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SPECIAL DIVIDENDS FOR CERTAIN NSLI POLICYHOLDERS

JUNE 29, 1961.—Ordered to be printed

Mr. BYRD of Virginia, from the Committee on Finance, submitted the following

REPORT

[To accompany H.R. 4539]

The Committee on Finance, to whom was referred the bill (H.R. 4539) to amend section 723 of title 38 of the United States Code to provide for immediate payment of dividends on insurance heretofore issued under section 621 of the National Service Life Insurance Act of 1940 which has been converted or exchanged for new insurance under such section, and for other purposes, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

GENERAL STATEMENT

The purpose of this legislation is to authorize the payment of a special insurance dividend, estimated at approximately $60 million, the average amount of the dividend ranging from $100 to $150.

The veterans who are eligible for this program are those who have national service life insurance of the "RS" or "W" varieties. The RS insurance is entirely term insurance, the premium rate of which increases at the expiration of each 5-year period. The W insurance is both term and permanent, the permanent plans being the usual ones available and the term insurance of this variety with rates also increasing at the end of each 5-year period.

The W insurance was created as a result of the enactment of Public Law 85-896, which provided for those holders of RS policies who wished to exchange them a new type of term insurance not renewable after age 50, but at greatly reduced cost. It also permitted conversion to permanent insurance for the 675,000 policyholders in these two categories. Approximately two-thirds converted from RS to W insurance; the balance have maintained their term insurance at the existing RS rates which are indicated below:

Age	Annual premium per $1,000 insurance	
	Present RS rates	W term rates
20	$2.49	$0.83
30	3.80	1.19
40	6.89	2.85
50	14.14	8.07
60	30.88	

The mortality table on which the RS insurance was calculated was considered to be reasonable at the time the insurance program was started for those veterans who served on or after June 27, 1950. The RS insurance has produced a surplus in the revolving fund of approximately $65 million, and while there is no legal requirement that a dividend be paid (because under the contract the insurance is nonparticipating), equity demands it. This insured group is a limited one; namely, those who obtained insurance within 120 days after their discharge from service on or after June 27, 1950, and prior to January 1, 1957, when Public Law 881 of the 84th Congress terminated the right to this insurance. Thus, the eligibility period ran approximately 5½ years.

This legislation provides for an immediate dividend to all holders of W insurance and to all the holders of RS insurance who exchange or convert their policies within 2 years after enactment of the bill for W insurance. For those holders of RS insurance who do not elect to do this, the dividend will be payable at the time of their death if it occurs after November 1, 1960, and before expiration of the 2-year period.

Inasmuch as there is no legal obligation to pay any dividend, it seems reasonable and fair that the administrative expense to the VA involved in the payment of the special dividend be borne by the revolving fund, thus language to accomplish this purpose is included as a part of the bill.

Holders of RS insurance not electing to exchange or convert their policies will continue to pay the premiums at the rates indicated above and any excess accumulation of that needed to meet death claims will be transferred to the general fund receipts account in the Treasury.

This legislation requires no appropriation of Government funds for the expense to VA of paying the dividend or for the dividend itself.

DEPARTMENTAL REPORT

April 21, 1961.

Hon. Harry F. Byrd,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

Dear Senator Byrd: The following comments are submitted in response to your request for a report on H.R. 4539, 87th Congress.

The general purpose of the bill is to provide, under certain conditions, for the payment in cash of one special dividend on policies of insurance issued originally between April 25, 1951, and January 1, 1957, under section 621 of the National Service Life Insurance Act of 1940 (NSLI Act), to persons who applied therefor within 120 days after release from active duty (most of whom are Korean conflict veterans). Dividends are not now payable on such insurance. The bill is designed to reduce the surplus in the revolving fund in the Treasury established originally under section 621 of the NSLI Act (now 38 U.S.C. 723(a)) and to encourage the conversion or exchange of the 5-year level premium term insurance issued under such section 621 for insurance now authorized under 38 U.S.C. 723(b).

