

**TO AMEND THE NATIONAL SERVICE LIFE  
INSURANCE ACT**

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**HEARINGS**

**BEFORE A**

**SUBCOMMITTEE OF THE  
COMMITTEE ON FINANCE  
UNITED STATES SENATE**

**SEVENTY-EIGHTH CONGRESS**

**FIRST SESSION**

**ON**

**S. 877**

**A BILL TO REDUCE THE RATE OF INTEREST ON LOANS  
SECURED BY UNITED STATES GOVERNMENT LIFE  
INSURANCE TO 3 PER CENTUM PER ANNUM**

**AND**

**S. 903**

**A BILL TO AMEND SECTION 602 (D) (1) OF THE NATIONAL  
SERVICE LIFE INSURANCE ACT OF 1940, AS AMENDED**

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**MARCH 25 AND 26, 1943**  
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Printed for the use of the Committee on Finance



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# TO AMEND THE NATIONAL SERVICE LIFE INSURANCE ACT

THURSDAY, MARCH 25, 1943

UNITED STATES SENATE,  
SUBCOMMITTEE ON VETERANS' LEGISLATION,  
OF THE COMMITTEE ON FINANCE,  
Washington, D. C.

The subcommittee met at 10:30 a. m., pursuant to call, in room 312 Senate Office Building, Senator Bennett Champ Clark (chairman) presiding.

Senator CLARK. The committee will come to order.

Senator Brooks, will you come forward, please.

We have, for consideration this morning S. 877, a bill to reduce the rate of interest on loans secured by United States Government life insurance to 3 percent per annum.

(S. 877 is as follows:)

[S. 877, 78th Cong., 1st sess.]

A BILL To reduce the rate of interest on loans secured by United States Government life insurance to 3 per centum per annum

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the rate of interest charged for any period of time after June 30, 1943, on any loan secured by a lien on United States Government life (converted) insurance shall be 3 per centum per annum.*

## STATEMENT OF HON. C. WAYLAND BROOKS, UNITED STATES SENATOR FROM THE STATE OF ILLINOIS

Senator CLARK. Senator Brooks, do you desire to make a statement on Senate bill 877?

Senator BROOKS. Yes, sir; I do, Mr. Chairman.

Senator CLARK. Will you proceed, Senator.

Senator BROOKS. S. 877 is a bill to reduce the rate of interest on loans secured by United States Government life insurance to 3 percent per annum. This bill provides--

That the rate of interest charged for any period of time after June 30, 1943, on any loan secured by a lien on United States Government life (converted) insurance shall be 3 per centum per annum.

The rate of interest on these loans was reduced on April 19, 1939, to 5 percent, which rate has prevailed since that date.

I have been informed by the Veterans' Administration, that on January 31, 1943, the latest date for which figures are available, there were loans outstanding on approximately 165,882 policies.

The actual amount of policy loan outstanding was \$143,216,288.05. The amount of interest under my bill at 3 percent on these loans would be \$4,296,488.64. This would mean a saving to the policyholders of \$3,864,325.76 annually.

The argument submitted by the Veterans' Administration which reported adversely on this reduction that the reduction to 3 percent would mean a large loss in dividends to policyholders who are keeping up their premiums and their loans.

It seems to me that the Veterans' Administration loses sight of the benefits that would be preserved to policyholders with loans who are unable to keep up those payments at the present high rate of interest. Many of them now find it impossible to pay the interest on their loans and it is only a question of time until the equity in their policies will have been consumed and it will be necessary for them to default in payment.

If the dividend rate of 3½ percent on these policies is actually being credited to policyholders, there would be only a small loss sustained by reducing the rate of 3 percent. The loss would be more than offset by protecting the interest of those policyholders having loans who, by their reduction, would be able to keep up their payments.

The Veterans' Administration is maintained by appropriations made by the Congress. All expenses of administration are paid from these appropriations. Insurance companies must pay all of their current expenses from receipts from policyholders without the aid of such appropriations as are made by the Congress for the maintenance of the Veterans' Administration.

It is asserted further, that the Bureau of the Budget is opposed to this change in interest rate. This is natural because of the saving that would be made to the policyholders. The expense of the administration, however, would not be any greater than under the present interest rate.

Interest rates charged by the numerous agencies of the Government vary from 1½ percent to 6 percent. Practically all of them have been reduced. Many of them are lower than the rate provided in this bill. Commodity Credit Corporation loans on farm products are 3 percent. Many farm loans are 3 percent. Loans by the Rural Electrification Administration are as low as 2.46 percent for the construction of utilities. The Reconstruction Finance Corporation is making loans to railroads for 4 percent and for equipment at 3 percent.

Senator CLARK. Senator, it is also true, is it not, that a man that has an insurance policy in an ordinary private insurance company, which is always assignable, can take that policy to the bank and borrow money at 3 and 3½ percent?

Senator BROOKS. Yes; I think that is true.

Farm Credit Administration loans are made at rates as low as 1½ percent, this rate being charged to intermediate credit banks and co-operatives. A bill to reduce the Home Owners' Loan Corporation mortgage loans to 3 percent is now pending.

In view of the increased cost of living, and the struggle that is being made by these policyholders to keep up their payments to the Veterans' Administration, I feel that this reduction in interest rate should be made at this time.

Senator CLARK. Any questions, Senator La Follette?

Senator LA FOLLETTE. No.

Senator CLARK. Senator Walsh?

Senator WALSH. No.

Senator CLARK. In that connection, I desire to read in the record this time a letter which I recently received from a former comrade of mine in the Thirty-fifth Division, of Jefferson City, Mo., pointing out exactly the situation to which you have referred.

He says:

JEFFERSON CITY, Mo., February 27, 1943.

D. BENNETT C. CLARK,  
United States Senate,  
Washington, D. O.

EAR BENNETT: I ran into a situation in which I thought that you, as the standing friend of the veterans, would be interested. I recently had occasion to make a life insurance loan and found that, while the Government charged 5 percent interest on the Government war risk insurance, I could get a bank loan at 3½ percent at any of the large St. Louis banks on my ordinary insurance company policies. It is true that if the life insurance company question had made the loan the charge would have been 6 percent but since the policy was assignable I could obtain a bank loan upon the policy as sole security. On the other hand the bank would not loan a cent on my Government risk insurance because it is not assignable. It seems to me that if the government adopts the policy, a proper one, of making the policy nonassignable that it is impossible for the veteran to take advantage of low money rates offered by commercial banks, the government ought at least to afford a veteran a loan rate somewhere near in line with commercial bank rates. There is nothing in the insurance policy contract which prevents. The provision is that the rate shall not be more than 6 percent so that the contractual rights of other policyholders would not be violated if the Government loaned at the rate of 3½ percent or perhaps 4 percent.

If the Veterans' Administration proves unreasonable, it seems to me that it would be appropriate for the War Risk Insurance Act to be amended to require that the rate be made at a rate not exceeding the prevailing commercial bank rates. If the Veterans' Administration directed to fix the rates perhaps once a year, the administration directed to fix the rate perhaps once a year, and give the veteran the benefit of any reduction in the rate on outstanding loans, from and after the time the new rate is fixed.

There are probably tens of thousands of veterans who are paying a rate of interest that is extortionate in view of the current low rates of interest and do not have other insurance upon which they can rely to obtain a loan through a bank at a reasonable rate. A policy loan is one of the safest loans the Veterans' Administration could make, as it is secured by the policy reserve and the policy value. These loans are to be limited to 94 percent. I do not think that the Veterans' Administration deliberately intends to play the part of Uncle Shylock, and attribute it merely to bureaucratic inertia and red tape.

Thanking you for all the courtesies you have rendered me in the past, I am,

Yours sincerely,

JOHN M. HOLMES.

The committee has not yet had a report from the Veterans' Bureau on H. R. 877 but an identical bill was introduced at the last session on which the Veterans' Bureau did submit a report, and I ask that it be incorporated into the record.

(The letter referred to is as follows:)

JULY 22, 1941.

WALTER F. GEORGE,  
Selling Chairman, Committee on Finance,  
United States Senate,  
Washington, D. O.

DEAR SENATOR GEORGE: This is in reply to the letter of June 6, 1941, regarding a report on S. 1597, Seventy-seventh Congress, a bill to reduce the rate

of interest on loans secured by United States Government life insurance to 3 percent per annum, which provides as follows:

"That the rate of interest charges for any period of time after June 30, 1941, on any loan secured by a lien on United States Government life (converted) insurance shall be 3 percent per annum."

The provisions of this bill are similar to S. 3283, Seventy-sixth Congress, "a bill to provide for a maximum interest rate of 3 per centum on loans secured by United States Government life-insurance policies," on which the Veterans' Administration furnished the committee with a report under date of March 22, 1940, which concluded with the statement that advice has been received from the Bureau of the Budget that the proposed legislation would not be in accord with the program of the President.

The introduction of level premium life insurance brought about the necessity of building up large insurance reserves and companies operating on this system are frequently referred to as "old line" or "legal reserve" companies. From a practical viewpoint, these reserves represent prepayments on account of protection to be furnished in the future, since the level premium by itself would not be sufficient at the older attained ages to cover the current cost of protection. The premiums are calculated on the assumption that these reserves are invested to earn a certain rate of interest. These interest earnings are necessary in addition to the contributions from the premiums to produce an amount sufficient to enable the insurer to meet the obligations under the contract. One of the advantages of this form of insurance is the low net cost due to the fact that interest earnings help to pay the cost of protection.

In the early days of life insurance, if the insured stopped paying premiums, his insurance lapsed and the reserve was forfeited to the company but it was recognized that the insured had an equity therein and the so-called nonforfeiture values, such as cash, paid-up and extended insurance values, were introduced into the policy contracts. The only way in which the insured could avail himself of these values, however, was to lapse his policy. In order to conserve the insurance and to enable the insured to retain his insurance in full force, loan values based upon the cash surrender values were introduced.

At first these loans were granted only for the purpose of paying premiums on the policy but competition among the companies resulted in a liberalization of the loan provisions so that now there are no restrictions as to the purpose for which loans may be obtained.

This liberalization resulted in a condition which tended to defeat the very purpose the loan provision was originally designed to accomplish—the conservation of the insurance. A policy loan can be procured much more easily than any other form of loan; no comaker is required or any evidence of financial standing.

Life insurance contracts cover long periods of time, sometimes running for 50 or 60 years, and the terms of the contracts must provide for conditions over similar periods as nearly as such conditions can be anticipated.

The funds must be safely invested over long periods; they cannot be handled like a banking business. It is not feasible or practical to provide for changes in the interest rate on policy loans conforming with the fluctuations in the money market. The interest rate must be fixed at a fair rate which it may be reasonably expected will remain static during the life of the policy so that both the assured and the insurer may be protected, the one against being charged an excessive rate when money is commercially commanding high rates and the other against having to invest its funds at a low rate when rates of interest temporarily are low for commercial transactions. It will be perceived that such a policy is entirely consistent with the theory of level premium insurance.

The determination of the rate of interest to be charged on policy loans is not entirely a question of value of the security but it is also to a great extent a question of solvency. The World War Veterans' Act, 1924, as amended, specifies that the basis of calculation of the reserve and all other values shall be the American Experience Table of Mortality and interest at 3½ percent per annum. The rate of interest on policy loans, if fixed at a rate not to exceed 3 percent per annum in accordance with the terms of the proposed legislation, would be lower than the rate required to be earned on invested assets in order to maintain the reserve.

The factors which govern the fixing of the rate on policy loans are not at all comparable with the reasons which influence the determination of the rate to be charged on mortgages or collateral loans. The company can consider each of these latter types of loans according to its current inclinations and accept or



reject at will. It can also refuse to renew the loan at the end of any renewal period.

The experience of Insurers generally has definitely demonstrated that the rate of interest on policy loans has a decided effect upon the question of conserving the insurance for the beneficiaries. Any material reduction in the interest rate might result in many unnecessary loans, thus defeating the very purpose for which the insurance was intended and, as it is the policy of the Government to expend every effort toward conserving the veterans' equities in their policies, it is not believed that it would prove generally beneficial to reduce the interest rate on policy loans.

The question of the most equitable rate to charge on policy loans granted under United States Government life (converted) insurance has been under consideration on various occasions and section 7 of Public, No. 108, approved July 19, 1939, provides as follows:

"SEC. 7. On and after the date of enactment of this act, the rate of interest charged on any loan secured by a lien on United States Government life (converted) insurance shall not exceed 5 percent per annum."

All premiums paid on United States Government life (converted) insurance and all interest earned thereon are covered into a separate fund in the United States Treasury designated as the "United States Government life insurance fund," which is a trust fund administered by the Government as trustee for the sole benefit of the policyholders. The Government derives no profit whatever from the administration of the fund, which may be used only for the payment of claims under United States Government life (converted) insurance contracts and dividends to the policyholders themselves. In considering the United States Government life insurance fund, it must be clearly understood that the beneficial interest in the reserves belongs exclusively to the policyholders. When an insured borrows on his policy he is not borrowing his own money, but he is borrowing from the general fund which is for the benefit of all policyholders. If money were loaned to one policyholder at a decreased rate of interest, it is obvious that it would be done at the expense of the other policyholders who have not exercised their loan privilege.

The amount of policy loans outstanding Apr. 30, 1941, was-----	\$150, 532, 001. 41
Amount interest for 1 year, at 5 percent on above-----	7, 520, 045. 22
Amount interest for 1 year, at 3 percent on above-----	4, 515, 087. 13

Therefore, on the basis of the amount of loans outstanding April 30, 1941, the amount of the indicated loss to the fund would be approximately \$3,000,000, which would be reflected in reduced dividends, thereby increasing the cost of protection to the policyholders. Moreover, if the rate of interest charged on policy loans were reduced as proposed, there is no doubt there would be an increase in the number and amount of such loans, with a corresponding increase in the amount of the loss to the fund.

In considering legislation which tends to decrease the income of the fund, it is essential that some thought be given to its potential liabilities. In addition to insurance against death, Government life-insurance policies provide protection against total and permanent disability at no increased premium cost. The rate of loss under such matured policies advances as the age of the insurance group increases, and it is very likely that a large number of such group will have become totally and permanently disabled at the advanced ages. While, in the opinion of our actuaries, the reserves established will prove sufficient to meet all future liabilities, this may be a doubtful prospect were future investment earnings severely curtailed, and, if the rate of losses should increase to any appreciable degree over and above the rate of expected losses established by the American Experience Mortality Table the reserves may prove to be inadequate, with the result that the Government would be required to make substantial appropriations to support the fund. If the Government life-insurance fund is to be maintained on a self-supporting and solvent basis, the advisability of retaining present interest rates on loans is clearly indicated. The reduction of such rates for the benefit of borrowers will be accomplished at the expense of those of the insurance group who do not avail themselves of loan privileges.

It may also be assumed that the expense of administering the Government life-insurance fund would be greater because of the increase in the number and amount of such loans. It is a fact that in every transaction under a policy the cost is greater when a loan is in existence than when there is no loan. Additional and sometimes arduous calculations are necessary, thus involving considerable additional expense in determining the period of extended insurance, surrender

value, death claim, total- and permanent-disability claim, reinstatement, and other similar operations where a loan is involved. It follows that the cost of operations incidental to the granting of loans and the maintenance of loan accounts would be increased.

Additional expense in handling this work would also be incurred by the Treasury Department and the General Accounting Office, if the number of policy loans were materially increased, which would no doubt be the result if the loan interest rate were reduced to 3 percent.

It is not believed, however, that the cost to the Government because of any additional administrative operations would be a valid reason for opposing the enactment of this bill, because if the bill were correct in principle, the cost, which would be limited, should not be a factor.

In view of the foregoing, the Veterans' Administration is unable to recommend favorable consideration of the bill.

Advice has been received from the Bureau of the Budget that the enactment of the proposed legislation would not be in accord with the program of the President.

Very truly yours,

FRANK T. HINES, *Administrator.*

Senator BROOKS. Thank you very much.

Senator CLARK. Thank you very much, Senator.

The committee will pass to the consideration of S. 903, a bill amending section 602 (d) (1) of the National Service Life Insurance Act of 1940.

(S. 903 is as follows:)

[S. 903, 75th Cong., 1st sess.]

A BILL To amend section 602 (d) (1) of the National Service Life Insurance Act of 1940, as amended

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That section 602 (d) (1) of the National Service Life Insurance Act of 1940, as amended by section 10 of Public Law 360, Seventy-seventh Congress, December 20, 1941, is amended to read as follows:

"(d) (1) Any person in the active service and while in such service shall be granted such insurance without medical examination and without medical-history statement upon application therefor in writing (made within one hundred and twenty days after the date of enactment of this amendatory Act) and certificate signed by his immediate commanding officer stating that the applicant is mentally and physically fit to perform military or naval duty and upon payment of the premiums: *Provided,* That after the expiration of such one-hundred-and-twenty-day period any such person may be granted national service life insurance at any time upon application, payment of premiums, and evidence satisfactory to the Administrator showing him to be in good health."

