income counting periods, see M21-1MR, Part V, Subpart iii, 1.E.33.e.
a running award	the income reporting period for all years after the initial year of an original or reopened award is based on the calendar year.

4. Developing for Net Worth

Introduction	<p>This topic contains information on developing for net worth, including</p> <ul style="list-style-type: none"> • general information on net worth • review of net worth information • developing for additional net worth information, and • initiating follow-up development on real estate values.
Change Date	June 6, 2011
a. General Information on Net Worth	<p>Net worth is a factor in Improved Pension and Section 306 Pension cases. Various application forms contain spaces in which a claimant can provide net worth information.</p> <p><i>Note:</i> Net worth is not a factor in Old Law Pension and Parents' DIC cases.</p>
b. Review of Net Worth Information	<p>Review the net worth information provided on the application to determine if it is reasonable for the claimant to consume some of his/her estate for maintenance.</p> <p><i>Note:</i> Pension is based on need and that need does not exist if the claimant's estate is of such size that he or she could use it for living expenses.</p>
c. Requirement of Net Worth Administrative Decision	<p>A formal net worth administrative decision is required if</p> <ul style="list-style-type: none"> • the claimant has net worth of \$80,000 or more, whether or not net worth bars entitlement, or • net worth (of any amount) bars entitlement.

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4. Developing for Net Worth, Continued

d. Developing for Additional Net Worth Information

If additional net worth information is needed, send a locally-generated letter requesting completion of *VA Form 21-8049, Request for Details of Expenses*.

e. Initiating Follow-Up Development on Real Estate Values

Do not hesitate to initiate follow-up development if the reported value of real estate appears unrealistic. Claimants who have held parcels of real estate for long periods of time may be unaware of current real estate prices and may greatly underestimate the value of their holdings.

If it appears that a claimant is underestimating the value of real property, ask him/her to furnish evidence of the current market value of the land. Possible sources of this information include the following:

- a formal appraisal of the value of the land, or
 - a statement from a
 - real estate broker in the area as to the value of comparable real estate in the vicinity
 - county farm agent as to the value of comparable rural land in the vicinity, or
 - local bank loan officer as to the value of comparable real estate in the vicinity.
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