

## AMENDING THE NATIONAL SERVICE LIFE INSURANCE ACT OF 1940, AS AMENDED

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JULY 12 (legislative day, JULY 5), 1946.—Ordered to be printed

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Mr. JOHNSON of Colorado, from the Committee on Finance, submitted the following

### REPORT

[To accompany H. R. 6371]

The Committee on Finance, to whom was referred the bill (H. R. 6371) to amend certain provisions of the National Service Life Insurance Act of 1940, as amended, and for other purposes, having considered the same, report favorably thereon with an amendment and recommend that the bill, as amended, do pass.

#### PURPOSE OF THE BILL

The purpose of the bill is to liberalize certain provisions of the National Service Life Insurance Act to overcome certain deficiencies and inadequacies in existing law which will be hereafter explained.

#### DIFFERENCES BETWEEN HOUSE BILL AND COMMITTEE AMENDMENT

The amendment proposed by the committee is a complete substitute for the bill as referred to the committee. While many of the changes in the wording of the House bill were made for the purpose of clarification or to overcome technical objections, others represent changes in policy which your committee deem desirable. The principal changes in policy which the committee amendment would make in the House bill are as follows:

1. To provide specifically that persons barred from applying for National Service Life Insurance under the first proviso under the caption "Transfer of Appropriations" contained in title II of the First Supplemental Surplus Appropriation Rescission Act, 1946 (Public Law 301, 79th Cong.), shall not be eligible to apply for national service life insurance under section 2 of the bill, which authorizes those who performed active service between October 8, 1940, and September 2, 1945, to apply for national service life insurance after separation from service.

2. To eliminate the provisions proposing to increase gratuitous insurance benefits provided under existing law from \$5,000 to \$10,000 and to extend such benefits to certain other groups.

3. To retain the requirements of existing law requiring dependency on the part of parents as a basis of entitlement to gratuitous insurance benefits.

4. To extend from 30 days to 1 year the time within which the Veterans' Administration must give notice to certain beneficiaries of the right to receive payments of insurance as a refund life income, in lieu of the mode of payment now provided, and to limit the right of such election to 2 years after date of enactment of the bill.

5. To amend subsection 602 (n) of the National Service Life Insurance Act to authorize within 1 year after the date of enactment of the bill, application for waiver of any premium becoming due not more than 5 years prior to enactment of the bill.

6. To amend subsection 602 (p) of the National Service Life Insurance Act to provide for the payment of insurance benefits in cases where applicants for insurance signed applications for insurance to become effective in the future and then died in line of duty prior to the dates on which the insurance policies were to become effective.

7. To amend section 617 of the National Service Life Insurance Act so as to authorize trial by jury with respect to any denial of a claim for insurance benefits in accordance with established rules of procedure and evidence.

EXPLANATION OF THE BILL AS PROPOSED TO BE AMENDED BY  
THE COMMITTEE AMENDMENT

Section 1 of the committee amendment would redefine the terms "parent," "father," or "mother" to include within the permitted class of beneficiaries for national service life insurance a "stepparent" if designated as beneficiary by the insured. Your committee has been informed that in certain instances a stepparent has been denied payment of insurance even though designated by the insured as beneficiary because such stepparent did not stand in relationship as parent to the insured for a full year prior to the insured's entry into active service. The amendment will authorize payment of installments of insurance to the designated stepparent from and after the first day of the third calendar month following receipt of claim by or on behalf of such stepparent. This provision will not require duplicate payments of insurance benefits.