Senator CLARK. I understand that Colonel Harrell is here and desires to leave early so we will put him on first.

Come forward, Colonel, and have a seat.

Will you simply identify yourself for the record?

#### STATEMENT OF COL. W. F. HARRELL, LIFE INSURANCE OFFICER, WAR DEPARTMENT

Colonel HARRELL. I am Col. W. F. Harrell, Adjutant General's Department, life-insurance officer, War Department.

Senator CLARK. You may proceed, Colonel.

Colonel HARRELL. I was called on the phone late yesterday afternoon to come down, Senator, and I have not had an opportunity to prepare a formal statement, so what I will have to say will be extemporaneous.

Senator CLARK. Very well.

Colonel HARRELL. It is a fact that we have a considerable number of men in the service that have no national service life insurance or if they have any it is very little.

They are the older men, the men that came in first, and have been sent overseas, the first ones to go. We have been trying to get those men insured, but under present requirements it is quite difficult, due to military service, and that the man must have, if he is rated over 120 days, a complete physical examination.

I doubt if there are enough doctors in Africa and Australia to take care of the wounded and the sick. I know it was so in the last war, and I assume it is about the same in this war.

The Veterans' Administration has very kindly and considerately extended the requirements for the physical examination, but that has not produced the results that we hoped for, and the presentation of this bill, as I understand it, is to eliminate the physical requirement again.

Senator CLARK. It simply extends the time, does it not?

Colonel HARRELL. Yes, sir.

Senator CLARK. The time within which a man will be allowed to avail himself of the privileges granted him by the act passed by Congress last December.

Colonel HARRELL. Yes, sir.

In the meantime, we have collected a group of officers who are experienced in this insurance work and we are sending them overseas to operate under the direction of the different commanders, and we believe that if we can have this extension, if it is granted, we can pretty well clear it up.

I do not believe that any of us are so much interested in the fact that the man did not get this insurance as we are in how we can help them to correct it. As I see the problem the Congress wanted every man to have a policy and it was the hope, I imagine, of every American, that those who died would have this protection.

Senator CLARK. That is entirely correct, Colonel.

Colonel HARRELL. So why they haven't got it isn't material. The fact is that they do not have it, and the thing that we can get it for them is all that counts.

There is one other angle to it, and that is already occurring.

We have just begun the war, and we have more casualties already than we had in the last war. As we go ahead we are going to have an awful number of men killed, and they are going to come from every community.

Now, if this boy down the road had a careful, energetic, zealous captain, one who helped him get his policy, and another boy a little further down the road, who was neglected or overlooked, or for any reason, it is immaterial, didn't get a policy, people are going to ask how you permit such a thing to come about, how does this woman get \$68 a month for life and this woman is getting nothing, when he was just as good if not a better boy.

Then there is another angle to it. Morale is a very essential element of success. Without it you are not going to have success.

If these men feel that their dependents, wives and children and mothers, are protected, they are going to be better soldiers.

I can't overstress the morale end of it.

Now, this is going to cost money, of course, but it won't be money that is lost.

It will be money that will go back into all of the communities of the United States. Everybody will get some of it. And it will tend to help hold up the economic structure after the war.

It will still be in circulation and it will help us.

In some checks that we have made of those who have died, we have found a large percentage, so I am told—I didn't actually check it myself, but I was told by an officer in whom I have confidence, that in this last airplane accident, where there were some twenty-odd killed, more than 52 percent did not have it.

One check, which we made from overseas, showed that about 25 percent didn't have it. And of those that did have it, they only had a few thousand, two or three thousand.

The benefits payable under this law are on a monthly basis and for a stipulated period of time, or for life, and if the man has only \$2,000 his mother or wife will be getting \$9.40, or some insignificant amount, for a long period of time.

It is going to be difficult to explain. Unless we correct it now, I believe we will be forced to do it later.

I would be glad to answer any questions.

Senator CLARK. I agree with you, Colonel, that there is no necessity or point in undertaking to go into the reason and detail as to why these men haven't taken that insurance, but it is a fact, is it not, that the men in the service, particularly men overseas, and who don't have the opportunity of reading newspapers, American newspapers, to any particular extent, have no means on earth of knowing what their rights and privileges with respect to insurance are, and unless some system is devised to have them informed by the commanding officer, or the company commander, they will not be informed?

Colonel HARRELL. Exactly, sir.

Senator CLARK. I am not criticizing the War Department.

Colonel HARRELL. I shan't object, Senator, if you would.

Senator CLARK. I don't desire to criticize the War Department. I realize that they have been faced with a tremendous job, but it is a fact that many of these men didn't have insurance because they hadn't been adequately advised, isn't it?

Colonel HARRELL. That is correct, sir.

Senator CLARK. And it is also a fact, is it not, Colonel, that the base pay of these men has been substantially increased since the original provision which granted them this insurance without examination.

Colonel HARRELL. Yes, sir.

Senator CLARK. So that many men are in a position to take the insurance now who were not in a position to take it before.

Colonel HARRELL. Yes, sir.

Senator CLARK. You notice that there are no automatic features to this bill. It is simply an extension of the privilege granted last December that permitted these men to go in without further physical examination.

Colonel HARRELL. Yes, sir.

Senator CLARK. Of course, every man was presumed to be in good physical condition when taken into the Army, and this simply preserves that status.

Colonel HARRELL. That is correct.

Senator CLARK. I don't want to ask for any military secrets, Colonel, but could you give us an idea as to the number of men overseas, who have not taken insurance? As I say, if it is a military secret, you need not answer.

Colonel HARRELL. We have made checks in different localities; the War Department sent out officers, and the result of these checks indicate that about 25 percent did not have it, and a considerable percent only had a few thousand dollars.

What we find here, and what we confirm by a check of the casualties—the casualty lists over there tend to close it together and to give us the true picture.

Senator CLARK. I have seen estimates by some of the veterans' organizations that that number would probably be 700,000 or 750,000 men.

Would you think that estimate would be high?

Colonel HARRELL. I think it is quite high.

Senator CLARK. That is, for overseas. You think it is in excess of 25 percent of the men who are now overseas.

Colonel HARRELL. Yes, sir.

Senator CLARK. Colonel, I gathered from what you said that the War Department is now prepared to put on a campaign to apprise these men of their privileges and bring about as complete an insurance coverage as is humanly possible under the circumstances, is that correct?

Colonel HARRELL. That is correct.

Senator CLARK. Any questions, Senator.

Senator LA FOLLETTE. No.

Senator CLARK. Senator Walsh?

Senator WALSH. No.

Senator CLARK. Senator Millikin?

Senator MILLIKIN. Colonel, is a man considered on active service from the time that he is sworn in until the time of his discharge?

Are there any circumstances by which in that interval he is not considered as being in active service?

Assuming a man is on detached service, for example, or purely civilian work.

Colonel HARRELL. No, sir; he is still on service until he is discharged or separated by court martial. He may be detached, but he is still on active duty.

He may be hospitalized but is still in for duty as soon as he is well.

Senator, I would like to pay my respects to the Veterans' Administration, General Hines and Mr. Breining, who have done a great deal for us. They have helped educate our officers and have conducted our schools all over the United States during the last several months, and have extended special considerations to us, for which the Army is grateful.

This is a matter that must be corrected by the law if it is to be corrected.

Senator CLARK. What is the premium on a \$10,000 policy, Colonel?

Colonel HARRELL. The average premium is about \$7.

Senator WALSH. A month?

Colonel HARRELL. Yes, sir. It runs from around 6 to 8 dollars; 40 years and over, it is about \$8.

Senator WALSH. Has any consideration been given to a compulsory law, compelling them all to take out insurance?

Colonel HARRELL. Well, I made a recommendation, it was not favorably considered, that the law be made compulsory.

Senator, frankly, if I had my say, I would give it to them. They are fighting our war as well as their own, and if they lose it, we are going to be out of luck. We don't know how much morale will be added by a statute of that kind, but it would certainly help in the furthering of the ends of the war.

Senator CLARK. Under the present system, Colonel, the Government pays about three-fourths of the ultimate cost; isn't that about right?

Colonel HARRELL. That is about right, sir.

There is some objection, on different angles, to having it compulsory and, of course, we don't want to make people do anything.

Senator MILLIKIN. What are those objections?

Colonel HARRELL. Well, being Americans, we naturally resent being told to do this, and the other, and required to do it, and you take the initiative away from the man.

Senator CLARK. I agree with you, Colonel.

If I had my way, I would give it to them.

Colonel HARRELL. They are our soldiers.

Senator LA FOLLETTE. I introduced a bill to provide that at the last session.

It was not approved by any of the agencies.

Colonel HARRELL. If any consideration is going to be given to that, I would recommend that this go through first, because we need it now.

Senator CLARK. This is an emergency bill, and ought to be passed as early as possible.

Colonel HARRELL. Yes.

Senator CLARK. But, as far as I am concerned, I may say that I would be very much in favor of the bill Senator La Follette introduced at the last session; I hope you will introduce it again, Senator.

Colonel HARRELL. I think they deserve it.

Senator MILLIKIN. Colonel, have you figured out the cost of a universal compulsory insurance system?

Colonel HARRELL. No, sir, Senator; but it would run into millions of dollars. I don't know. Mr. Breining is here. I think that 2½ billions was about what the last insurance law cost, in 1917.

Senator CLARK. Colonel, I asked you if you thought 700,000 or 750,000 men would be high as to the men overseas, and you said it was.

I should have asked you if that would be right as to the over-all picture of the men in the service.

Colonel HARRELL. I think that would be right; yes, sir.

Senator CLARK. That was my mistake. Are there any further questions? (No response.)

Thank you very much, Colonel.  
 Colonel HARRELL. Thank you.  
 Senator CLARK. Colonel O'Brien.

**STATEMENT OF LT. COL. JOSEPH F. O'BRIEN, LIFE INSURANCE SECTION, WAR DEPARTMENT**

Senator CLARK. Will you identify yourself for the record?

Colonel O'BRIEN. Col. J. F. O'Brien.

Senator CLARK. You are familiar with this bill we have under discussion?

Colonel O'BRIEN. Yes, I am, sir.

Senator CLARK. Do you have a statement to make about it? Or, any observations to submit?

Colonel O'BRIEN. I should just like to add a few thoughts in corroboration of what the colonel has already broadly discussed with you.

Senator CLARK. Yes, sir.

Colonel O'BRIEN. That is, the conditions among our troops with reference to their inability to get some of this national service life insurance.

Illustrative is a letter I have in my hand from the commander of one of our European theaters, dated February 13. He says:

Individuals who are accepted for general military duty in any capacity are frequently found ineligible for national service life insurance. One of the most frequently recurring examples is of individuals with mild systolic hypertension. Although entirely fitted for military duty in any capacity, such individuals are not given insurance.

This discrimination not only violates the principle of group insurance, but is inconsistent with the granting of national service life insurance to air crews and other personnel in especially hazardous duties.

This discrimination also seriously affects the morale of the majority of the applicants who are rejected on physical grounds.

Recommend modifications of existing law to permit any person accepted for military service to be eligible for national service life insurance.

That is but typical of reports received from the overseas commanders and local commanders of posts, camps, and stations.

Senator WALSH. Are they all given a thorough examination before entering the service?

Colonel O'BRIEN. They are, Senator.

Senator WALSH. And you would consider that for insurance purposes is satisfactory?

Colonel O'BRIEN. Exactly, sir.

Senator CLARK. In other words, a man may be in excellent physical condition, sufficiently, so to pass the physical examination to get into the Army—sometimes the most hazardous lines of duty in the Army, and at the same time, under technical insurance rules be ineligible for insurance after 120 days from his entrance into active duty.

Colonel O'BRIEN. Exactly, Senator.

Senator WALSH. A fairly considerable number of men have entered the armed services, being physically fit at the time of entering, but shortly thereafter have developed mental break-downs and some of those men are in hospitals now.

Colonel O'BRIEN. That is very true, Senator.

Senator WALSH. And it is due largely to the change of environment.

Colonel O'BRIEN. Yes, sir.

Senator WALSH. And mental anxiety and worry, and inability to adjust themselves to such a change from their normal existence.

Colonel O'BRIEN. Exactly.

We feel that there is a very small percentage of those, however, Senator. We are primarily concerned with that group overseas, that are up at the front fighting, and have something in their medical record that precludes them from getting insurance today under the rulings of the Veterans' Administration.

Senator LA FOLLETTE. S. 903 would substitute a certificate of the company commander that the applicant is mentally and physically fit to perform military or naval duty for the detailed examination now required under the existing law; is that correct?

Colonel O'BRIEN. That is true.

Senator CLARK. There are a great many men in active combat duty who may be in excellent physical condition, able to pass an Army medical examination, but it is physically impossible to give it to them, and a man would be killed before he would have an opportunity to get a medical examination; isn't that true?

Colonel O'BRIEN. That is entirely correct, Senator.

At this point, I believe it might be helpful to place in the record a copy of the Veterans' Administration Form 350-A, which a man in continental United States—not at staging areas—is required to execute himself, in tremendous detail, and in addition, undergo a very detailed medical examination by our Army physicians. The Veterans' Administration rejects many of these applications solely on the basis of his pre-war medical history.

To execute these applications in whole or in part in the jungles of Africa, or out in the desert, or at any one of our other 50 points in the world where we have troops today is almost an impossible situation.

Senator CLARK. That may be included in the record.

(The form referred to is as follows:)



VETERANS ADMINISTRATION  
 INSURANCE FORM 204-1a  
 Nov. 1942

**APPLICATION FOR NATIONAL SERVICE LIFE INSURANCE**

UNDER SECTION 202 (4) (C), NATIONAL SERVICE LIFE INSURANCE ACT OF 1940, AS AMENDED, AND REGULATIONS OF THE VETERANS ADMINISTRATION WITH REPORT OF PHYSICAL EXAMINATION

Be sure to: (1) Furnish in the active service in the land or at sea in honor of the United States at any time after expiration of the period of 120 days following the date of entrance into the active service; (2) Furnish the active service's discharge papers as required by acceptor or claimant, where such requirement is a continuation of previous active service without interruption, at any time while in the active service. **USE LINE 10c TITLE.**

1. NAME IN FULL (Please print at type) First Initials Last name

2. HOME ADDRESS: Number Street or road route County, city, town, or post office State

3. I WAS BORN AT City, town, or post office State Day of month Month Year Age nearest birthday

4. DATE OF ENTRY INTO PRESENT TOUR OF ACTIVE DUTY 5. PRESENT ORGANIZATION Organization, regiment, station, ship, etc. 6. SERIAL NUMBER

7. DATE OF EXPIRATION FROM LAST TOUR OF ACTIVE DUTY. (Of no previous active duty, check "none.") 8. ARE YOU NOW DISABLED ON ACCOUNT OF INJURY OR DISEASE IN 60, STATE DETAILS

9. I HEREBY APPLY FOR INSURANCE ON THE FIVE-YEAR LEVEL PREMIUM WITH PLAN IN THE AMOUNT OF \$

ALL QUESTIONS MUST BE COMPLETELY ANSWERED

10. AM I NOW CARRYING GOVERNMENT LIFE INSURANCE? (ANSWER "YES" OR "NO") IF "YES" GIVE AMOUNT OF INSURANCE AND POLICY NUMBER IF AVAILABLE. AMOUNT \$ POLICY NO.  
 (The person may carry a combined amount of National Service Life Insurance and U. S. Government Life Insurance in amount of \$10,000 at any one time)

11. COMPLETE NAME OF EACH BENEFICIARY (If multiple, list by first and middle names and husband's last name in full) Relationship Amount of benefit to be paid in each beneficiary Post office address (Number and street, city, town, or post office and State)

PRINCIPAL			
CONTINGENT			

Permitted class of beneficiaries: Husband or wife, child, parent, brother, or sister of the insured. (For further information see Specific Instructions, page 4, paragraph 9)

12. I REQUEST THE POLICY TO BE MAILED TO—(Please print at type) (Full name) (Address)

13. EFFECTIVE DATE OF INSURANCE (See Specific Instructions, page 4, paragraph 10.)  
 I REQUEST THAT THE EFFECTIVE DATE of this policy be made the day of 12, 1942  
 A. I enclose herewith remittance payable to the TREASURER OF THE UNITED STATES by (Check, draft, or money order) in the amount of \$ \_\_\_\_\_ in payment of the first premium on the insurance or  
 B. I will register an allotment of pay involving advance of active service pay under the provisions of Public Law 651, 72d Congress, in payment of the first monthly premium of \$ \_\_\_\_\_ on the insurance, or  
 C. I will register an allotment of pay effective in the month in which application for insurance is signed, in payment of the first monthly premium of \$ \_\_\_\_\_  
 Has effective date not specified by the applicant the insurance herein applied for shall become effective as follows:  
 (a) If the first premium is paid by direct remittance or by advance of active service pay under the provisions of Public Law 651, 72d Congress, the insurance shall become effective as of the date on which said application is signed and such premium is received.  
 (b) If the first premium is paid by check or allotment of pay effective in the month in which application for insurance is signed, the insurance shall become effective as of the first day of the month following the month in which said application and such allotment are received, provided the applicant is then in the active service and the amount of the premium is deducted from the applicant's service pay in accordance with the allotment.  
**THE EFFECTIVE DATE IS NOT LATER IN DATE OCCURS PRIOR TO THE EFFECTIVE DATE OF THE POLICY**

14. I WILL PAY SUBSEQUENT PREMIUMS IN THE MANNER AND AMOUNT INDICATED BELOW:

A. BY ALLIANCE OF PAY MONTHLY		B. BY PERIOD REMITTANCE TO THE VETERANS ADMINISTRATION			
		Monthly	Quarterly	Semiannually	Annually
1	2	3	4	5	6

SIGNED AT \_\_\_\_\_ ON THE \_\_\_\_\_ DAY OF \_\_\_\_\_ 1942  
 WITNESSED BY: \_\_\_\_\_  
 INFORMATION AS TO SERVICE CERTIFIED BY: \_\_\_\_\_

(Check and sign separately) (The further information see Specific Instructions, page 4, paragraph 10)  
**APPLICANT'S SIGN HERE! DO NOT PRINT OR SIGNATURE**  
**APPLICANT'S SIGN ALSO HERE STATEMENT ON PAGE 1**  
 NOTE—Premiums to be paid in advance for self or under the terms of insurance \$1,000 to \$5,000 face and in increments. Insurance will be included in rating tables, rating, or other specified tables. (Sections 214, 215, and 216, National Service Life Insurance Act of 1940.)

