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SENATE

} REPORT
} No. 1710

AMENDING SUBSECTION 602 (F) OF THE NATIONAL SERVICE LIFE INSURANCE ACT OF 1940, AS AMENDED, TO AUTHORIZE RENEWAL OF LEVEL PREMIUM TERM INSURANCE FOR A SECOND 5-YEAR PERIOD

JUNE 16 (legislative day, JUNE 15), 1948.—Ordered to be printed

Mr. MILLIKIN, from the Committee on Finance, submitted the following

REPORT

(To accompany H. R. 6507)

The Committee on Finance, to whom was referred the bill (H. R. 6507) to amend subsection 602 (f) of the National Service Life Insurance Act of 1940, as amended, to authorize renewal of level premium term insurance for a second 5-year period, and for other purposes, having considered the same, report favorably thereon without amendment, and recommend that the bill do pass.

The House report on this bill is self-explanatory and is as follows:

GENERAL STATEMENT

This bill permits the renewal of any national-service life insurance 5-year level premium term policy issued prior to January 1, 1948, for an additional period of 5 years without medical examination and at the premium rate for the attained age. Thus, term policies which would expire unless some legislation of this sort were enacted could be extended, in the discretion of the policyholder, for an additional 5-year period but at a higher rate by reason of the higher age level. The bill rewrites subsection 602 (f) of the National Service Life Insurance Act of 1940, as amended, to accomplish the stated purpose.

The present law provides that if the insured is totally disabled at the expiration of the level premium term period, the insurance will be automatically converted to an ordinary life plan. A further effect of this bill is to make provision in such cases for the renewal of the level premium term insurance for an additional period of 5 years at the premium rate for the then attained age. It is believed this provision will enable the insured, upon recovery from a temporary total disability, to continue his insurance protection at the lowest premium rate. Thus no hardship would be created since the insured, upon recovery, could elect the most advantageous policy. Of course waiver of premium would protect the insurance during the total-disability period.

The discretionary provision for the Administrator regarding cash, loan, paid-up, and extended values and dividends is retained as in the present law.

The average attained age of national service life insurance policyholders of 1948 is approximately 28 years. Naturally this group includes a large number of young insureds, many of whom have not concluded their education or attained

economic stability. Renewal of level premium term insurance for one additional 5-year period would appear in the best interest of the younger policyholders. The reason for the delimiting date of January 1, 1948, is that it is generally accepted that term insurance for an indefinite period is not advantageous to policyholders. Under this limitation no insured will have to convert to a permanent plan before 1953 and it is believed by this date the economic dislocations of World War II will have been largely spent.

The report of the Administrator of Veterans' Affairs on an earlier bill (H. R. 4842) on the same subject and in which report the provisions of H. R. 6507 were suggested is as follows:

VETERANS' ADMINISTRATION,
Washington 25, D. C., March 24, 1948.

HON. EDITH NOURSE ROGERS,
Chairman, Committee on Veterans' Affairs,
House of Representatives, Washington 25, D. C.

DEAR MRS. ROGERS: This is in further reply to your letter of January 9, 1948, requesting a report on H. R. 4842, Eightieth Congress, a bill to amend subsection 602 (f) of the National Service Life Insurance Act of 1940, as amended, to authorize renewal of level premium term insurance for a second 5-year period.

The purpose of the bill is to amend the penultimate sentence of subsection 602 (f) of the National Service Life Insurance Act of 1940 (54 Stat. 1009), as amended by section 2 of the act of February 21, 1947 (Public Law 5, 80th Cong.), to provide that at the expiration of the 5-year period or the 8-year period a level premium term policy may be renewed for a second 5-year period at the premium rate for the attained age without medical examination.

Term insurance is a desirable form of protection for comparatively short periods of time when it is desirable to secure the maximum amount of insurance at the lowest premium rates at the attained age of the insured. Because of the increase in premium rates for each successive term, the cost of protection on a term plan becomes prohibitive as the insured becomes older.

The level premium legal reserve system was devised in order to overcome the objections to the renewable-term plan. Under this system the premiums are adjusted to provide for level premiums payable throughout the premium-paying period. During the earlier years the insured under this plan pays more than the amount of premium required under a term plan. Insurance on a permanent plan is more advantageous to the insured than insurance on a term plan for the reason that not only will the premium never increase, but on the average the total amount of premiums which the insured will be required to pay will be less under the level premium plan due on the interest earnings.

H. R. 4842, if enacted, would constitute permanent legislation authorizing renewal of level premium term insurance issued at any time in the future as well as in the past, and without reference as to whether any emergency exists at the time of renewal.

While it is my policy to avoid any encroachment of the legislative prerogative of the Congress, the premiums paid on national service life insurance and the earnings thereon constitute a trust fund maintained for the sole benefit of policyholders, and I believe it is incumbent on me to bring to the attention of your committee the fact that enactment of H. R. 4842 in its present form would not serve the best interests of the policyholders. To obviate such effect, I invite your consideration of a modified approach. To facilitate your consideration, a draft bill to cover such approach is enclosed.

Because of the fact that the average attained age of national service life insurance policyholders in 1948 is approximately 28 years and the group necessarily includes a large number of young insureds, many of whom have not completed their education or attained economic stability, renewal of level premium term insurance for one additional 5-year period, subject to certain necessary safeguards, would appear in the best interest of the younger policyholders. It is believed that the renewal of level premium term insurance for an additional 5-year period should be limited to term policies issued before January 1, 1948. The reason for including such a delimiting date is that it is generally accepted that term insurance for an indefinite period is not advantageous to the policyholders. Under this limitation no insured will have to convert to a permanent plan before 1953, and it is believed that by this date the forces of World War II economic dislocations will have been largely spent. Also post bellum personal readjustments for all practical purposes will have been accomplished.

The present law provides that if the insured is totally disabled at the expiration of the level premium term period, the insurance will be automatically converted to an ordinary life plan. Since provision is now being made for the renewal of level premium term insurance, it is believed to be to the interest of policyholders, in lieu of the provision for automatic conversion, to provide for automatic renewal of the term insurance. This provision will enable the insured upon recovery from a temporary total disability to continue his insurance protection at the lowest premium rate, and no hardship will be created as would be the case in the event the insured upon recovery from total disability is unable to carry insurance on a permanent plan.

H. R. 4842, if enacted, would result in additional cost to the Government in two types of cases in which claims for insurance benefits under renewed policies would be chargeable to the appropriation: (1) Those cases in which health requirements for issue or reinstatement of term insurance have been waived under the provisions of existing law; and (2) those cases in which death or total disability is traceable to the extra hazard of military or naval service. The number of such claims is indeterminable. The draft bill, if enacted, would involve the same cost only as to policies issued prior to January 1, 1948.

Advice has been received from the Bureau of the Budget that there would be no objection to the submission of this report and draft of bill to your committee.

Sincerely yours,

CARL R. GRAY, Jr., *Administrator.*

The committee is in accord with the purposes of the bill and recommends its enactment.

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