Section 2 of the committee amendment amends section 602 (c) of the National Service Life Insurance Act of 1940, as amended. Subsection (c) (1) is a restatement of subsection (c) as presently enacted. Subsection (c) (2) would authorize, subject to the limitations contained in the first proviso under the caption "Transfer of appropriations" contained in title II of the First Supplemental Surplus Appropriation Rescission Act, 1946 (Public Law 301, 79th Cong.), all persons who have had active service between October 8, 1940, and September 2, 1945, to apply for and be granted national service life insurance upon payment or authorization for deduction of premiums and evidence satisfactory to the Administrator of Veterans' Affairs showing the applicant to be in good health at the time of application. It is provided that the Administrator shall not deny the existence of good

health as used in this or any other section of the act, because of disability or disabilities resulting from or aggravated by active military or naval service and less than total in degree if application for life insurance, disability insurance, or reinstatement of insurance is made prior to January 1, 1950. In any case in which proof of good health is waived under the provisions of this section premiums would be credited directly to the national service life insurance appropriation and payments of benefits will be made directly from such appropriation. Your committee believes that the veteran should not be denied opportunity to secure insurance protection because of inability to furnish proof of good health when such inability results from injury or disease resulting from or aggravated by active military or naval service. It appears obvious that the right of a person not in good health should not be extended indefinitely and your committee believes that all disabled veterans will have ample opportunity to apply for insurance on or before January 1, 1950. The maximum amount of insurance for which an individual is otherwise eligible to apply under this subsection would be decreased by the amount of insurance which he may have surrendered for its cash-surrender value.

Subsection (c) (3) provides that any person in active service between October 8, 1940, and September 2, 1945, who, while in such service, made application in writing for insurance, while performing full military or naval duty, which application was denied solely on account of his condition of health, and the applicant thereafter shall have incurred a total and permanent disability in line of duty, or died in line of duty, shall be deemed to have applied for, and to have been granted, such insurance which shall be deemed to have been continued in force to the date of death. The amount of such insurance when added to other insurance issued by the Government may not in the aggregate exceed \$10,000. Any payments of benefits on insurance granted under this subsection will be made directly from the national service life insurance appropriation. Your committee are informed that in many instances the applications of servicemen for insurance were denied because they were held not to be in the required condition of health. The men, however, were retained in active service and many were killed or wounded in combat notwithstanding their so-called lack of good health.

The provisions of this subsection grant insurance to such of those men only as became permanently and totally disabled in line of duty or died in line of duty. The provisions of this subsection will remedy injustice to such men which was directly due to the excessively restricted limitations on applications for insurance by men on active duty in time of war.

Section 3 of the committee amendment amends subsection 602 (f) of the National Service Life Insurance Act of 1940, as amended, as presently enacted to authorize issuance of insurance on 20-year endowment, endowment at age 60, and endowment at age 65 plans in addition to the plans of insurance previously authorized. It also provides that conversion to an endowment plan may not be made while the insured is totally disabled. The latter provision is designed to prevent application for endowment policies at a time when waiver of premiums can be secured by reason of total disability. Your committee is of the opinion that the additional plans of insurance provided will suffice to meet the needs of each individual veteran who

desires to carry insurance and will particularly meet the needs of veterans who desire to receive endowment benefits at an older age.

Section 4 of the committee amendment amends subsection 602 (g) of the National Service Life Insurance Act of 1940, as amended, by adding a proviso thereto making the provisions of the subsection as to the restricted permitted class of beneficiaries inapplicable to any national service life insurance policy maturing on or after the date of enactment of the bill. It will be noted that the provisions of this section will not interfere with the payments of insurance being made to beneficiaries on insurance which has matured prior to enactment of the bill and that any person, firm, corporation, or legal entity may be designated as beneficiary of a national service life insurance policy which matures after the date of enactment of the bill.

Section 5 of the committee amendment amends so much of subsection 602 (h) of the National Service Life Insurance Act of 1940, as amended, as precedes paragraph (3) thereof to authorize the beneficiary of a national service life insurance policy on which insurance benefit payments were commenced prior to September 30, 1944, to elect to receive a refund life income in lieu of the method of payment otherwise provided. Such right of election will terminate 2 years after the date of enactment of the bill. Notice of such right of election in cases in which payments were commenced prior to September 30, 1944, must be sent to the beneficiary within 1 year after the date of enactment of the bill. Section 5 of the committee amendment further provides that subsections 602 (i), (j), and (k) of the National Service Life Insurance Act of 1940 be amended by adding at the end of each subsection the following:

The provisions of this subsection shall not be applicable to insurance maturing on or after the date of enactment of the Insurance Act of 1946.