**DO NOT USE THIS SPACE**

Effective Date          Age          Amt. \$          Premium: Mo. \$          Qr. \$          S. A. \$          A. \$           
 Beneficiary           
 Action taken           
 Examiner          Reviewer           
 Certificate issued          Policy issued         

16-1072-4

## STATEMENT OF APPLICANT

(APPLICANT MUST DATE AND SIGN THIS STATEMENT AT BOTTOM OF THIS PAGE)

The purpose of the questions contained in this form is to secure on file information regarding the condition of the applicant's health. Every question must be answered. Complete, correct, and accurate information is essential to the issue of a policy. If the applicant is not a citizen of the United States, the purpose of the questions is to determine whether the applicant is eligible for insurance. The information furnished by the applicant in this statement is for the use of the insurance company only and is not to be used for any other purpose. The information furnished by the applicant in this statement is for the use of the insurance company only and is not to be used for any other purpose. The information furnished by the applicant in this statement is for the use of the insurance company only and is not to be used for any other purpose.

15. Have you ever applied in the Veterans Administration or other Government agency for (a) Disability compensation? (b) Disability allowances? (c) Retirement pay? (d) Pensions? (e) Hospitalization? (f) Rehabilitation or treatment? (Answer "Yes" or "No" in each question.) If answer is "Yes," state number and date of application.

16. Has any application for insurance on your life ever been declined? If answer is "Yes," state name of insurance company and approximate date of your application.

17. Insofar as you know, have your parents, brothers, sisters, wife, or children ever been afflicted with Tuberculosis? (Specify family) \_\_\_\_\_ (Specify) \_\_\_\_\_ (Specify) \_\_\_\_\_

18. Have you ever had any of the following (answer "Yes" or "No"):  
 (a) Surgical operations? (b) Accidents or injury? (c) Hospitalization for illness?  
 If answer is "Yes" in any of the above questions, give nature of operation, accident, injury, or illness, with date and name and address of attending physician.

19. (a) Have you ever had any of the following (answer "Yes" or "No" after each item)?  
 CANCER \_\_\_\_\_ CONSTIPATION (Tuberculosis) \_\_\_\_\_ DIARRHEA \_\_\_\_\_ FITS OR CONVULSIONS \_\_\_\_\_ SORETHROAT \_\_\_\_\_  
 NEURALGIA OR NEURAL PROBLEMS \_\_\_\_\_ KIDNEY STONES \_\_\_\_\_ PARALYSIS \_\_\_\_\_ RHEUMATISM \_\_\_\_\_ STYPHILIS \_\_\_\_\_  
 ANEMIA \_\_\_\_\_ GALL STONES \_\_\_\_\_ DISEASE OF THE STOMACH OR INTESTINES \_\_\_\_\_

(c) Have you within the last 5 years had any of the following (answer "Yes" or "No" after each item)?  
 APPENDICITIS \_\_\_\_\_ ARTERITIS \_\_\_\_\_ ASTHMA \_\_\_\_\_ CHRONIC BRONCHITIS \_\_\_\_\_ HEMIPLEGIC COLIC \_\_\_\_\_  
 PLEURISY \_\_\_\_\_ OTHER DISEASE OF THE LUNGS \_\_\_\_\_ FISTULA \_\_\_\_\_ HEMORRHOIDS \_\_\_\_\_ RECTAL PROBLEMS \_\_\_\_\_  
 SYNECHIA \_\_\_\_\_ EPILEPSY \_\_\_\_\_ VARICOSE VEINS \_\_\_\_\_

(d) Have you within the last 5 years had any disease of— (answer "Yes" or "No" after each item)  
 BLOOD VESSELS \_\_\_\_\_ HEART \_\_\_\_\_ BLADDER \_\_\_\_\_ KIDNEYS \_\_\_\_\_ LIVER \_\_\_\_\_ PROSTATE \_\_\_\_\_ SKIN \_\_\_\_\_  
 BONES \_\_\_\_\_ JOINTS \_\_\_\_\_ EYES \_\_\_\_\_ EARS \_\_\_\_\_

(e) If you have been treated for any of the above diseases, state approximate date, duration, names, and addresses of attending physicians.

20. (a) Do you use alcohol? If so, to what extent?

(b) Do you use habit-forming drugs? If so, to what extent?

(c) Have you ever been treated for alcoholism or drug addiction? If answer is in the affirmative, give details.

21. Give all illnesses within the last 5 years together with names and addresses of physicians who treated you.

(a) Have you consulted a physician during the last 5 years for any reason concerning your health other than because of the illnesses stated above?

22. Have you ever been hospitalized during the last 5 years?

23. To your knowledge have you any disease, disability, physical abnormality, or deformity, congenital or otherwise?

24. Do you understand that the Government will only in the event of your answer by deciding whether to issue the insurance applied for?

I declare that the information furnished by me is true and correct to the best of my knowledge and belief, and that I have not furnished any information which is false or misleading in any material particular. I have read all of the foregoing answers and signs and signs to my own knowledge.

SIGNED BY THE APPLICANT: \_\_\_\_\_ DATE: \_\_\_\_\_

ALL QUESTIONS MUST BE COMPLETELY ANSWERED. IF IN DOUBT AS TO MEDICAL TERMS, CONSULT PHYSICIAN.

MEDICAL EXAMINER'S REPORT

Examination may be made by medical officers in active service with the Army, Navy, Marine Corps, Coast Guard or physicians of the U. S. Public Health Service; or made also by physicians of the Veterans Administration at a Regional Office or Facility or by physicians designated by the Veterans Administration for the purpose of making such examinations, and who are not related to the applicant by blood or marriage, associated with him in business, or particularly interested in the issuance of the policy. This examination report must not be divulged to the applicant.

25. Are you related to applicant by blood or marriage? 26. Do you walk and have bearing you know him? 27. By what means are you notified with his identity?  
(See above) (Give name and rank of Member)

28. Have you ever treated the applicant for any disease or injury? If so, give dates and diagnosis

29. Weight in shoes. 30. Weight, not in shoes 31. Birth of chest, normal in 32. Girth of abdomen  
in rest of Normal in in in

THE APPLICANT MUST BE STRIPPED FOR REMINDER OF EXAMINATION

33. STATE PULSE RATE: 34. Kind of pressure:  
 (a) Before exercise (b) One minute after Before exercise Immediately after exercise  
(c) Inmediately after (d) Two minutes after Systolic Diastolic  
  Diastolic Diastolic  
(Write diastolic pressure at the disappearance of all sounds)

35. Report of Heart and Blood Vessels:  
 Is there a murmur? If the answer is "Yes," state location and time  
 Where transmitted? Character of murmur  
 Probable cause Any history of acute rheumatic fever or rheumatism  
 Any enlargement, dilation, or hypertrophy? Measurements  
 Any evidence of myocarditis? Dyspnea  
 How severe? Edema of extremities or lungs Cyanosis  
 Is there any arteriosclerosis? If answer is "Yes," describe fully and state if same is greater than to be expected incident with the age of the applicant.

Is there any evidence of kidney disturbance?  
 State if on examination is maintained or is falling Is there any irregularity of the force of the heartbeats as heard while taking the blood pressure?  
 If the pulse is irregular or intermittent, state the type of arrhythmia, the number of irregular and missed beats per minute, and if the arrhythmia is affected by exercise.

36. Has there been any abnormal variation in weight within the past year? If so, explain fully

37. After examination do you find any abnormality of the lungs? (Afternoon temperature is required in chronic pulmonary tuberculosis suspected in heretofore healthy or with suspicious signs.) Obtain a careful history of every so-called pleurisy case with special reference to duration, extent, and what disease it has been named the last time.

38. Do you, by thorough physical examination and history, find any evidence of disease or impairment—  
 (a) Of the brain or nervous system? (Examine pupils and pupillary reflexes—observe station and gait.)  
 (b) Of mouth, nose, or throat?  
 (c) Of the stomach, liver, other abdominal or pelvic organs?  
 (d) Of the skin, glands, lymph, or endocrine?  
 (e) Of the ears? (Test each ear, give degree of any deafness or discharge.)  
 (f) Of the eyes? (Test each eye separately before and after correction and give cause of any impairment.)  
 (g) Is there any abnormality of external or internal organs?  
 (h) Is there any strabismus, exotropia, inequality of pupils, or abnormal reaction to light and accommodation?  
 (i) Of the bones and joints?

39. Do you find any evidence which in your opinion indicates the applicant ever had—(a) Syphilis (b) Rheumatism

40. Any deformity or departure from normal in any respect?

41. SPECIAL TESTS: 42. Was the specimen passed at the time of the examination?  
 Specific gravity Albumin Color  
 Reaction Sugar  
(Microscopic examination is required if albumin is present)

43. Has the applicant had an x-ray, hand or arm, foot or leg? 44. Is the applicant right- or left-handed? If so, give the type  
and location Is a reliable support worn?

MEDICAL EXAMINER'S REPORT—Continued

63. <b>SEXUALS:</b> Any history of chronic or venereal (venereal) or other disease? (Child, 12 year & up)	Period: If pregnant, month ad- vanced. Number of pregnancies.	Date of last menstruation Is menstruation regular and normal? Has she customarily passed the menses painless?	Number of miscarriages, if any, and dates.
	Form of venereal disease?		

64. **REMARKS:** (If you have any facts or impressions placed as if not covered in this report, please indicate in detail):

\_\_\_\_\_

\_\_\_\_\_

Emphasize as \_\_\_\_\_ made by \_\_\_\_\_  
(Type or print applicant's name)

by \_\_\_\_\_  
(Type or print examining physician's name and official designation)

(CITY) \_\_\_\_\_ (COUNTY) \_\_\_\_\_ (STATE) \_\_\_\_\_ QUALIFICATION OF EXAMINING PHYSICIAN,  
(The law provides that whenever making a statement of a material fact knowing it to be false shall be punished by a fine of not more than \$1,000 or by imprisonment for not more than one year or both.)

MONTHLY PREMIUMS FOR EACH \$1,000 OF INSURANCE—FIVE-YEAR LEVEL PREMIUM TERM PLAN

Age	Mo. Prem.	Age	Mo. Prem.	Age	Mo. Prem.	Age	Mo. Prem.	Age	Mo. Prem.	Age	Mo. Prem.	Age	Mo. Prem.	Age	Mo. Prem.
15	55.00	20	66.00	25	84.00	30	106.00	35	132.00	40	162.00	45	196.00	50	234.00
16	56.00	21	67.00	26	85.00	31	107.00	36	133.00	41	163.00	46	197.00	51	235.00
17	57.00	22	68.00	27	86.00	32	108.00	37	134.00	42	164.00	47	198.00	52	236.00
18	58.00	23	69.00	28	87.00	33	109.00	38	135.00	43	165.00	48	199.00	53	237.00
19	59.00	24	70.00	29	88.00	34	110.00	39	136.00	44	166.00	49	200.00	54	238.00

SPECIFIC INSTRUCTIONS

1. The applicant should specify the exact date of the month on which he desires the insurance policy to become effective. Upon written request of the applicant the policy of insurance may be issued effective while the applicant is in the active service—(A) as of the date on which valid application is signed, provided there is tendered with the application a direct remittance in payment of the first premium or an allotment of pay, involving advance of active service pay under the provisions of Public Law 451, 71st Congress, in payment of the first monthly premium; (B) as of the first day of the month following the date valid application is signed and the first premium is tendered, if such premium is paid by a direct remittance or by an allotment of pay of active in the month in which application for insurance is signed; (C) as of the first day of the month in which valid application is signed and the first premium is tendered by a direct remittance; (D) as of the first day of any month, but not more than six months, prior to the month in which valid application is signed and the first premium is tendered by a direct remittance, provided that there be paid an amount equal to the full reserve on the insurance at the end of the month prior to the month in which the application for insurance is signed and the first premium for the month in which the application is signed. A tender of the first premium or authorization to allot the first premium from service pay in connection with an application for insurance should be made on or before the date of the report of physical examination incident to the application for insurance.

2. The insurance may be applied for in favor of one or more of the following persons: Husband or wife, child (including adopted child, stepchild, illegitimate child), parent (including parent through adoption and person who stood in loco parentis to the insured at any time prior to entry into active service for a period of not less than one year), brother or sister (including those of the half blood) of the insured.

The insured may name any person or persons within the permitted class as contingent beneficiary or beneficiaries who will take the monthly installments of insurance if the principal beneficiary or beneficiaries predecease the insured, or take any remaining monthly installments if the principal beneficiary or beneficiaries survive the insured but die before all installments certain have been paid.

3. The insurance shall be payable in the following manner:

- (1) If the beneficiary to whom payment is first made is under 30 years of age at the time of maturity, in two hundred and forty equal monthly installments at the rate of \$3.33 for each \$1,000 of insurance.
- (2) If the beneficiary to whom payment is made is 30 or more years of age at the time of maturity, in equal monthly installments for age hundred and twenty months certain, with such payments continuing during the remaining lifetime of such beneficiary. The amount of the monthly installment for each \$1,000 of insurance shall be determined by the age of the beneficiary at the date of the death of the insured.

(3) Any installments certain of insurance remaining unpaid at the death of any beneficiary shall be paid in equal monthly installments in an amount equal to the monthly installments paid to the first beneficiary, to the person or persons then in being within the classes hereinafter specified and in the order named, unless designated by the insured in a different order—

- (A) to the widow or widower of the insured if living;
  - (B) if no widow or widower, to the child or children of the insured, if living, in equal shares;
  - (C) if no widow, widower, or child, to the parent or parents of the insured who last bore that relationship, if living, in equal shares;
  - (D) if no widow, widower, child, or parent, to the brothers and sisters of the insured, if living, in equal shares.
- If no beneficiary is designated by the insured or if the designated beneficiary does not survive the insured, the beneficiary shall be determined in accordance with the order specified in subparagraph (B) of the above and the insurance shall be payable in equal monthly installments in accordance with subparagraph (1) and (2) as the case may be.

4. This application must be witnessed and the information as to service certified by the commissioned officer who has custody of the applicant's service record unless by reason of detached service no commissioned officer is available, in which event it may be witnessed by a noncommissioned officer who, if he has the custody of the applicant's service record, may certify the information as to service.

Senator CLARK. Are there any further questions, gentlemen?

(No response.)

Senator CLARK. Anything further?

Colonel O'BRIEN. The sad conditions we speak of here can only break down morale among our troops. This we must guard against, especially in the far-flung points around the world where our troops are now fighting for the Nation's existence.

Morale of the folks back home is equally important, and we in the War Department feel that it is just as important to maintain the morale of the dependents of our soldiers. These dependents are the beneficiaries on the National Service life insurance policies.