The bill would authorize payment of the special dividend if the policy was in force under certain conditions during any one of the premium months of November or December 1960, or January 1961. Further, the dividend will be payable only if (1) the insurance has been converted or exchanged under 38 U.S.C. 723(b); or (2) the insurance is so converted or exchanged within 2 years after the date of enactment of the bill; or (3) the policyholder dies before such conversion or exchange and his death occurs on or after the premium due date in November 1960 and before the expiration of 2 years after the date of enactment of the bill.

The bill would require the Administrator to determine the administrative cost to the Veterans' Administration of paying the special dividend and transfer the amount thereof from the surplus in the revolving fund to the appropriation "General operating expenses, Veterans' Administration." Also, future surpluses arising in the revolving fund in excess of the actuarial liabilities of the fund, including contingency reserves, are to be transferred from time to time to the general fund receipts in the Treasury.

The 5-year term insurance issued under section 621 of the NSLI Act was originally nonconvertible (could not be converted to permanent plan insurance) and nonparticipating (no dividends are payable thereon). The premium rates for this insurance are based on the Commissioners 1941 Standard Ordinary Table of Mortality and interest at the rate of 2¼ percent per annum. These premiums have resulted in a surplus in the revolving fund of about $60 million which is growing at the rate of $6 to $7 million yearly. It is this surplus which the special dividend is intended to reduce.

As the committee is aware, the premium rates for term insurance increase each 5 years at renewal and at the older ages become practically prohibitive. The World War I group of USGLI term policyholders, now in their sixties and seventies, have experienced great difficulties in meeting the ever-increasing premiums on renewal of their term insurance at these older ages. This experience prompted the Congress to take action, effective January 1, 1959, to permit and encourage the holders of the nonconvertible term insurance issued under section 621 of the NSLI Act (now 38 U.S.C. 723(a)) to convert or exchange such insurance under 38 U.S.C. 723(b) for permanent plan insurance or for limited convertible term insurance which may not be renewed on the term basis after age 50.

The incentive for such conversion or exchange was a considerable reduction (about 65 percent at the younger ages) in the premium rates on the new limited convertible term insurance authorized under 38 U.S.C. 723(b) below the rates for the term insurance issued under section 621 of the NSLI Act. This reduction occurs because of the difference in the mortality tables and rates of interest on which premium rates for the two types of insurance are based. As indicated above, the premium rates for the term insurance issued under section 621 of the NSLI Act (now 38 U.S.C. 723(a)), are based on the Commissioners 1941 Standard Ordinary Table of Mortality and interest at the rate of 2¼ percent per annum. The premium rates on the insurance authorized under 38 U.S.C. 723(b) are based on table X-18 (1950-54 Intercompany Table of Mortality), and interest at the rate of 2¼ percent per annum. As of December 31, 1960, approximately 407,000 (sec. 621) policyholders had converted or exchanged for insurance on the new basis, under 38 U.S.C. 723(b) (known as W insurance) and approximately 253,000 remained on the old term basis (RS insurance).

There is no legal entitlement in the policyholders to the surplus that has accrued in the revolving fund because under the terms of the statute the contract provides that the insurance shall be nonparticipating. However, as pointed out above, the insureds have paid considerably higher premiums than necessary. Accordingly, as a matter of equity it is reasonable for the Congress to distribute this surplus under the conditions generally proposed. The Veterans' Administration recommends favorable consideration of the bill by your committee.

The Bureau of the Budget advises that while there is no objection to the presentation of this report from the standpoint of the administration's program, the Bureau believes that the total administration expenses of the program since its inception should be paid from the retained earnings of the fund before distributing the balance of such earnings as a special dividend.

Sincerely,

J. S. GLEASON, Jr., *Administrator.*

CHANGES IN EXISTING LAW

In compliance with subsection 4 of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill are shown as follows (existing law proposed to be omitted is enclosed in black brackets; new matter is printed in italics; existing law in which no change is proposed is shown in roman):