The provisions of the subsections in question relate to payments of insurance benefits which are limited to a restricted permitted class of beneficiaries and such provisions would not be in conformity with the disposition of insurance, payment of which is not limited to a restricted permitted class of beneficiaries.

Section 6 of the committee amendment amends section 602 (m) of the National Service Life Insurance Act of 1940, as presently enacted, by adding thereto a subsection 602 (m) (2) to provide that in any case in which the insured authorized in writing deduction of premiums from his service pay, insurance shall not be deemed to have lapsed so long as the insured remained in active service, prior to the date of enactment of the bill, notwithstanding the fact that authorized premium deductions were discontinued because—

- (a) The insured was discharged to accept a commission; or
- (b) The insured was absent without leave, if restored to active duty; or
- (c) The insured was sentenced by court martial, if he was restored to active duty, or was required to engage in combat, or was killed in combat.

The premiums due on such insurance continued under this subsection would be deducted from the proceeds of the insurance and any premiums deducted or collected would be credited to the national service life insurance appropriation and any payments of benefits would be made directly from such appropriation.

Your committee is informed that in some instances, the person discharged from an enlisted status to accept a commission was not advised that the allotment from active-service pay for insurance premiums was terminated at discharge, and that as a commissioned officer he was required to charge himself on his pay voucher for premiums to continue his insurance in force. Some such officers died believing their insurance was in force, whereas the fact is the insurance lapsed for nonpayment of premiums, after acceptance of a commission.

Under regulations issued by the War Department, an allotment for deduction of premiums was automatically discontinued if the insured was absent without leave 15 days or more. Upon restoration to active duty, the individual was not advised that his allotment had been terminated, nor was he ever offered an opportunity to make a new allotment. Some such individuals also died believing their insurance was in force. In still other cases, a veteran sentenced by court martial was restored to active duty and required to engage in combat, or was killed in combat while confined in a combat area or on a ship engaged in combat. In some instances, insurance had lapsed because the veteran was on a nonpay status. Your committee is of the opinion that payment of insurance premiums should not be denied under the circumstances stated. Premiums deducted or collected for insurance continued under this subsection will be credited directly to the national service life insurance appropriation, and any payments of benefits will be made directly from the national service life insurance appropriation.

Section 7 of the committee amendment amends subsection 602 (n) of the National Service Life Insurance Act of 1940, as amended, to provide that upon application made within 1 year after the enactment of the bill, the Administrator shall grant waiver of any premium becoming due not more than 5 years prior to the date of enactment of the bill which may be waived under the prior provisions of this subsection by reason of the total disability of the insured, and to further provide that the Administrator, upon any application made subsequent to 1 year after the date of enactment of the bill, shall not grant waiver of premiums becoming due more than 1 year prior to the receipt of application for such waiver, except as otherwise specifically provided in subsection 602 (n).

Section 8 of the committee amendment amends subsection 602 (p) of the National Service Life Insurance Act of 1940, as amended, to provide that notwithstanding the provisions of this subsection that the United States shall not be liable for payment of national-service life-insurance benefits for death occurring prior to the effective date specified in applications for national-service life insurance, in any case in which, prior to the date of enactment of the bill, application was made for insurance to become effective subsequent to the date of application and the applicant died in line of duty prior to such date, the United States shall be liable to the same extent as it would have been if such insurance had been in force on the date of death of the applicant. Any payments of benefits made as the result of the enactment of this provision will be made directly from the national-service life-insurance appropriation. Your committee are informed that in certain instances, as a matter of administrative convenience, applications were dated to become effective as of the first day of the month

following the month in which the applications were prepared and that the applicants signed the applications believing that the insurance became effective immediately. It is understood that approximately 400 cases have been noted in which individuals have died prior to the effective date of insurance as stated in the applications.

Section 9 of the committee amendment amends section 602 of the National Service Life Insurance Act of 1940, as amended, by adding thereto several new subsections.