Illustrative of this situation on morale back home is this letter typical of those now coming in increased volume to the War Department from all parts of the country.

EAST NORWALK, CONN.

DEAR SIR: I am writing to you because I feel that you can help me. Also I am writing for someone else.

A soldier, who is married and has one child, has been in the Army almost a year and in all that time has been refused Army insurance because of high blood pressure. Now, insurance in itself is a savings, and if anything should happen, killed in action or such, to him, his wife and child would be left destitute as the child is too young to be left in the care of anyone and is a sickly baby at that.

Now, the wife thinks that if the man does not come up to the Army standards, then what is he doing there?

I would like to know whether this man would be sent overseas in his condition, or if he is entitled to a medical discharge.

Excuse me if I have taken up too much of your time, and thanking you for the information in advance, I remain

Respectfully,

MISS MARGARET CARDO.

Senator CLARK. The Government should either provide insurance for a man, or else give him an S. C. D. and turn him out of the Army.

Colonel O'BRIEN. We in the War Department feel, however, Senator, that if the Army doctors feel the man is fit and able to die in battle he should be able to get National Service life insurance from the Veterans' Administration.

Senator CLARK. Are there any further questions?

(No response.)

Senator CLARK. Thank you very much, Colonel.

Colonel O'BRIEN. Thank you.

Senator CLARK. Mr. Odom.

#### STATEMENT OF E. E. ODOM, SOLICITOR, VETERANS' ADMINISTRATION

Senator CLARK. Mr. Odom, I understand that General Hines was unable to be here this morning on account of another engagement?

Mr. ODOM. Yes.

Senator CLARK. Have a seat, Mr. Odom.

Mr. ODOM. General Hines wanted me to convey to the chairman that he could not be here, but that he considers these two bills which the committee is considering this morning to be two very important bills and on which he desires to be heard, if it is possible, before action is taken by the committee.

He will be available any time after this morning.

He has not had an opportunity to report on either bill this Congress although an adverse report was made on one identical bill last Congress.

Mr. Breining, the Assistant Administrator, will testify on the technical nature of these bills. I may only say that we hadn't anticipated any renewal of the proposition to extend another 120-day period for the purpose of applying for insurance inasmuch as all men in the service have had at least one such period—many of them, at least all of those who were in before December 20, 1941, had at least two, and many of them three periods during which they could apply for insurance—and those of you who were here at that time, although not all of the members of this subcommittee were here, will recall the Vandenberg amendment, Public, 360, Seventy-seventh Congress, the act of December 19, 1941, which declared a then congressional intent that "The Congress hereby declares that no further relief of such character will be granted."

I think the purpose of that as we understand it, was of course, to let men know that they must apply for insurance by a certain time, and those who are foresighted, at least, will do so.

Senator CLARK. Mr. Odom, the testimony, uncontroverted testimony up to date, has been that these men haven't had a chance in many cases to apply for the insurance, because they had not been apprised of their rights and opportunities as to the taking of insurance.

When a man is out in Guadalcanal, Iceland, or in north Africa, engaged in combat, he does not know what his rights are unless his company commander, or someone in authority, apprises him of them.

Mr. ODOM. I assume, Senator, that no man is sent to Guadalcanal or any other combat zone, without being in service in this country for more than 120 days. I assume that is true.

The other picture—the other side of the picture if it may be suggested, sir—is that the people who are not foresighted perhaps would take a chance if they knew that such privileges were to be extended again and again, and to the extent that they would deprive the insurance fund of premiums which otherwise would be payable if they applied within 120 days after they are inducted into service, it would be lost, and to that extent it would approach more nearly the nature of a gratuity, in that a man might apply just before going into battle, and pay one premium, in which event, of course, it would be almost entirely gratuitous.

On that feature, we feel that those in the service in this war are deserving of every consideration the Nation can afford to give them, but the question always recurs to our mind, when you are giving a benefit which is wholly gratuitous, should it be a contractual benefit, or should it be of the nature of a gratuity?

I am not going to say anything further because Mr. Breining, who has charge of the insurance of the Veterans' Administration, is here, and General Hines would like to be heard if possible.

Senator CLARK. Do you know whether the general can come tomorrow?

Mr. ODOM. Yes, he will be delighted to come tomorrow.

Senator CLARK. Are there any questions, Senator Walsh?

Senator WALSH. No.

Senator CLARK. Senator Millikin?  
 Senator MILLIKIN. No.  
 Senator CLARK. Senator La Follette?  
 Senator LA FOLLETTE. No.  
 Senator CLARK. Thank you, Mr. Odom.  
 Mr. Breining.

**STATEMENT OF HAROLD W. BREINING, ASSISTANT ADMINISTRATOR, VETERANS' ADMINISTRATION**

Senator CLARK. Will you identify yourself, Mr. Breining?  
 Mr. BREINING. Harold W. Breining, Assistant Administrator of the Veterans' Administration.

Senator CLARK. You may proceed.

Mr. BREINING. As you know, the original theory of Government insurance, and the theory that has been carried forward in all of the acts, was not to provide an additional gratuity, over and above the pensions which are now given for all men who die in the service in line of duty, but rather to restore to persons who enter the military and naval service, insurability which, for practical purposes, was lost to them because of their inability to pay the rates required for the waiver of the so-called war clause which all of the companies, or practically all of the companies, are now incorporating in their policies.

Senator CLARK. The military clause?

Mr. BREINING. Yes.

Now, restoring insurability means giving back to the man something which he either had or something which he would avail himself of. This insurance creates a contract right. When the Congress passes a law granting certain rights on insurance, in contradistinction to a gratuitous benefit, Congress, under the Lynch & Wilmer decision of the Supreme Court, practically loses control of further prescribing any restrictive conditions under which the insurance will be given.

There has been no question of the right to extend them but as to restricting the rights of the contracting parties, why, I think that is fairly well covered by the Lynch & Wilmer decision.

All the persons in the armed forces have a minimum of 120 days in which they could apply for this insurance since the declaration of war. Many who were in the service prior to December 1941 have had up to 360 days in which to apply for this insurance without physical examination.

There is no requirement as to any physical condition within the prescribed period.

Some men, where the service has been interrupted, have even had an excess of 360 days.

When considering the bill that was then pending for the granting of 120 days additional time to apply for insurance without physical examination to persons in the armed forces after the declaration of war, may I again call your attention to the fact, as has been already mentioned, that this committee wrote into that bill the provision that "Congress hereby declares no further relief of such character will be granted."

It wasn't put in as preamble, but as a postscript.

Senator CLARK. That is entirely correct, Mr. Breining. On the other hand, it is only fair to say that that provision was put in there on the assumption that these men would be apprised of their rights.

Of course, anybody who is familiar with the armed services knows that a man, particularly in Iceland, Guadalcanal, Alaska, or north Africa, and even to a large extent in the United States, does not know what his rights are unless his company commander apprises him of them and gives him an opportunity to take advantage of them.

Mr. BREINING. I would say that the measure of the manner in which they have been apprised of their rights would probably be reflected on the basis of the number of applications made.

I do not know what the strength of the armed forces is today, so that I cannot on a percentage basis tell you the proportion that have applied.

I can say that over 7,400,000 men have applied for and are covered by this insurance now, to the extent of \$52,000,000,000.

So that at least 7,400,000 men have been acquainted with the rights they have in regard to insurance. That is demonstrated by the fact that they have applied for the insurance. The average amount of that policy, on lives covered is almost \$7,000 in contradistinction to about \$2,000 which is the average amount of commercial insurance policies. So that if we are proceeding on the theory of restoring the rights of insurance to them, they have now about  $3\frac{1}{2}$  times as much per person as the average policy in commercial companies.

Senator MILLIKIN. May I ask a question here, Mr. Chairman.

Senator CLARK. Yes.

Senator MILLIKIN. Do you know what the exact mechanics have been that the Army has adopted to apprise men of their rights?

Mr. BREINING. No, I can't say. I have been to two camps, and I know the procedure there. It has been to have a lecture on insurance and then to ask them whether they wished the insurance, after the men were given an opportunity to question the lecturer.

Senator MILLIKIN. I can see where they might get the information to the men in a camp, but to get it to all the men in the field, that is a horse of a different color.

Senator WALSH. I think his insurance should be given him with his uniform.

Mr. BREINING. Well, that is a theory, but that theory is in contradiction to the theory upon which this insurance act was written.

Senator WALSH. That is true.

Mr. BREINING. Compulsory insurance was examined at the time the act was passed. It was thought of. Now, if another theory is to be developed, then it would seem that an entirely different law would have to be passed, because Congress in granting a gratuity heretofore has usually restricted the gratuity to the widows and minor children and the dependent parents.

Now, this insurance goes further than that. It permits the parents who are not dependent to get the insurance, and brothers and sisters.

Senator CLARK. Under the present theory, the only way these men would be properly apprised of their rights would be for the company commander to line them up and let a technical man, thoroughly familiar with the whole insurance system, explain it to them, and



have the captain harangue them and tell them that they ought to take the insurance, and then have the sergeant check up and keep after them until he is thoroughly satisfied that everybody in the company is thoroughly apprised of his rights.

If it has been impossible for the War Department, up to this time, and the War Department, for any reason, has not done it, or has not been able to pursue that procedure, then I say that those men have not been properly apprised of their rights and the Government ought to protect them.

Mr. BREINING. Everyone should be fully acquainted with his rights and fully advised as to their privileges. I don't think anyone would have any different view.

Senator CLARK. I can understand very readily that it might be difficult to go through that procedure with the men who are getting the hell shot out of them on Guadalcanal or in North Africa.

Mr. BREINING. The fact that we have 7,400,000 men who have applied for insurance, and who are now covered to an average sum of almost \$7,000 seems inconsistent with the idea that the men on a wholesale scale have not been apprised of their rights.

Senator CLARK. 750,000 apparently have not been sufficiently apprised. At least; they have not taken the insurance.

Mr. BREINING. Well, there are many men who even now probably would not take insurance. There is such a thing as coercing a man. What is being done in this war I can't say, but I do know from personal experience in the last war that a lot of men were coerced into taking insurance with the result that the Government expended great sums of money in a direction that I don't think the Congress would wish to expend it.

Senator CLARK. It was almost 100 percent in my regiment and I was very proud of it. I went to some trouble to see that that result was brought about.

Mr. BREINING. I plead guilty to the same thing, so I don't say this in a captious way, because I did the same thing, but as a result of that, we had amendments to the law where millions of dollars were paid to kinfolk, and I say kinfolk, because they did have a distinct blood relationship, but whom the men never saw, and whom the men in all probability, felt no moral obligation to do anything for, and many millions of dollars have gone to Italy, and other foreign countries.

Senator LA FOLLETTE. What percentage of the men in service in the last war took insurance, do you know?

Mr. BREINING. I do not know. It has been variously estimated as high as 94 percent. The records were not very accurate at that time. The maximum amount was stated as a little less than \$40,000,000,000 as against \$52,000,000,000 at the present time.

And the average amount of the insurance policy was stated as about \$8.70.

As you all know all of the men who were in the service prior to April 19, 1942, were covered by the \$5,000 gratuitous insurance if the death occurred because of a service-connected disease or injury.

Now, the Congress, by the act of July 11, 1942, extended this \$5,000 gratuitous insurance to all persons who were besieged or

captured for a period of 30 days which extended beyond April 10, 1912, and that extension is up to 6 months after they are released from their isolation or their capture or being besieged, so that those men are now covered.

In World War I no privilege was granted to secure insurance after the initial period of time, so that the provision to procure insurance under good health conditions in this act is more liberal than the original War Risk Act.

Now, upon representation of the representatives of the Army, that it was difficult if not impossible for men in a combat zone to be physically examined, the Veterans' Administration stated that for a 120-day period, which the Veterans' Administration is now extending up to June 30, 1942, so as to give ample time, the form might be filled out by the man himself, and in lieu of the medical examination, where a medical officer was not available, a certificate of his commanding officer that the man was in good health, would be taken; also, in staging areas, where it was impractical to have urinalysis and other scientific examinations which go with the ordinary company insurance examination, we would take the statement of medical officers, or in combat zones, where there were medical officers, but where it was impractical to give them the full medical examination, we would accept statements from medical officers.

So that, at the present time, and up to June 30 of this year, the man who is in the combat zone, does not have to undergo full physical examination, the statement of the medical officer or the statement of his commanding officer will suffice dependent upon existing conditions.

Senator MILLIKIN. But it is a statement that he is in good health.

Mr. BREINING. Yes.

Senator MILLIKIN. Which ducks the point that he should have the insurance, even though he be not in good health.

Mr. BREINING. Well, as I said, if it is to be the policy of the government that every man is to have insurance, rather than to have the opportunity to secure insurance, then I submit that the National Service Life Insurance Act as now written, should be completely revised to change that policy, so that the law will be consistent with the policy.

The policy of having a contract insurance on the basis which is stated in the National Service Life Insurance Act and which generally follows insurance practice, is not consistent with gratuitous insurance, nor compulsory insurance.

So that, if there is to be a change in policy, it would seem that the whole insurance set-up should be reexamined on that basis.

One of the reasons for not being favorable to compulsory insurance was the psychological effect. It was hoped that the men would continue this insurance throughout their lifetime.

As stated, during the last war, the men took insurance almost under duress, as a result of which less than 10 percent of the men continued their insurance after leaving the service.

As a matter of fact, after the armistice, I believe that most of the men, then being free of atmospheric restraint, dropped their insurance, and no longer carried it.

In the opinion of those who considered the original law it is much more advantageous to the man if he took this insurance and was

sold on the value of the insurance, that if he himself, was made to realize the desirability from his standpoint and the standpoint of his family, of carrying the insurance, rather than having it forced upon him.

Now, this insurance during the wartime, will probably be, to a great extent, a gratuity.

I base that conclusion on the experience of the last war. In the last war about \$454,000,000 was collected in premiums on the war risk insurance.

The obligations of the Government to pay were about \$2,270,000,000.

So that there is a net loss of over \$1,800,000,000. It is hardly likely that the Government will fare as well in this war because, while this insurance is mutual insurance, the Government has undertaken, not only to pay the administrative expenses, but also all expenses incurred because of the extra hazards of military and naval service, and it is safe to say, I believe that, a great bulk of the loss during the time the man is in service, will be due to the extra hazards of military and naval service.

Then as to compulsory insurance, the question is raised should the Government assume an obligation to pay certain persons whom the man, himself, may have felt no inclination to protect over and above the pension benefits, and I would like to impress the fact that everyone of the statutorily recognized dependents of these men who die from a service-connected wound or disease have entitlement to receive a pension whether he has insurance or not.

Senator CLARK. There is nothing in this bill of a compulsory nature, though, Mr. Breining.

Mr. BREINING. No; not in this bill, but I mention that because Colonel Harrell did advocate it, if I understand him correctly.

Senator CLARK. I am in favor of that, myself.

But that has nothing to do with this particular bill.

Mr. BREINING. Now, at the present time, as you know, all men may secure this insurance if they are in good health.

But, if there is a further extension of insurance, especially after the congressional declaration in that act of December 1940, it is not unlikely that the men will believe that there will be still another further extension—because if it is further extended once, they will expect it to be extended twice, and so on, and it may prove a deterrent, at least to some men, in taking out insurance, because they may feel they can get it at any time, and instead of taking it out when they enter the Service, or immediately thereafter, they will wait until when they are going to embark upon some dangerous or hazardous undertaking, and in that event, if the Congress were to pass this 120-days and not further extend it, those men would find themselves in the same position as men now alleged to find themselves.

Senator CLARK. We are not so much interested, Mr. Breining, in the theoretical proposition of whether the men should have taken it out when they first entered the Service, and whether they should have been fully apprised of their opportunities.

But, we are particularly concerned with the hundreds of thousands already in the Service, many of them in actual combat, who are unprotected, and whom we think ought to be fully apprised of their rights, and given an opportunity to take it.

Mr. BREINING. Of course, the number of men in the Service who do not know or did not know their rights to take insurance, I believe, is a matter of conjecture.

I cannot say.

Senator CLARK. I put a great deal of credence in the testimony of the Army officers who are in a better position than anybody to know the facts, nobody would have any particularly accurate figures on the thing, but certainly the War Department is in a position to form some, even if it be a conjecture, some rather accurate conjecture rather than broad general lines.

Mr. BREINING. On the other hand, we do have the fact that a great majority, almost 7,500,000 men—7,400,000 men, have taken that insurance.

It is hardly likely that these other men would be sprinkled in with the others and have not heard about the insurance.

Now, it is true that insurance is generally sold rather than bought.

The average man has insurance stuffed down his throat.

Now, whether these men had sufficient high-pressure salesmanship thrust upon them to make them take insurance is another question.

Personally, I hardly think that many of the men have not heard of insurance, nor know of the right to apply for it. As a matter of fact, my own personal experience in the last war was this: That the hardest place I had to sell insurance was right up in the front line trenches to men who had been in the Regular Army.

There are many men in this army who are single and unquestionably, do not want to take any insurance, do not feel any obligation to anyone to carry insurance.

Whether those persons have not been or should be, by one means or another, forced to take the insurance, that is a question.

Senator WALSH. How many men are there in the armed services?

Mr. BREINING. I do not know, Senator.

I have heard various numbers stated.

Senator WALSH. We all have.

Mr. BREINING. While I do not know how many men are in the armed services, from the statements that have been made, in contrast to the seven-million-four-hundred-odd-thousand lives that the Veterans' Administration has insured under National Service Life Insurance, it would seem that a very, very few hundred thousands have not taken insurance; and, incidentally, we have about 159,000 men in the armed forces who are still carrying the Government life insurance because of their eligibility which was acquired prior to October 8, 1940.

Senator MILLIKIN. How would it be to automatically write up insurance for every soldier but give him the privilege to sign a written disclaimer?

What would be your observations on that?

Mr. BREINING. Well, as I understand the Army regulations, and I stand to be corrected, it requires that there be written in the service record the statement that the man has had insurance explained to him, and does not desire to take it.

Senator MILLIKIN. You can explain something to me, or I can truly say that I have explained something to you, but that does not mean—it would not follow that you understand, and it would not follow that I, myself, would understand what I explained.

Mr. BREINING. I think that is true.

Senator MILLIKIN. I would like to have your observation directed to the specific point. How would it be to insure every man and give him an opportunity to file a written disclaimer?

That would do away with the question of, Did he receive notice?

Mr. BREINING. That is approaching the same subject from a different angle. One is a presumption that he wants insurance, and that would be more or less of an administrative mechanical proposition of writing up an application and asking him to sign it, or make him write across it, that he does not want this insurance.

We have, in our files of the Veterans' Administration not one, but several letters which we have received from the kinfolk of men in the service, to the effect that the men have not been afforded the opportunity of getting the insurance.

We have forwarded those letters to the Adjutant General of the Army with the request for information and have received the reports from the Adjutant General of the Army that the commanding officers of these men have been contacted, and that the men did not desire to take insurance.

Senator MILLIKIN. Of course that is a piecemeal approach.

Mr. BREINING. Oh yes, yes.

Senator MILLIKIN. I am talking about writing up every soldier and giving him the opportunity to make a written disclaimer.

Now, the objection occurs to me is that you are without a man's consent, putting a charge on his pocketbook in the first instance.

He can disclaim that charge, but you are simply making a charge on his pocketbook without his advance consent.

That is not a substantial objection because he does have the right to disclaim.

Mr. BREINING. In other words, a man, as I understand it, would be presumed to have applied for \$10,000 of insurance upon entry into service.

Senator MILLIKIN. The minute you go into service you get your policy, unless you disclaim it.

Mr. BREINING. Of course, that again gets into an entirely new theory, Senator, from the original theory of the 1917 act.

Senator MILLIKIN. I must say to you that I am not overly impressed with all this talk about theories.

When a man spills his guts on the sands of north Africa, that is no theory; that is a fact.

Mr. BREINING. No; it is not a theory. That is a fact.

But while a billion may not seem at the present time to be much money, I comprehend that probably after the war, it may be considered as representing a quite sizable sum, and this insurance is a continuing obligation. Now whether the Congress wants to obligate the country to pay out a large amount of money beyond the class which Congress has heretofore considered that they had any obligation to, that is to fathers and mothers who are not dependent; children who have reached their majority, and brothers and sisters who are not dependent, if the Congress is of a mind to change the whole theory and say that we will give this man gratuitous insurance, and gratuitous insurance is really superimposing another pension, the same as compulsory insurance is, then it would seem that Congress would want to reexamine the proposition on the basis of to whom they wish that money to go.

Do they wish to pay out a portion of these billions to persons that have never heretofore been recognized as being dependents of the man?

Senator CLARK. Are there any questions, Senator La Follette?

Senator LA FOLLETTE. No.

Senator CLARK. Senator Millikin?

Senator MILLIKIN. No.

Senator CLARK. Senator Walsh?

Senator WALSH. No.

Senator CLARK. Thank you very much.

Mr. BREINING. Do you wish me to speak, too, on the 3-percent bill?

Senator CLARK. General Hines will be here in the morning and we will take that up at that time.

Senator MILLIKIN. May we have the cost statistics in support of this bill introduced in the record?

Mr. ODOM. If that is desired, I will speak to the general, and try to have that in the morning.

Senator CLARK. Very well.

Mr. Ketchum.

Just be seated, Mr. Ketchum, and identify yourself for the record.

#### STATEMENT OF OMAR B. KETCHUM, LEGISLATIVE REPRESENTATIVE, VETERANS OF FOREIGN WARS

Mr. KETCHUM. Mr. Chairman and gentlemen of the committee, my name is Omar B. Ketchum, and I represent the Veterans of Foreign Wars of the United States.

I think this committee will recall that in December 1941, representing this organization, I appeared before your committee in company with other representatives of veterans organizations, asking that a 120-day extension be granted in order to give thousands upon thousands of men in the service who had not yet taken advantage of it, opportunity to secure this life insurance, and when the Congress so generously went along with us, we felt that the situation would be cleaned up, that it would be taken care of, and that the War Department would exercise all of their facilities to make this information available to these men who did not have this insurance.

Now, we are back here today asking for another 120-day extension. I think, frankly, in answer to the arguments that have been presented by the representatives of the Veterans' Administration, that we might just as well take the gloves off and lay the cards on the table and tell you why we are back for another 120-day extension.

The failure lies particularly within the War Department because their insurance set-up during that previous 120-day period was not adequate, was not set up to properly acquaint and inform these men of their new opportunity to take the insurance, and I think the War Department officials will honestly admit that they were not in a position at that time to take full advantage of that additional 120-day extension which was granted to give these men an opportunity to take this insurance without medical examination.

I think the figures will clearly show—if they were to be presented by the War Department, that approximately 750,000 of these men have not yet been insured, and of that amount, I will make a guess, which I think is rather accurate, that at least 200,000 of those men

are overseas, many of them either on the battle front or moving up to the battle fronts.

I like what Colonel Harrell said here a few moments ago. It was the purpose and the intention of Congress when this law was passed to provide insurance for these men.

Now, it is not a question as to why they haven't taken advantage of it yet. It is a question of whether they have been properly advised as to their rights and have been encouraged to take this insurance.

The Congress wants them to have it.

Something was said, I believe it was the representative of the Veterans' Administration, that already over 7,000,000 men have taken advantage of this insurance.

Well, you can't tell me that if you extend this for another 120 days to permit the few hundred thousand who have not taken it to take that insurance, that it is going to bankrupt the insurance fund.

We want them all to have insurance.

Now, in my opinion, the War Department today is in an excellent position in their insurance division to carry on a campaign and to take real advantage of a new 120-day extension if the Congress will grant that right.

Most of us who are familiar with Government insurance problems know that the insurance division in the War Department has recently been reorganized.

They have a very able man—who testified here a few moments ago—a man who knows his business, and who has devised a set-up that will get the job done.

And, as a matter of fact, they have been getting the job done.

These men that we are pleading for today are not the new men that are coming into the service. I think the records will show that in the staging areas now over 98 percent of all the men who are coming in are being sold this life insurance. Previously they were not.

I am talking about a large group of these men who have been in the service for a long time, and who originally did not take this insurance because many of them felt that it was peacetime service, it would only be a matter of a year before they were out of the service. Since that time more have come along.

The first 120 days had elapsed. The second 120 days were granted, but the War Department was not sufficiently organized to get the proposition to them.

Now, they are in a position to do it, they are organized, and they will get the job done.

Senator CLARK. Would you say the fact that these men have had a very substantial increase in that interim, would have anything to do with their purchase of insurance now?

Mr. KETCHUM. I would think so, Senator. Of course, I don't have the statistics, but I do have some figures here that I think will be interesting to show you what the trend has been under this new insurance set-up.

For example, on June 29, 1942, the average insurance per person in the armed forces was \$4,594.

On September 28, 1942, that had risen to \$5,122 per person.

On December 28, 1942, the average had risen to \$5,790.

And on February 22, 1943, the average amount of insurance per person was approximately \$6,181. That is definite proof that the War Department Insurance Division is actively at work.

The question was raised a few moments ago as to why these men had not been properly informed when they came into the service and taken advantage of that first 120 days.

I think either Colonel Harrell or Lieutenant Colonel O'Brien will tell you that, in the early days, the system used in the induction centers and the staging areas was completely inadequate; there was insufficient time, they were rushing the men through, and about all a man was told was that he could get this insurance if he wanted it, but there was no definite encouragement, no explanation.

Now the proposition is entirely different; they are using all of the experience and intelligence of the Insurance Division to properly inform and acquaint these men, and the fact that they are getting 98 percent of them now proves this will not be a continuing problem, that it is a problem that dates back to these hundreds of thousands of men who are not properly informed.

Senator CLARK. You don't have to stick a man with a bayonet to take insurance if you adequately inform him, do you?

Mr. KETCHUM. No.

The representatives of the Veterans' Administration say they have made certain concessions. If you look over that medical questionnaire that thing is onerous to anyone, even in the comfort of an office in Washington, much less attempting to fill the thing out in some combat area. I doubt if I could fill it out correctly.

It specifically advises the man that if he makes any misstatements, that if any statements appear to be willfully wrong, he can be prosecuted on the thing. Now, can you imagine one of those boys in north Africa, or in Guadalcanal, or in New Guinea, sitting down in a fox hole trying to fill out that form—that four-page questionnaire, giving his own personal medical history?

I say "No." We are not trying to give them something for nothing, but we do believe they should have an opportunity; if they are fit for duty they are fit to be insured, and, under the circumstances, a statement from their commanding officer, under this 120-day period, that they are fit for active duty should be satisfactory evidence, and they should be permitted to apply for this insurance, and upon payment of the premium be given insurance.

I will close with this one thought: It was our first thought that perhaps the best way to handle this matter would be by the presentation of an amendment which would permit a man to take this insurance any time his immediate commanding officer stated or certified that he was fit for active military or naval duty.

On second thought, however, we believed that that was carrying it a little too far, it might encourage the man to postpone taking the insurance until he arrived some place, where he thought the danger might be just a little more immediate, and in so doing, he would jeopardize the rights of his dependents, but by handling it this way, granting the 120-day extension, the War Department will make a real campaign to sell them, and we certainly hope that the Congress will



see fit to again grant this 120-day extension, so these men may have an opportunity to be adequately informed and to apply for this insurance and be protected.

If there are any questions I will be glad to answer them.

Senator CLARK. Are there any questions?

Senator LA FOLLETTE. No.

Senator CLARK. Any questions, Senator Walsh?

Senator WALSH. No.

Senator CLARK. Any questions, Senator Millikin?

Senator MILLIKIN. No.

Senator CLARK. Thank you.

Mr. Sullivan.

### STATEMENT OF FRANCIS M. SULLIVAN, EXECUTIVE DIRECTOR, NATIONAL LEGISLATIVE COMMITTEE, AMERICAN LEGION

Mr. SULLIVAN. Gentleman, my name is F. M. Sullivan; I am the national legislative representative of the American Legion.

The Legion has been very much disturbed by this entire insurance question for a number of months. The War Department, as Mr. Ketchum has told you, has not had an adequate number of officers and personnel to do the job properly.

Today they do have. The Insurance Division is under the leadership of two very able officers and we are sure that from now on, for the next 120 days, the men will be provided with information.

As I say, they have not had, in the past, adequate personnel. In November our national commander addressed a letter to the Secretary of War pointing out that there were a number of men who did not have insurance.

Thereafter, the Secretary of War issued a directive to the commanding officers, in effect, asking that more attention be given to apprising the men of their insurance rights.

We feel that S. 903 will benefit a number of men now in the combat zone, a number of men who did not have the opportunity, or even neglected to apply for insurance, who are being hospitalized after being in the combat zones. We think those men are entitled to insurance.

There is another group that will benefit, too. Our national rehabilitation director took up with the Veterans' Administration the question of whether or not a man with poor sight or poor hearing would be denied insurance, even though he was fit for combat duty. The letter says that he would be denied such insurance. We think that is ridiculous.

Senator CLARK. Will you include that letter in the record.

(The letter referred to is as follows:)

VETERANS' ADMINISTRATION,  
Washington, D. C., March 10, 1943.

Mr. T. O. KRAABEL,  
Director of Rehabilitation, the American Legion,  
Washington, D. C.

MY DEAR MR. KRAABEL: This has reference to your letter of March 4, 1943, in which you make inquiry as to whether certain applications for national service life insurance are being denied because of the prior existence of syphilis and certain defects of sight and hearing.

As you know, all persons entering the service have a period of 120 days within which to obtain insurance without physical examination, and thereafter it is necessary that such persons submit to a physical examination and meet the test of good health as defined in Administration regulations.

Every effort is made to apply liberal construction to the definition of good health but there are certain defects of sight and hearing which do not warrant a determination that the person applying meets the test.

While, as stated, there is no permanent and total disability clause involved in these contracts, there is a waiver clause whereby premiums are waived in the event of the existence of a total disability for a period of 6 months or more, and obviously persons with disabling defects of sight and hearing are more liable by the loss of the use of the other organ to become applicants for this waiver provision than other persons in good health who meet the requirements of the definition of good health.

In connection with the question of issuing insurance to those who have had syphilis, you are advised that this matter is being restudied at the present time to determine if it is feasible to in any way modify the policy regarding the disease, and you will be advised further upon the rendition of a final decision regarding the matter.

Very truly yours,

FRANK T. HINES, *Administrator.*

Mr. SULLIVAN. Therefore, we hope that the bill will be favorably reported at the earliest possible date.

Now, there is just one point I want to make about Mr. Breining's testimony.

He gave the number of applications. I don't think that is the true criterion.

For instance, a man may submit an application, then desire additional insurance, and submit another one, and still a third application for additional insurance.

Therefore, there would be three applications for one man. So, the number of applications does not show the number of men carrying insurance.

Senator LA FOLLETTE. I understood Mr. Breining's testimony to be that that was the number of lives they had insured. Which is correct?

Mr. BREINING. That is correct, Senator. It was the number of lives. The number of applications run up almost 8,000,000.

Mr. SULLIVAN. I did not understand that. I thought he gave the number of applications and that, of course, does not give the true picture.

Gentlemen, with that I will conclude my testimony, unless there are some questions.

Senator CLARK. Are there any questions?

(No response.)

Senator CLARK. Thank you.

Mr. SULLIVAN. Thank you, gentlemen.

Senator CLARK. Mr. Rice.

#### STATEMENT OF MILLARD W. RICE, NATIONAL SERVICE DIRECTOR, DISABLED AMERICAN VETERANS

Mr. RICE. Mr. Chairman and gentlemen of the committee, my name is Millard W. Rice. I represent the Disabled American Veterans, a congressionally chartered organization composed exclusively of American citizens who have been either wounded, gassed, injured, or disabled while serving actively in the armed forces of the United

States, or of some country allied with the United States, during time of war.

There is very little that can be added to the excellent statements made by the national legislative representatives of the Veterans of Foreign Wars and the American Legion, in which statements I fully concur.

I do want to point out, however, that both the chairman of this committee and the representative of the Veterans' Administration boasted of the fact that they had persuaded 100 percent of the members of their respective troops—

Senator CLARK. Not quite 100 percent.

Mr. RICE. I thought it was 100 percent. Practically 100 percent of the members in the respective troops to take out insurance, which demonstrates the fact that sufficient persuasive power and the opportunity to do so, will persuade all of those in the active armed forces to take out Government insurance, and which, therefore, supports the statements that have been made that thousands of men have not really been sufficiently apprised of their opportunities nor given opportunity, sufficient opportunity to take out this insurance.

However, I believe it would be desirable that further consideration to the specific language of this bill be given so that those men who have already been wounded in action and who had not previously taken out Government insurance might be given at least 120 days to take out such Government insurance.

This bill, as I read it, would not give them that opportunity because there could not be any certification by their commanding officer that they were fit to perform military or naval duty.

It seems to me that they ought not to be penalized because of the fact that circumstances brought about the fact that they are already suffering with handicapping disabilities which would make them unfit for military duty, for they may have been in exactly the same condition of not having been sufficiently apprised as to the desirability of taking out insurance.