The new subsection (t) provides that insurance maturing on or subsequent to the date of enactment of the bill shall be payable in accordance with the following optional modes of settlement: (1) In one sum; (2) in equal monthly installments of from 36 to 240 in number, in multiples of 12; (3) in equal monthly installments for 120 months certain with such payments continuing during the remaining lifetime of the first beneficiary; and (4) as a refund life income in monthly installments payable for such period certain as may be required in order that the sum of the installments certain, including a last installment of such reduced amount as may be necessary, shall equal the face value of the contract, less any indebtedness, with such payments continuing throughout the lifetime of the first beneficiary.

It is provided that unless the insured elects some other mode of settlement, the insurance shall be payable to the designated beneficiary or beneficiaries in 36 equal monthly installments, but that the first beneficiary may elect to receive payment under any option which provides for payment over a longer period of time than the option designated by the insured. It is also provided that if the option selected requires payments of less than \$10 per month, the amount payable to such beneficiary shall be paid in such maximum number of monthly installments as are a multiple of 12 as will provide a monthly installment of not less than \$10. It is further provided that if the present value of the amount payable at the time any person initially becomes entitled to payment thereof is not sufficient to pay at least 12 monthly installments of not less than \$10 each, such amount shall be payable in one sum. It is also provided that the options in (3) and (4) above outlined shall not be available if any firm, corporation, legal entity (including the estate of the insured), or trustee is beneficiary, or in any case in which an endowment contract matures by reason of the completion of the endowment period. The restriction against selection of options (3) and (4) by a firm, corporation, legal entity (including the estate of the insured), or trustee is deemed necessary because payments in such cases could not be based upon the life of an individual and because if insurance payments were conditioned on the life of any individual other than the payee it would be necessary to determine such individual was alive at the time such installments are payable.

Subsection (u) provides that with respect to insurance maturing on or subsequent to the date of enactment of the bill, in any case in which the beneficiary is entitled to a lump-sum settlement but elects some other mode of settlement and dies before receiving all the benefits due and payable under such mode of settlement, the present value of the remaining unpaid amount shall be payable to the estate of the beneficiary; and in any case in which no beneficiary is designated by the insured, or the designated beneficiary does not survive the insured,

or a designated beneficiary not entitled to choose a lump-sum settlement survives the insured, and dies before receiving all the benefits due and payable, the commuted value of the insurance remaining unpaid shall be paid in one sum to the estate of the insured, but that in no event shall there be any payment to the estate of the insured or of the beneficiary of any sums unless it is shown that any sums paid will not escheat.

Subsection (v) (1) provides that the Administrator of Veterans' Affairs is authorized and directed, upon application by the insured and proof of good health and the payment of such extra premium as the Administrator shall prescribe, to include in any national service life insurance policy on the life of the insured, provisions whereby an insured who is shown to have become totally disabled for a period of 6 consecutive months or more commencing after the date of such application and before attaining the age of 60 years and while the payment of any premium is not in default, shall be paid monthly disability benefits commencing as of the first day of the seventh consecutive month of, and during the continuance of such total disability of \$5 for each \$1,000 of such insurance in effect when such benefits become payable. The amount payable under any settlement under the policy because of the death of the insured would not be decreased because of the disability benefits paid under this subsection. It further provides that in any case in which the applicant while not totally disabled and prior to January 1, 1950, furnishes proof satisfactory to the Administrator that his inability to furnish proof of good health is the result of an actually service-incurred injury or disability, the requirement of proof of good health shall be waived, but that in such case the extra premium for disability coverage paid by any such insured shall be credited directly to the national service life insurance appropriation and any disability payments made to such insured shall be made directly from such appropriation. It is also provided that policies containing additional provisions for the payment of disability benefits may be separately classified for the purpose of dividend distribution from otherwise similar policies not containing such benefit.