I have not worked out the specific language to effectuate that, but I believe that it would be justifiable to give any man in the service, no matter what his condition may be, on the assumption that he would not be in service unless his physical condition were good, an opportunity of at least 120 additional days to take out insurance without an examination, and that, thereafter, he should have the privilege of doing so on the basis of a certification from his commanding officer that he is fit for military service, or, conceivably, following the suggestion made by Senator Millikin, that it be made applicable to all, unless they specifically decline to be covered by such insurance.

I might call attention to the fact that I previously made the suggestion to the chairman of the Committee on Military Affairs, when they were considering the matter of increased pay for members of the armed forces, that one factor of that increased pay should be automatic insurance for every man in the armed forces.

I do believe every man should be given \$10,000 automatic insurance during the time that he is in military service, and I hope that that may still come to pass, but in the meantime, there is the necessity of enactment of some such bill.

I urge that the committee give careful consideration to such change in the bill as will enable the already disabled or wounded man to have at least 120 days in which to secure the desired insurance.

Thank you.

Senator CLARKE. Any questions?

(No response.)

Senator CLARKE. The committee will take a recess until 10:30 tomorrow morning.

(Whereupon, at 12:20 p. m., the committee recessed until 10:30 a. m., Friday, March 26, 1943.)

## TO AMEND THE NATIONAL SERVICE LIFE INSURANCE ACT

FRIDAY, MARCH 26, 1943

UNITED STATES SENATE,  
SUBCOMMITTEE ON VETERANS' LEGISLATION  
OF THE COMMITTEE ON FINANCE,  
*Washington, D. C.*

The subcommittee met at 10:30 a. m. pursuant to adjournment, in room 312, Senate Office Building, Senator Bennett Champ Clark (chairman) presiding.

Senator CLARK. The committee will come to order.

Mr. Rice, did you want to suggest a modification of this bill, S. 903?

Mr. RICE. Yes; I did.

Senator CLARK. You may proceed.

### STATEMENT OF MILLARD W. RICE, NATIONAL SERVICE DIRECTOR, DISABLED AMERICAN VETERANS

Mr. RICE. When I was on the stand yesterday, Mr. Chairman and gentlemen of the committee, I stated I had not worked out the language to execute the purpose that I proposed, that is, that the bill be so amended as would make possible the granting of insurance to those men who had actually been wounded or disabled.

That purpose could be effectuated if the language at the top of page 2 as follows were deleted:

And certification signed by his immediate commanding officer stating that the applicant is mentally and physically fit to perform military or naval duty and—

If that language were deleted from the bill, then that would mean that there would be given 120 days to everyone still in the service within which to take out this insurance without any certification of being physically fit for further service, and we believe that the man who has already been wounded should be given an equal opportunity with the one who has not to acquire such insurance.

And to make sure that there won't be a legal interpretation to rule out those who had made application prior to the application of this law we believe that it would be advisable that the words "heretofore or" be inserted after the word "made" in line 10 on the first page, so that any application submitted prior to the enactment of the bill might still be considered a pending application.

Senator CLARK. What is that suggestion again?

Mr. RICE. That the words "heretofore or" be inserted immediately after the word "made" in line 10 of the first page.

Senator CLARK. Very well.

Mr. RICE. Thank you.

I wish to have the opportunity of testifying on the other bill when that is taken up.

Senator CLARK. Yes.

General Hines.

#### STATEMENT OF BRIG. GEN. FRANK T. HINES, ADMINISTRATOR OF VETERANS' AFFAIRS

General HINES. Mr. Chairman and gentlemen of the committee, this bill that I desire to be heard on is S. 903 which has not, up to the present time, been cleared by the Budget, so I am unable to state to the committee what the attitude of the President would be on the bill in relation to his policy.

I do feel, Mr. Chairman, that this matter is of sufficient importance to ask you to permit me to testify on it in order that the committee at least will have a clear understanding of what it is proposed to do.

Senator CLARK. We are always glad to have you, General.

General HINES. In order to do that I feel that I probably should go a little further than just the language in this proposed amendment. In other words, the committee should give consideration in the first place to what we started off to do with the national service insurance. In the first place, it was the intent of Congress, I am sure, and what the people undoubtedly would wish us to do, to establish insurability for these men who are taking the risks in the services. Now, if we are to have insurance we certainly should have it on an insurance basis, and a business basis. If we are going to make it a gratuity, then we should make it a gratuity. But I do not feel that we should undertake to make it a gratuity under the label of national service insurance.

Following the usual stand that I take before these committees, Mr. Chairman, I am not opposing this legislation. I am unable to tell you what would be the Administration's view on it. But I do feel that so far as national service insurance has gone up to date, that while an excellent job has not been done, yet certainly a good job has been done. Nothing would please me more than to see all of the men in the service take out the maximum amount of that insurance, but there are some men, not only with insurance but with other things, who have their own view and are neglectful.

The Congress, and you, Mr. Chairman, yourself, have been very generous in your treatment of this matter of insurance. As we look back over the picture, the Congress itself, in order to make sure that these men who may have suddenly found themselves in combat areas without previously having had the thought that they were going into war, were covered as you granted them automatic insurance covering all of them; and you put in an extension of 120 days and announced it would be the policy of Congress in these words:

The Congress hereby declares that no further relief of such character will be granted.

That was in passing the act of December 20, 1941, which granted an additional 120 days without physical examination.

Now, if this bill only dealt with those men in the combat zones I would say go ahead and do it, but this bill will bring in, if they do not neglect again, all of those who have physical defects, who can-

not qualify for insurance, not overseas. I have no doubt that those men serving in the combat zones are physically able and could meet the requirements.

Senator CLARK. General, what do you say about the suggestion made here yesterday by the representatives of the War Department that there are certain classes of men who are held eligible for combat service, particularly in aviation, who by reason of hypertension, I believe it is called, are held by the Veterans' Bureau not to be eligible for insurance?

It does seem to me that any man who is carried on the morning report for duty and is in good enough physical condition to perform the duties of a soldier is entitled to insurance by this Government.

General HINES. He may still be carried on the morning report for duty, Mr. Chairman, and may be in the process of going out rather than going into combat, and there may be men who will never get into combat, who probably will be serving in positions that are perfectly safe; but I am willing to go that far, Mr. Chairman, where the commanding officer of the unit is willing to say that this man is physically able to be a soldier. Now I am talking about those who it is claimed are being killed in combat and who have had no opportunity to take insurance. I am sure that they have had an opportunity. I am not sure that they paid much attention to it in the beginning.

Senator CLARK. General, you know just as well as I do, as I said yesterday, that the only way these men can really be apprised of their rights, in many cases, and have the advantages of insurance pointed out to them, is for the regimental commander to keep after the company commander, and the company commander to keep after the sergeant, and really apprise the men.

General HINES. Well, Mr. Chairman, I am sure you are right about that.

Senator CLARK. You know that is true.

General HINES. I know it is true, and I know what is being done now by the officers in the War Department. Mind you, as these men that are being killed without insurance, the score isn't so bad on that, Mr. Chairman. I think perhaps some testimony has been given the committee without accurate information.

For instance, in order that I might be able to give you something and, of course, this is a small number out of a large total, but it does indicate it, a study of 1,485 cases of deceased veterans of World War No. 2, whose death occurred on or after May 1, 1942, and whose dependents are receiving death benefits, indicates that in 210 or 14.4 percent of cases no insurance has been awarded. Of the cases wherein insurance is being paid, national service life insurance payments are being made to 1,197, which is 80.61 percent, and 78 or 5.25 percent under the regular United States insurance. In other words, close to 86 percent. So that I cannot feel that the record is as astounding as it has been made out to be.

However, I do urge, and have urged from the very beginning, and I think the War Department representatives so told you, that the War Department and the Navy Department make known to these men the opportunity of this insurance from the inception. Some did. Some didn't. Probably every man didn't have the opportunity, and I can readily understand why. We were in a rapid mobilization, where the

primary thought, undoubtedly, of the General Staff was to get manpower, get them equipped, and get them trained. Insurance to the combat officer is just a piece of paper work. He is not thinking about that man being killed. He is hoping that he won't be killed. He is thinking of equipping and training that man.

So I wouldn't, under any condition, indicate that the War Department didn't do all they could have done.

Senator CLARK. As I said yesterday, nobody is criticizing the War Department, because everybody recognizes the titanic job that the War Department had before them, but the War Department comes in, through its authorized spokesmen, and they say that they didn't have an organization when we passed this extension of 120 days that was capable of completely doing the job, but that they have such an organization now, and for that reason the War Department has recommended this extension.

I voted for this proviso, the Vandenberg proviso that you read just a moment ago, and being in charge of the bill I was glad to accept it, but it does seem to me that there has been a change in the situation when we are informed by the War Department itself that they haven't as yet been completely able to do that job but now have an organization which will enable them to complete it within an extension of 120 days. It seems to me that that changes the situation sufficiently to justify a variation of the policy.

Of course, when I voted for that declaration of policy I didn't apprehend that Congress would permanently tie its hands if there was a change in the situation which justified a change in the policy. And while I am talking, General Hines, let me say, and I don't think it is necessary for me to repeat it, because you have heard me say this before, but, as far as I am concerned, I never have been willing to make a distinction between a man that gets killed or disabled in combat and a man who gets killed or disabled in the uniform of the United States in some other way. I think I have said before here that the first man I saw get killed in the last war got killed by being run over by a four-mule team pulling an ammunition wagon, but he was just as dead as the man killed anywhere else; and I have never been sympathetic with the view of making a distinction between a man who gets killed or disabled in combat and one who gets killed or disabled some place else.

General HINES. I make no such distinction, Mr. Chairman. Those men still within the continental limits of the United States have the opportunity of getting insurance. Now, what this bill does, it grants all of them insurance without any physical examination and would give insurance to those men who have been rejected. Now, I can't believe that the Congress wishes to do that. They have undertaken to have an insurance fund and the provident man, who has taken insurance, is building up a reserve in that fund. It is true that the Government is going to have to pay tremendous losses, all of the combat losses will have to be appropriated, and the administrative cost. But it would be far better, Mr. Chairman, if we are to continue the extension date, to simply say in this, that we are going to grant to every man \$10,000, or to his dependents, rather, when he dies, than to attempt to build up that fund under the business principles of insurance and then take in impaired risks.



I have no doubt that many men, due to the energy which the War Department is showing now, the work which Colonel Harrell and his assistants are doing, will wake up and many of them will take examinations and be granted insurance. We already have indicated to the War Department that if the commanding officer at those points where they were unable to get adequate examination would certify that this man was in a duty status and physically able, that we would accept that in lieu of a complete physical examination, and I still feel that if you want to do anything it would be better to follow some such rule as that than to take in, in the United States, and mind you, I don't know the proportion, and if I knew it I probably couldn't state it to the committee, the number of men actually overseas, but I am confident that of the Army of 8,200,000 that a large part of them must still be in the continental limits of the United States, or in places where they can readily apply for insurance.

Now, I think the committee should consider these data. I don't want to burden the record with much of it. But mind you, we have had, up to March 25, 7,983,500 applications.

Senator CLARK. General, let me ask you about that. How many of them came in in the last 2 months? I am informed that the last report the War Department had from the veterans showed 5,000,000 over-all figure for the Army and the Navy.

General HINES. We have had months equal, I think, to the last month. We could give the committee a statement. But it stands to reason that what the War Department is now doing, urging every commanding officer to see that these men are insured, is increasing the number of applications. We expected that.

Senator CLARK. How closely does the Veterans' Bureau keep the War Department advised of the matter?

General HINES. There is no reason why they shouldn't be advised every day.

Senator CLARK. That hasn't been done in practice, has it?

General HINES. No; that is not the regular practice.

Senator CLARK. I am told the last report they have is for January.

General HINES. Well, it must have been because they didn't ask for it. We don't scatter this information around. Unless people are interested, and have a right to have it, we don't give it to them.

Senator CLARK. The War Department is certainly interested and certainly has a right to have it.

General HINES. Certainly, and they know exactly how to get it. But we also know it doesn't take much of a mathematician on the other side to take the data I am giving you and add it up and make some pretty competent deductions.

It is true we have been receiving a larger number of applications during the last month. Is that not true, Mr. Breining?

Mr. BREINING. I could give it to you starting with last March. That would give you a full year.

March, 403,500; April, 519,000; May, 247,000; June, 319,000; July, 313,000; August, 427,000; September, 507,000; October, 564,500; November, 626,500; December, 601,000; January, 622,000; and February, 676,000.

We have not withheld any information from the War Department. The last regularly compiled statement we had was for January and

we furnished it to the War Department. Immediately upon getting the report, in the afternoon before yesterday, that there was going to be a committee hearing, we had a special tabulation made, and that is the reason we have more up-to-date information than the War Department.

General HINES. Now, Mr. Chairman, we have on the books as of the date I have given, March 25, \$52,710,000,000 of insurance, averaging almost \$7,000 per life, and the number of lives insured is 7,440,622. I feel that that is a good showing of insurance. I am confident that it is much greater in total than we had in the World War, and I am glad that it is.

Senator CLARK. Of course, you have a lot more men than you had in the last war.

General HINES. That is true, but I am taking the number that are actually in. Now, mind you, the speed with which we get applications bears a direct ratio to the speed with which these men are called into service.

To show our efforts on this matter, with regard to those men who probably did not know that they were going to be in a combat zone, we received reports of thousands of applications by radio from General MacArthur at Bataan.

I don't know what the comparative data is from the Navy Department. They are interested in this legislation, undoubtedly. I don't know whether the views of the witnesses that you had from the War Department represent the view of the War Department.

Senator CLARK. I will state for the record that I am informed by the War Department that Colonel Harrell and Colonel O'Brien have been designated as spokesmen for the War Department on this matter. That is correct, isn't it, Colonel Harrell?

Colonel HARRELL. That is correct, sir.

General HINES. I have no objection to the War Department taking a stand on it. Of course, the policy of the national service life insurance, as we understood it, was to be guided by the agency that is charged with the responsibility of administering and getting the money. I will support legislation which will take in good risks.

By that I mean that if this thing is to be opened up to take in impaired risks, then we are departing from insurance principles.

Now we are not going to urge the Congress to do something they do not wish to do. You know best. The attitude of Congress has been, and I think it is reflected in all of us, that we want to do everything we can for the men who are now in service. You must keep in mind, however, that many of these men are single men. They are bound to be because the Army has been endeavoring to get young men.

The committee might be interested in knowing, I think, to what group these benefits have been going, because we are all apt to think of the widows and the children and no one else. Now, up to December 31 we had adjudicated a total of 6,850 awards under insurance. Of that number 1,646 went to the widow, 4,054 to the parents, 765 to the children, 281 to brothers and sisters, and in scattering numbers combinations of those classes mentioned.

Senator MILLIKIN. General, could I bother you to read that again, please?

General HINES. Yes. Of the 6,850 awards made as of December 31, 1942, 1,646 were awards made to widows, 4,054 were to parent or parents, 765 to child or children, and then we had brothers and sisters or combinations of widow and child where we only had 9; child or children, parent or parents, and widow, 35; sister or brother or combination of both, 57.

Senator CLARK. General, it is fair to say, isn't it, that most of these single fellows are probably interested in making some provisions for their mothers even though their father is alive, they figure that if they are killed it will remove a certain amount of support from their mother when their father dies, isn't that so?

In my regiment I would say that three-fourths of the men made their insurance payable to their mother. I know I did. I wasn't married at the time. I would say that three-fourths of the boys in the regiment did. Most of them were unmarried. They were all anxious to make some provision for their mothers.

Senator MILLIKIN. Mr. Chairman, I don't shrink from the fact that parents have a financial interest in their children. Before we got into the habit of dumping our most intimate problems on Uncle Sam it was assumed that children would take care of their parents when they became old. I am delighted with the statistics that General Hines read.

General HINES. I would urge every man, single or married, or with dependent parents, to take out insurance. I think it is a fine thing for the young man. But I am not in favor of compulsory insurance because when you put the pressure on these men they hold the insurance until the war is over and then proceed to drop it. We had a good example of that in World War I where they immediately dropped this valuable insurance upon discharge or even before.

I would simply like to suggest to the committee that if you feel impelled to bring out some legislation to cover those that you have in mind, and that is those who are able-bodied and giving or going to give service, not those who have applied and have been rejected physically and sooner or later will be discharged, the Army will act on those cases and will act on them rapidly, that you should do something along that line.

I can't believe that we should, under the label of insurance, attempt to take in impaired risks. If we wish to make some other award to them, I am perfectly willing to consider it on that basis.

That is all I have to say on this bill, Mr. Chairman.

Senator CLARK. Are there any questions, Senator?

Senator MILLIKIN. Yes, Mr. Chairman.

General, passing the question of sound actuarial practice, I think it has been developed very clearly that men who have been well informed will take out insurance.

General HINES. That is correct.

Senator MILLIKIN. And that men who have not been well informed have not taken out insurance in the same proportion. The result is that many, many men have died without insurance, not having taken it out because they were not properly informed. Now, passing the question of sound actuarial practice, the responsibility for lack of information is not on the men, it is on the Government.

Are they not equitably entitled to insurance, as though they were insured, or, to some sort of a benefit as though they were insured, or as though they were entitled to a benefit?

General HINES. To answer you, Senator, the Congress endeavored to do that when it gave them \$5,000 gratuitous insurance. This covered them from October 8, 1940, to April 19, 1942, both dates inclusive. Now, I am perfectly willing to give these men, physically able, who are to take it, insurance. We have no way of telling, and I doubt if the War Department has, how many of these men who have failed to purchase insurance, were or were not informed. I imagine that the company commander or the post commander or the camp commander made some endeavor, but I can readily understand, realizing what was going on in the beginning, that it was a secondary endeavor rather than a primary endeavor.

Senator MILLIKIN. Perhaps posted on the company bulletin board.

General HINES. The War Department has done what we urged them to do early. They have made it somebody's particular business to make sure that these men have an opportunity, and I think Colonel Harrell has the hope that with his endeavors, if he is given the proper support and the necessary personnel, that he will not only get men to take insurance, but will increase the amount of the policy.

Now, the amount of the policy held covering each life has increased gradually from the beginning. They started off with small amounts. I charge it to two things. One, that the man himself has commenced to realize that it is important to have it, and that he must have as much as he can carry. The increase in the pay has a bearing on it undoubtedly because, as you know perfectly well—I am sure Senator Clark does, and you do too, Senator—that these men have their pay allotted in their own minds, as to what they are going to do with it, before they get it. The value of the policy has increased, and it will continue to increase naturally as they get near the ports of embarkation. It is shown by our records. We have received a number of applications from the same soldier; more than one application.

I am not objecting to giving them the opportunity; they have it now. But I do feel that we shouldn't take in impaired risks.

Senator MILLIKIN. General, passing cases where waivers have been granted, all men who are inducted into military service have been examined and at the moment of induction presumably are in sound health, aren't they?

General HINES. Well, in the beginning they took in some from the National Guard units on the basis that they were members of the National Guard. I doubt if they were very carefully examined. They went in in bulk, more or less. But I am sure that it is a safe risk to take in those men, with the possible exception of those concealed or obscure mental disabilities that doctors possibly wouldn't discover without a period of observation; it is fairly safe to say that when they pass the medical boards they are good risks.

Senator MILLIKIN. So that with the exception of waiver cases you start out putting a man in the service with presumptive good health. If his health has gone bad, presumably it has gone bad as the result of his service. Is that a fair presumption?

General HINES. I think that is a fair presumption. That is, if it isn't due to some misconduct. We have had a large number of men break down with tuberculosis. I think most of those men, you will

probably find, have taken insurance. Most certainly if they were not in good health when they had the opportunity of taking it without an examination, I should think the man would have done it without any hesitation. Of course, we can expect to get a large number of inherent risks that are already in, who probably will give very little service. Most men with short service undoubtedly got insurance. And maybe some of them will be with us not only for insurance, a number are also getting benefits along with it.

Senator CLARK. General, this 120-day period hasn't expired yet, has it?

General HINES. Yes; I think it has.

Mr. BREINING. The 120 days expired on April 19, 1942. However, any man who came in subsequent to that date had 120 days from date of entrance upon active duty to apply for insurance without physical examination and that right continues for all now coming in. But there is an arrangement between the War Department and the Veterans' Administration whereby, effective January 26, another 120 days were granted with the physical examination being eliminated for those men who were in combat areas, if they were unable to be physically examined or if a medical officer was available but a complete physical examination impractical, then the medical officer can state that he has examined them to the extent permitted by the circumstances and to the best of his knowledge and belief they are physically fit.

Senator CLARK. What I was getting at is this: These men have been taken in without physical examination during that 120-day period. As I understood it they were still being taken in.

General HINES. They are bound to, as new ones come in. They all have 120 days.

Senator CLARK. The evidence here shows that as these men got the information as to their rights and privileges there has undoubtedly been an increase in the number of them making these applications. Where is there any deviation of principle in giving another 120 days to permit this organization which the War Department has perfected to go ahead and give these men this information so that they will have the same advantages as the men insured?

General HINES. Well, if you keep increasing it, that will give some men, who have already had 360 days, another 120 days, against a man coming in now with 120 days.

Senator CLARK. That is true, but I think that it is understood that the War Department has vastly improved its means of informing these men and giving them the opportunity to take it. It is only designed to put all these men on an equal basis and that they have a reasonable period after they have been informed about this matter. The War Department representatives have testified as to what has been done in the way of information and the improvement that has been made in the means of supplying the men with information and that testimony is uncontroverted.

General HINES. Well, Mr. Chairman, if you wish to do that, of course, that is perfectly all right with me.

Senator CLARK. It is not what I wish, but I do think that the Government, who takes these men and puts them in the service, is under an obligation to deal with them not only fairly but generously.

General HINES. Of course, what we are really doing is rewarding

the man who was not careful and prudent enough to look out for his own interests against the man who did look out for it.

Senator CLARK. That is true, General, but you know as well as I do that soldiers in the military service, most of them, are not great newspaper readers, and they do not have the means of knowing what their rights and privileges are, except through their officers and duly constituted authorities.

General HINES. Well, I have found, in dealing with them, that they are pretty good, after they are discharged, in knowing what their rights are.

Mr. Chairman, there is just one thing that I wish to urge. I cannot believe that it is sound business principle in insurance to take in these impaired risks. If you want to give those physically able a chance to get it I am for it.

Senator MILLIKIN. I would like to discuss that with you a little bit, General.

In asking you some questions I said let's pass what you would call sound actuarial practice. Now, sound actuarial practice can cover the most unsound risks if the premium is sufficient.

General HINES. That is right.

Senator MILLIKIN. An insurance salesman could come in this room here and insure every one of us on a blanket basis and their actuaries could say, well knowing the ages of these men, that the risk is so and so, and the premium should be so and so. In other words, if there is a compensatory premium it is a proper field for insurance. We risk ships under Lloyd's policy. We risk ships going against the most damnable hazards. Casualty companies, the accident companies, insure automobile drivers, you might say, almost in blanket form. Some of them do attempt to make some sort of selection. They watch the arrest records of drivers. But most of these companies will insure anybody.

So that the measure of risk is not the measure of saying a thing is insurable. The test is whether the premium is adequate to cover the risk. Is that not correct?

General HINES. That is correct; but companies will go to great lengths, and they do.

Senator MILLIKIN. So that if the Government should say, "True, we are increasing the risk by letting down the bars on examination, but we are willing to pay the increased premium," we are still preserving a consistent insurance system?

General HINES. Well, now, let's analyze two cases.

Senator MILLIKIN. All right.

General HINES. Take a man who is careful, took out his insurance, goes over to Africa, and he is killed.

Senator MILLIKIN. Yes.

General HINES. The Government is glad to pay to his beneficiaries—not glad because he is killed, but glad we can make that award to his beneficiaries—of \$10,000.

Suppose we have here, on the other hand—as Senator Clark said, I have never made a distinction as to where a man serves, because he is told where he must go—but suppose we had a man who almost from the first day—and I doubt if he would be over in Africa because they are very careful before they send them in the field—almost from the first day he is in the hospital. He came in with a disability

which the doctors didn't discover simply because they were taking them in at a rapid pace. That man, without giving the same type of service, gets exactly the same reward, \$10,000.

Senator MILLIKIN. Yes.

General HINES. I have a feeling that although, while at this time we have uppermost in our minds the thought of making provision for these men and doing everything we can to help them in the service, that the time will come when this entire field of insurance will be analyzed very carefully, and somebody will ask the question, "Why did you take in these impaired risks?" They are going to ask it on the pension and on the insurance. So all I wish to do is to make sure that the committee has a clear understanding of the facts in that respect.

Senator CLARK. The same question might be asked: why they took the impaired risks into the Army in the first place.

General HINES. Yes. I have a good record on that, Mr. Chairman. I started writing letters before we got in the war.

Senator CLARK. It seems to me the same question applies.

General HINES. Absolutely.

Senator CLARK. In other words, a man that is not insurable ought not to be taken into the Army.

General HINES. I agree.

Senator MILLIKIN. Doesn't it come down to this, that by doing this we are making our insurance system somewhat more costly?

General HINES. Very much so.

Senator MILLIKIN. We are preserving the insurance system, we are not breaking down the insurance system, we are preserving it, but it may cost a little more.

General HINES. Well, I would put it just a little differently, Senator. I would say that by breaking down certain principles, taking in impaired risks with no increase in premium, we are making it more costly to the insurance fund, and Congress will have to appropriate to that fund to make it up. That is really what we are doing. And it will be a good-sized bill. It is already.

Thank you, Mr. Chairman.

Senator CLARK. General, have you got something to say about S. 8771

General HINES. Yes. I would like to first have introduced into the record the report we made on that bill under date of July 22, 1941.

Senator CLARK. Is that the letter to Senator George?

General HINES. Yes, sir.

Senator CLARK. That was put in the record yesterday.

General HINES. That is the same one.

I simply wish to point out two matters in connection with it.

Senator MILLIKIN. May I ask the present rate?

General HINES. Five percent.

As soon as you offer any inducement for a man to borrow on his insurance, in due course you wipe out the benefit of that insurance. I feel that the first principle, that a man should not impair his insurance by borrowing on it, is paramount.

There is another feature in connection with this bill that should be pointed out. This relates to the United States Government insurance. For some time we have considered, and I think the Congress has

followed the thought pretty much, that as to the United States Government insurance, there being approximately 600,000 veterans who have been provident, retained their insurance, converted it into standard form—and we have been acting as trustees for that fund—we should be very careful and not do anything that would impair that fund.

Mind you, we have had to build up reserves there that are attractive to those that would like to use them for something else, to cover one feature of that that was not calculated in the rate. In other words, United States Government insurance matures under two contingencies, permanent and total disability, and death. Commercial companies tried to write permanent and total disability up to the age generally of 60 or 62, but they all found that they couldn't, that it couldn't be done, because the cost was excessive.

We have had to build up a considerable reserve to keep that contingency. But the insurance itself is written on a 3½-percent basis. This bill proposes to let a man borrow his money and somebody else's money at a lower rate of interest than the Government is paying him, which is not sound, of course. Personally, our rate of 5 percent is less than that of many of the insurance companies. It is certainly in line with the insurance companies.

This whole converted policy of insurance, the United States Government insurance, was built on the thought that that fund would be self-sustaining except for losses due to the hazards of military and naval service, where appropriations were made from year to year to maintain that fund, and I am wondering whether actually, from the executive end of the Government, whether the Congress has the right to transfer to the man who doesn't borrow on his insurance the burden of the man who wants to borrow up to the limits of his insurance.

Senator CLARK. The limit is 94 percent; isn't it?

General HINES. Yes; I think it is.

Senator CLARK. I believe it is. That is right; isn't it, Mr. Breining?

Mr. BREINING. Yes.

Senator CLARK. You can borrow 94 percent?

Mr. BREINING. Of the reserve value; yes. The reason for 94 percent is that originally the interest rate was 6 percent and we charged it in arrears, whereas most of the companies charged in advance.

General HINES. If this bill became a law it would affect that fund in a sizeable amount. There are one hundred and fifty million, five hundred and thirty-two thousand-some-odd-hundred dollars in outstanding loans. The amount of interest per annum at the present rate, 5 percent, is \$7,526,645.22. If this bill became a law the amount of interest would only be \$4,515,987.13.

The Congress should also keep in mind that we are limited in the investments in that fund. In other words, it requires really that we not only earn the 3½ percent but we have to earn something above that to maintain the reserve to cover permanent and total disability.

It is true that we have paid dividends from that fund, and the policyholders have the right to get it, to expect it. They get it from other commercial forms of insurance. They have been paid on excess interest earnings, mortality savings. Interest earnings are



getting to be a problem, because, as the committee understands, that investments in Government securities are now such that you can't get 3½ percent.

We were fortunate when we cashed in on the bonus. We had carried in that fund, and loaned on the bonus certificates a large sum, and the Congress realized the importance of keeping this fund intact, the importance of giving us a fair interest rate, and they authorize the issue of a special issue of bonds covering that.

So that I feel that really this bill, designed by a member of the Senate who I know is a pretty sound thinker, and he is a veteran, but really, to increase the opportunity, or make the incentive greater to borrow on insurance, is not a good thing to do.

Senator CLARK. General, I can see objections to proposing the flat rate by law, but there was a suggestion made yesterday, and I have had the suggestion made to me by people who have had the experience, that you have this sort of a situation existing, a service veteran who has this insurance, who may have nothing else, has to pay 5 percent.

On the other hand, a man that has a policy in an ordinary commercial life-insurance company, while it is true that if he borrows on that policy from the life-insurance company he has to pay 6 percent in most instances, he can go to an ordinary commercial bank and borrow money for 3 percent. I can see the disadvantages to undertaking to fix a rate by law, but this man may need to borrow money on his policy to pay the premium. He can't borrow from the bank. He has to pay substantially above the going rate. What would be the objection to amending this proposed act by providing that the Veterans' Administration should from time to time but not less than once a year publish the rate of interest, which would be the going rate of interest, let us say, for the country at large, but not to be less than the cost to the Government for the money itself.

It does seem to me that the Government ought not to make a profit out of these men, and while I agree with the idea of keeping a man from borrowing money on a policy as much as possible, in some cases it is necessary.

General HINES. Let us not say that the Government is making a profit on him. Whatever it made on interest on loans from that fund goes into that fund and it has a bearing upon the amount that may be earned by the reserve. Of the amount received as the earnings, and which passes to the reserve, or otherwise reflected as increased earnings for the insurance fund, the Government will not make a nickel out of that. The Government pays into that fund, however, all losses covering the cases of men who die as a result of an extra hazard of military or naval service.

Senator MILLIKIN. The fund is strengthened for the benefit of those who do not borrow.

General HINES. That is right.

Senator MILLIKIN. I think you made the point a while ago that they may have a vested right not to have that strengthening of that fund depreciated by lowering of the interest rates.

General HINES. In other words, if this bill became law the dividends paid on those policies that are entitled to a dividend would be

reduced to any policyholder, and as to the borrower, even he would probably write in and ask, "Why was my dividend cut; it is less this year than last?"

Now, we are not in a competitive business. We are trying to maintain that fund according to the announced policy of Congress, a self-sustaining fund except for the extra hazards and the administrative expense.

Answering the question put to me on the thought as to getting out a rate each year, I am sure if we did that there would be efforts of this kind made to the Congress to reduce the rate, because we probably would follow the policy followed by the commercial companies of charging a rate of interest in keeping with that, and discouraging men from borrowing.

Now, if we had a law which would go along somewhat with the thought I think you have, where there was some discretion left as to whether a man needed it, we would be in an endless determination of need on that, on the part of those men. Personally I think if any change is made it would be better to have the rate fixed by law and then we have the answer.

But most certainly you cannot fix the rate in this bill without impairing the fund.

In other words, this bill proposes to fix it at 3 percent. The Government is paying 3½ percent.

Senator MILLIKIN. Would 4 percent impair your fund?

General HINES. Four percent would probably impair any payments in dividends on the policies because it requires better than 4 percent to maintain about what we have been doing.

I would certainly feel that those veterans who have not borrowed on their insurance, and I don't know just how many there are—we could get that data for you (as of February 28 there were 164,753 loans outstanding)—but really a proposition of this kind ought to be submitted to the stockholders of this company, and they are 600,000 veterans of World War I.

Senator MILLIKIN. I think, Mr. Chairman, that would be a very interesting statistic.

General HINES. That is all, Mr. Chairman, unless there are some questions. I appreciate the opportunity to appear, Mr. Chairman.

Senator CLARK. Glad to have you, General, always.

Mr. Rice, did you wish to be heard on 877?

First, let me ask: Colonel Harrell, is there anything you or Colonel O'Brien desire to add to your testimony of yesterday?

Colonel HARRELL. Yes.

Senator CLARK. You may proceed, Colonel.

#### STATEMENT OF COL. W. F. HARRELL, LIFE INSURANCE OFFICER, WAR DEPARTMENT

Colonel HARRELL. Senator, I think it would be of interest to the Congress to know that recently we have been bringing up a real organization. We have held schools all over the United States teaching officers the need to do this work. We have had all of our generals alert, and I think everyone commanding an army, or a service command, has sent out an announcement directing that this work be done.

This didn't occur before. We are not interested in the new men. We have solved their problem. We put a gate down when they come in and they must get their insurance. But we are interested in the older men who came in a year or 2 years ago and who did not get it, and that is a difficult job.