Subsection (v) (2) provides that whenever benefits are payable under subsection (v) (1) because of total disability due to disease or injury traceable to the extra hazard of military or naval service, as such hazard may be determined by the Administrator of Veterans' Affairs, the liability shall be borne by the United States, and the Administrator is authorized and directed to transfer from the national service life insurance appropriation to the national service life insurance fund any amounts payable to the insured on account of such total disability, and to transfer from the national service life insurance fund to the national service life insurance appropriation the amount of the reserve held on account of the total disability benefit. When the person receiving such payments on account of total disability recovers from such disability, and is then entitled to continue protection under the total disability provision, the Administrator is authorized and directed to transfer to the national service life insurance fund a sum sufficient to set up the then required reserve on such total disability benefit.

The provisions for payments from the appropriation above specified are deemed necessary to protect the national service life insur-

ance fund and policyholders from any possible excessive losses which may result from granting disability insurance to those who are impaired risks. While it is realized that the premium charged would not be adequate for those who are not in good health at the time application for disability protection is made, it is believed that those disabled in the service of their country should not be penalized because of such disability and that any extra cost of disability protection granted to such individuals properly should be borne by the Government.

Subsection (w) provides that, subject to the provisions of section 612 of the National Service Life Insurance Act of 1940, as amended, all contracts or policies of insurance heretofore or hereafter issued, reinstated, or converted shall be incontestable from the date of issue, reinstatement, or conversion except for fraud, nonpayment of premium, or on the ground that the applicant was not a member of the military or naval forces of the United States. This subsection is comparable with section 307 of the World War Veterans' Act, 1924, as amended.

Subsection (x) provides that when an optional mode of settlement of insurance heretofore or hereafter matured is available to a beneficiary who is a minor or incompetent, such option may be exercised by his fiduciary, person qualified under Public Law 373, Seventy-second Congress, February 25, 1933 (47 Stat. 907; 25 U. S. C. 14), or person recognized by the Administrator as having custody of the person or the estate of such beneficiary, and the obligation of the United States under the insurance contract shall be fully satisfied by payment of benefits in accordance with the mode of settlement so selected. This provision will facilitate payments to beneficiaries who are minors or incompetent.

Subsection (y) (1) provides that any level premium term insurance which has lapsed may be reinstated within the term upon written application, payment of two monthly premiums, and evidence satisfactory to the Administrator, that the applicant, subject to the provisions of section 602 (c) (2) as contained in this bill, is in good health. The right of reinstatement is limited to insurance issued for a 5-year level premium term period including those extended for three additional years under the provisions of Public Law 118, Seventy-ninth Congress, approved July 2, 1945. Such right of reinstatement is limited to level premium term insurance because reinstatements of insurance on other plans involve payment of premiums in arrears to preserve the reserve which should have been established during the period of lapse.

Subsection (y) (2) provides that any level premium term insurance which has lapsed may be reinstated within the term upon written application, made within 6 months after the date of such lapse or within 6 months after the date of enactment of this amendatory act, whichever is the later, and payment of two monthly premiums, provided such applicant is in as good health on the date of application and tender of premiums as he was on the due date of the premium in default and furnishes evidence thereof satisfactory to the Administrator.

When an insured makes inquiry prior to the expiration of the grace period disclosing a clear intent to continue insurance protection, an additional reasonable period not exceeding 60 days may be granted



for the payment of premiums due, but the premiums in any such case must be paid during the lifetime of the insured. This subsection authorizes reinstatement of insurance on the comparative health basis for a limited period of time in cases in which the insured is in the same condition of health at the time of application for reinstatement as he was at the time of lapse and upon payment of two monthly premiums.

Section 10 of the committee amendment amends section 602 of the National Service Life Insurance Act of 1940, as amended, effective as of October 8, 1940, by adding a new subsection (z) to define, "without prejudice to any other cause of disability, the permanent loss of the use of both feet, both hands, or of both eyes, or of one foot and one hand, or of one foot and one eye, or of one hand and one eye, or the total loss of hearing of both ears, or the organic loss of speech," as total disability for insurance purposes. This is substantially the same definition as was formerly included in United States Government life insurance, issued under the provision of the World War Veterans' Act of 1924, as amended. Your committee is of the opinion that the anatomical losses specified should be recognized as causing total disability.