It is a physical impossibility to conduct the required physical examinations. We haven't enough doctors. Not only that, we have men on islands along the Atlantic coast, 75 miles from a doctor. And he can't get that insurance without going through the most rigid examination.

With all due respect to General Hines and Mr. Breining, and many of our good friends who have helped me, their requirements are much more severe than those of commercial life-insurance companies. I was with a life-insurance company, the largest in the world, for 14 years after I went on the retired list, and we would take any man in the Army for a policy with an annual premium of \$300, yet the whole premium on this is about seventy to eighty dollars, on official statement that "I am well and qualified for active duty." That is all that we demanded.

Some companies will take an officer of the Army for ten or fifteen thousand dollars without anything except his own statement. It seems to me that the Government ought to be less severe on those soldiers than commercial companies are on civilians. The value of this thing, if we can do it, will help morale. It will help win the war, and that is all that counts.

Senator CLARK. Are there any questions?

Senator MILLIKIN. No.

Senator CLARK. Colonel, I don't want to be impertinent, but how many battle colors do you have on your campaign ribbon you are wearing?

Colonel HARRELL. Senator, quite a number.

Senator CLARK. The reason I ask is that I don't think I have ever seen a campaign ribbon with as many battle stars on.

Colonel TARRELL. I was in the First Division all the way through.

Senator CLARK. And I noted you have two wound stripes there, too.

Colonel HARRELL. Yes, sir. I asked General Pershing, on the Fourth of July, to either let us fight or send us home, and on the 18th of July, 2 weeks later, he did, and on the 19th I was wondering, "Why didn't you keep your mouth shut?"

Senator CLARK. Have you any statement to make, Colonel O'Brien?

Colonel O'BRIEN. None except that the colonel does not have on his left breast the full quota of decorations to which he is entitled.

Senator CLARK. All right, Mr. Rice.

#### STATEMENT OF MILLARD W. RICE, NATIONAL SERVICE DIRECTOR, DISABLED AMERICAN VETERANS—Resumed

Mr. RICE. Mr. Chairman, I would like to make one more observation concerning S. 903, and that is to call your attention to the fact that if every man who went into the armed forces were thoroughly informed as to the value of insurance he would have the opportunity of taking out that insurance within the first 120 days without any examination. The purport of this bill is to give to those men who have not been

thoroughly informed the opportunity which they might have had had they been thoroughly informed within that first 120 days. The net cost, therefore, is not really increasing, except by reason of the difference in the number of months of payment of premiums had they been thoroughly informed and had they taken out the insurance within the first 120 days without examination. Many of those now being rejected would not have been rejected; they would have been accepted notwithstanding disabilities that were subsequently found on examination subsequent to that 120 days.

Therefore, if a complete selling job had been possible to start off with, by the War Department, the total liability, so far as the Federal Government is concerned, would be the same as it would be with the enactment of this bill.

Now, going to S. 877, which would propose that the interest on Government life-insurance loans be reduced to 3 percent, may I advise you that our organization went on record to the effect that such interest should be reduced to  $3\frac{1}{2}$  percent, and a bill to that end was introduced on the House side, H. R. 682, by Mr. Wickersham, which is the same as 36 in the omnibus bill of our organization, H. R. 912, and we went on record that it should be  $3\frac{1}{2}$  percent in deference to the statement, rather, the logic expressed by General Hines, to the effect that inasmuch as the reserve is built up at the rate of  $3\frac{1}{2}$  percent per year, we didn't think that we were fair in requesting that it be reduced lower than that, but we do feel justified in requesting that it be reduced to  $3\frac{1}{2}$  percent, because of the factors already presented.

May I call your attention to the fact that if such interest is reduced down there is no increased cost to the Government whatever, not one penny of cost, unless it be some administrative cost in doping out the difference of such a percentage, but that it will probably reduce somewhat the amount of dividends paid to those who now have been carrying the policies.

In other words, under the present policy those who are more fortunate profit at the expense of those who are less fortunate. It is a rather strange commentary, too, that the most profitable investment that the insurance fund makes is at the expense of the less fortunate veterans who must borrow on their Government life-insurance policy.

Senator CLARK. Sometimes to pay the premiums.

Mr. RICE. Exactly so.

In that connection, Senator, may I call your attention to the fact that there were thousands of disabled veterans who in 1927 were accorded the privilege of resuming their insurance provided that they pay back all of the back premiums or that such back premiums be placed as a lien against the policy at the rate of 6 percent annum compounded, which several years ago was reduced to 5 percent, and is still being imposed against those policies, but the amount of insurance they get is reduced by the amount of those liens, in spite of the fact that they continue to pay premiums on the basis of the prior face value of the policy.

So that some of those men, who are paying premiums on a \$10,000 policy, will before the 20- or 30-year period has expired, have a net insurance of probably less than \$5,000 because of that compounded interest of 5 or 6 percent, and that is still going on. What the extent of those liens is I don't know, but they go on earning money for the

insurance fund, for the benefit not of the Government, but for the benefit of the other policyholders, and I am sure that if the average policyholder, the average veteran, could have the opportunity of appearing before this committee and advising you as to whether or not he cared to profit at the expense of these disabled veterans, he would disclaim any such desire on his part, and would endorse this legislation to reduce this interest rate to at least  $3\frac{1}{2}$  percent.

Senator CLARK. I may say on that point, Mr. Rice, that that question has always been raised any time any question of more generous treatment to these people has been presented, and I have never, in all my experience, have never yet seen a letter or seen a verbal protest from any of the people who had not borrowed on their policies, and who had maintained their policies, and were in more fortunate position than some of the other men.

Mr. RICE. Exactly so. I may say, when the law was enacted reducing the interest rate from 6 to 5 percent there were great forebodings by the representatives of the Veterans' Administration that it might endanger the insurance fund and that in any event it would certainly reduce the dividends.

Senator MILLIKIN. That sort of a reaction is a wholesome thing for anybody who is in the position of a trustee.

Mr. RICE. Yes. Subsequent to the reduction from 6 percent to 5 percent the dividends as to some policyholders have been increased. It so happens that I have had loans on my personal insurance policy for just about the last 18 years, but my dividends have also been increasing, so that the dividends last year were about 28 percent of the total amount of premium payable, and the dividends did not decrease by reason of the fact that, at least as to my policy, did not decrease by reason of the fact that the loan rates had been reduced from 6 percent to 5 percent.

Senator MILLIKIN. Your dividends probably increased through an increased number of loans.

Mr. RICE. That is probably true. Now, as to others, their dividends, their dividend rates would decrease because the Veterans' Administration some years ago classified them according to the various years in which they were taken out, and maturity, and that sort of thing.

As to some of them, the dividends were cut out completely. As to others, where the policy had been in force for a long period of time, such as mine, Mr. Chairman, in 1919, the dividends actually were increased.

So that it isn't necessarily true that we are going to call upon these other policyholders to suggest a release of their dividends, and even so I don't think a single one would protest. And I have no fear whatsoever that it would endanger the insurance fund if it were reduced down to  $3\frac{1}{2}$  percent.

I would recommend that the bill be changed to read  $3\frac{1}{2}$  percent so that it might not interfere with the building up of the reserve fund, so that it might not be possible for a man to borrow at 3 percent in order to build up his fund at  $3\frac{1}{2}$  percent.

Senator CLARK. Mr. Ketchum, is there anything you want to say about 877?

Mr. KETCHUM. Senator, we have no resolution or mandate on the thing, and I am afraid any remarks I made would be purely my own,

and not with any particular mandate from our organization, and for that reason I am going to pass up your invitation to comment on it.

Senator CLARK. Mr. Sullivan, do you desire to discuss 877?

Mr. SULLIVAN. No, sir. We are in the same position. We have no resolution on it. Thank you.

Senator CLARK. Does anyone want to add anything to what he said yesterday about S. 903?

Mr. SULLIVAN. Not other than to concur in the two amendments offered by Mr. Rice.

Mr. KETCHUM. I would like to comment on that, Mr. Chairman, if you have the time.

Senator CLARK. We will be glad to have you, Mr. Ketchum.

#### STATEMENT OF OMAR B. KETCHUM, LEGISLATIVE REPRESENTATIVE, VETERANS OF FOREIGN WARS

Mr. KETCHUM. There are one or two thoughts I neglected to mention yesterday.

Quite a point has been made over this question of policy that the Senate wrote into this amendment to Public, 360, something to the effect that this shall not be a continuing policy of the Congress to grant additional benefits, and so on.

Some of the previous witnesses have taken that as an argument that the Congress emphatically should on this first 120-day extension say that they are not going to continue to do this. Now, it is my personal opinion that that was written in there more concerning the automatic benefits than pertaining to the 120-day extension.

Senator CLARK. I will say, Mr. Ketchum, that I think it was written in, and I helped to write it in, with reference to the whole business, but I don't think the policy announced in that measure, which, as I said, being charged with the bill, I gladly accepted, applies in the face of the uncontroverted record here that the War Department had not been in a position in many cases to inform these men of their rights. The 120-day limitation was written in on the natural assumption that every officer would see that these men were familiar with their rights. When there is a clear showing that that was, for any reason whatever, impossible, or was not done, and that a further period of 120 days would make that possible, it seems to me that that announcement of policy is vitiated by those very facts.

Mr. KETCHUM. I just wanted to reemphasize the point that there are no automatic benefits involved in this bill.

Senator CLARK. That is correct.

Mr. KETCHUM. I further wanted to make the point that it is difficult for me to see the difference between one 120-day period and another 120-day period. When a man first comes into the service under the existing national service life insurance law he is entitled to apply for this insurance without medical examination at any period within the 120 days.

Now, these men who haven't taken this insurance up to now have not been insured, have not been a liability against the insurance fund, they are simply moving up the 120-day period. In other words, they are being given another opportunity within a 120-day period to apply for that insurance.

Now, they make the point that supposing the man in the meantime has incurred some disabilities that make him a bad inherent risk and he can apply for this insurance now without a medical examination. Exactly the same thing applies in the first 120 days that he has to apply for this insurance. Suppose a man comes into the Army and within 15 or 30 days he becomes seriously ill. He becomes a bad risk. Yet he can apply, as I understand it, within that first 120-day period for amounts of life insurance up to \$10,000.

What is the difference between the original 120-day period and the extension?

Senator CLARK. There is no difference.

Mr. KETCHUM. Insofar as liability or excessive cost to the Government insurance fund is concerned I can see very little difference.

As I said to the committee yesterday, we are interested in granting this insurance to these men. If the War Department failed, and it is acknowledged they did fail in the beginning to educate, inform and encourage these men to take the insurance, then why should it not be reasonable and fair to grant them an additional 120 days in which they shall have this right.

That was the point that I wanted to develop before this committee again this morning.

Thank you very much, Senator, for giving me this opportunity.

Senator CLARK. Mr. Breining, do you wish to discuss 877, or did General Hines cover the ground?

Mr. BREINING. Just a thought or two.

Senator CLARK. All right.

#### STATEMENT OF HAROLD W. BREINING, ASSISTANT ADMINISTRATOR, VETERANS' ADMINISTRATION

Mr. BREINING. The question raised of reducing interest is one of equity as between the policyholders. These policyholders represent a mutual group no different from any other mutual company, except the trustee in this instance happens to be the United States Government rather than a group of governors or trustees. The relationship between the policyholders is exactly the same, except the Government does contribute the cost of the administering of the fund, and also any losses occasioned by the extra hazards of military and naval service.

The very essence of level premium insurance is that you have a static condition over a number of years. You cannot treat it as a commercial banking proposition, raising the rates 1 week and lowering them the next week, or raising them 1 year and lowering them the next year, because you have to foresee long in the future what your interest rate will be in order to fix your premiums, and also as a protection against the persons who wish to borrow.

Now, the persons who wish to borrow now may be charged slightly more than they would have to pay in the outside market.

Senator CLARK. Two percent.

Mr. BREINING. Well, some banks do charge only 3 percent, but I think consideration should be given in that connection to this, at first they require an absolute assignment of that policy, and if you have read one of those assignments you know it is a tremendously broad

affair, it even gives the bank the authority to surrender the policy and take the surrender value, and to do anything else, practically, with the policy except change the beneficiary.

Now, in connection with the insurer that is not true. The bank can accept a loan or reject it at its will according to the status of the money market. The loan which is secured by the policy is generally callable after a short period of time. True it may be extended but the insurer, on the other hand, he has to give the loan at any time. So that when you find in the money market rates are high, as we had in the late twenties, when call money was 20 percent, the man still could have come in at the fixed rate of interest and borrowed without the discretion of the insurer in rejecting that loan.

Now, the majority of the policyholders—there is about 165,000 who have borrowed on policies as against over 400,000 who have not—those persons have deposited with these trustees certain savings which they expect to be advantageously invested on their behalf. Dividends on an insurance policy is not like a dividend on a stock or on a bond. It is an adjustment of premium based upon what the reserves are able to earn and also the fact of mortality enters into it.

Now, if the insurer had been free, when money rates were high, to invest these reserve funds at that high interest rate and reject the policyholders' applications for loans, it would have made great sums of money; but the very basis of level-premium insurance is to have a steady condition that runs over the whole life of the policy, to protect the insurer against having just this situation of persons coming and borrowing the money, making them liquidate favorable investments in order to make these loans, and on the other hand to protect the borrower against having high interest rates charged on their policy loans at times when high interest rates prevail in the money market.

It is a question of fairness between this whole group.

Now, the policyholders who have not borrowed, if the interest rate is reduced, will probably find it provident, from an economic standpoint, to borrow. Now, borrowing on a policy is the first step toward lapse of a policy and I do not believe it is in the interest of the policy holder. It will encourage him to lapse in his policy.

If they have a loan on an insurance policy they are not dunned for the interest. The company has no right to call the loan. All they can do is to send out a loan-interest notice as the interest becomes due. If it is not paid it is added to the loan principal, it becomes a new principal. That is not true of the bank. The bank sends out its interest notice and tells you to come in and make a new loan, in which event they will adjust the interest rate according to the prevailing money market.

I feel that it would be to the disadvantage of the policyholders generally to lower the interest rate and thereby lower the interest earnings over a period of years. Also profits due to amortization, and we have had great profits in that field due to the fact that these very prudent policyholders, who converted their insurance early and did not make loans on their policies, had their money, which they deposited as a reserve, used to purchase bonds of the United States as low as 82, 4 $\frac{1}{4}$ -percent bonds, should be preserved for those whose contributions made them possible.



Senator MILLIKIN. Do private insurance companies change their rate of interest during the life of the policy?

Mr. BREINING. They do not.

Senator MILLIKIN. Never?

Mr. BREINING. No, they do not. As a matter of fact, there was a study made of that when the interest rate was changed on some of the new policies. Most of the policies up to a few years ago were uniformly 6 percent. Some of them  $5\frac{1}{2}$  percent. They made a study of that as to the right of the company to change it.

Senator MILLIKIN. The changes I have in mind then are on new policies?

Mr. BREINING. Yes, sir. And also it was, I believe, under consideration by the Legislature of the State of New York in considering a bill, and the legislature refrained from passing the act because, under advice of counsel, on the basis that it would not be legal for them to disrupt the contractual relationship existing between policyholders.

Senator MILLIKIN. In a mutual company, where there is a right to change the rate, is it by action of the policyholders or by the trustees?

Mr. BREINING. The action is by the trustees, who are the governing body.

Now, if I can make just one more point. Level-premium insurance is a kind of voluntary forced savings. That may seem an incongruous and paradoxical statement but I know of no better way to state the situation. It is mentioned because it has been found over a period of years that term insurance is not favorable to either the insurer or the insured and it never works out because when the man is in most need of insurance, when the premium gets higher, at a later age, and when the earning power is declining, the man most in need of protection loses the protection.

If you encourage loans on insurance, at the same rate or at a lesser rate than the reserve rate, you are reverting to term insurance, because the man pays in on a level-premium basis, but you authorize him to borrow back his reserve fund at the same rate as his guaranty fund.

It just nullifies the whole idea of level-premium insurance and it turns the contracts into term insurance, which I think every insurance man recognizes as being unfavorable from both sides, and every company that has ever embarked on a program of term insurance to cover long periods of insurance has gone by the board.

Senator CLARK. Are there any questions?

Senator MILLIKIN. No.

Senator CLARK. Thank you, Mr. Breining.

Does anyone else desire to be heard?

Colonel O'Brien?

Colonel O'BRIEN. We have had a note from the War Department to ask that an opportunity be extended to express the War Department's views with respect to this bill.

Senator CLARK. Very well. Does anyone else desire to be heard on Senate bill 903?

(No response.)

If not, the committee will go into executive session.

(Whereupon, the committee, at 11:50 a. m., proceeded into executive session.)