Section 11 of the committee amendment amends section 607 (b) of the National Service Life Insurance Act of 1940, as amended, to authorize calculations of the value of life contingencies and liabilities thereunder to be based upon such mortality table or tables as the Administrator may prescribe with interest at the rate of 3 percent per annum. Experience has demonstrated that the American Experience Tables of Mortality are inadequate for calculations of liability involving payment of life annuities and that such calculations should be based on some other table if the amount transferred from the national service life insurance appropriation to the national service life insurance fund under the provisions of section 607 (b) is to be sufficient to reimburse the national service life insurance fund for the liability in case the death of the insured results from injury or disease traceable to the extra hazard of military or naval service.

Section 12 of the committee amendment amends section 608 of the National Service Life Insurance Act of 1940, as amended, effective as of October 8, 1940, to eliminate the finality of the decisions of the Administrator on insurance matters and to authorize reviews by United States district courts in conformity with the provisions of section 617 of the act as hereinafter amended. Your committee is of the opinion that the right of the judicial review should be extended in any case in which there is disagreement as to any alleged right under contract.

Section 13 of the committee amendment amends section 616 of the National Service Life Insurance Act of 1940, as amended, to authorize assignments of all or any part of the designated beneficiary's interest to a widow, widower, child, father, mother, grandfather, grandmother, brother, or sister of the insured, upon condition that the designated contingent beneficiary, if any, joins the beneficiary in the assignment, and that the assignment be delivered to the Veterans' Administration before any payments of insurance have been made. It is provided that an interest in an annuity, when assigned, shall be payable in equal monthly installments in such multiple of 12 as most nearly equals the installments certain under such annuity, or in 240 installments, whichever is the lesser. The provision as to the assignment

of insurance payable as an annuity is designed to obviate the difficulties which would otherwise be involved in making payments to one person based upon the continuation of life of another person. Apart from the limitation as to annuities, the right of assignment is similar to that authorized by the World War Veterans' Act of 1924, as amended, under United States Government life-insurance policies. Your committee is of the opinion that a designated beneficiary should be able to assign his interest in such insurance to any one of the relatives of the insured above specified if he or she so desires.

Section 14 of the committee amendment amends section 617 of the National Service Life Insurance Act of 1940, as amended, by striking the proviso presently contained in such section. The effect of this section will be to authorize a trial by jury in the event of denial of a claim for waiver of premiums on account of total disability or payment of benefits on account of total disability. Trial by jury is now authorized in the event of denial of a claim involving other matters. Your committee are of the opinion that trial by jury should be authorized in any case in which claim for a contractual benefit under an insurance policy is denied by a Government agency.

Section 15 adds a new section (313) to the World War Veterans' Act of 1924, as amended, to provide that whenever benefits under the total disability provision authorized by section 311 of that act become, or have become, payable because of total disability of the insured as a result of disease or injury traceable to the extra hazard of the military or naval service, as such hazard may be determined by the Administrator, the liability shall be borne by the United States, and the Administrator is authorized and directed to transfer from the military and naval insurance appropriation to the United States Government life-insurance fund from time to time any amounts which become or have become payable to the insured on account of such total disability, and to transfer from the United States Government life-insurance fund to the military and naval insurance appropriation the amount of the reserve held on account of the total disability benefit. When a person receiving such payments on account of total disability recovers from such disability, and is then entitled to continued protection under the total disability provision, the Administrator is authorized and directed to transfer to the United States Government life-insurance fund a sum sufficient to set up the then required reserve on such total disability benefit.

There are many persons who secured United States Government life insurance while in active service prior to October 8, 1940, and who have since incurred disability traceable to the extra hazard of military or naval service, and the enactment of this section is deemed necessary to protect the United States Government life-insurance fund and United States Government life-insurance policyholders in cases in which payment of total disability benefits are payable on account of disease or injury traceable to the extra hazard of military or naval service.