SECTION 723 OF TITLE 38, UNITED STATES CODE

§ 723. Veterans' special term insurance

(a) Insurance heretofore granted under the provisions of section 621 of the National Service Life Insurance Act of 1940, against the death of the policyholder occurring while such insurance is in force, is subject to the same terms and conditions as are contained in standard policies of National Service Life Insurance on the five-year level premium term plan except (1) such insurance may not be exchanged for or converted to insurance on any other plan; (2) the premium rates for such insurance shall be based on the Commissioners 1941 Standard Ordinary Table of Mortality and interest at the rate of 2¼ per centum per annum; (3) all settlements on policies involving annuities shall be calculated on the basis of The Annuity Table for 1949, and interest at the rate of 2¼ per centum per annum; (4) such insurance and any total disability provision added thereto shall be on a nonparticipating basis and all premiums and other collections therefor shall be credited to a revolving fund in the Treasury of the United States and the payments on such term insurance and any total disability provision added thereto shall be made directly from such fund. Appropriations to such fund are hereby authorized.

(b) Any term insurance heretofore issued under section 621 of the National Service Life Insurance Act of 1940, may be converted to a permanent plan of insurance or exchanged for a policy of limited convertible five-year level premium term insurance issued under this subsection. Insurance issued under this subsection shall be issued upon the same terms and conditions as are contained in the standard policies of National Service Life Insurance except (1) after September 1, 1960, limited convertible term insurance may not be issued or renewed on the term plan after the insured's fiftieth birthday; (2) the premium rates for such limited convertible term or permanent plan insurance shall be based on table X–18 (1950–54 Intercompany Table of Mortality) and interest at the rate of 2½ per centum per annum; (3) all settlements on policies involving annuities on insurance issued under this subsection shall be calculated on the basis of The Annuity Table for 1949, and interest at the rate of 2½ per centum per annum; (4) all cash, loan, paid-up, and extended values, and, except as otherwise provided in this subsection, all other calculations in connection with insurance issued under this subsection shall be based on table X–18 (1950–54 Intercompany Table of Mortality) and interest at the rate of 2½ per centum per annum; (5) insurance and any total disability provision added thereto issued under this subsection shall be on a nonparticipating basis and all premiums and other collections therefor shall be credited directly to the revolving fund referred to in subsection (a) and payments on such insurance and any total disability provision added hereto shall be made directly from such fund.

(c) The Administrator is authorized to invest in, and the Secretary of the Treasury is authorized to sell and retire, special interest-bearing obligations of the United States for the account of the revolving fund with a maturity date as may be agreed upon by the Administrator and Secretary. The rate of interest on such obligations shall be fixed by the Secretary of the Treasury at a rate equal to the rate of interest, computed as of the end of the month preceding the date of issue of such oblitations, borne by all marketable interest-bearing obligations of the United States then forming a part of the public debt that are not due or callable until after the expiration of five years from the date of original issue; except that where such average rate is not a multiple of one-eighth of 1 per centum, the rate of interest of such obligations shall be the multiple of one-eighth of 1 per centum nearest such average rate.

(d) The Administrator shall determine the amount in the revolving fund referred to in subsection (a) of this section which is in excess of the actuarial liabilities of such fund including contingency reserves. Such excess shall be paid in cash as a special dividend, without interest, subject to the conditions provided in this subsection. The Administrator shall determine the administrative cost to the Veterans' Administration of paying such dividend, which cost shall be deducted from the excess and transferred to the appropriation, "General operating expenses—Veterans' Administration." Insurance issued under section 621 of the National Service Life Insurance Act of 1940 or converted or exchanged under subsection

(b) of this section which was in force by waiver or timely payment of premiums or as paid-up or extended term insurance during one of the premium months beginning with the month of November 1960 and ending with the month of January 1961, may be eligible for the special dividend, subject to such conditions, other than specified in this subsection, as the Administrator shall determine to be reasonable and practicable. The dividend shall be paid, as soon as practicable, after whichever of the following dates is the latest:

(1) the date of enactment of this subsection in case of insurance heretofore converted or exchanged under subsection (b) of this section;

(2) the date insurance issued under section 621 is converted or exchanged under subsection (b) of this section if such conversion or exchange is made within two years after the date of enactment of this subsection; or

(3) the date of death of the policyholder where insurance issued under section 621 is not converted or exchanged and such death occurs on or after the premium due date in November 1960 and before the expiration of two years after the date of enactment of this subsection.

(e) After March 1, 1961, the Administrator shall from time to time transfer from the revolving fund referred to in subsection (a) of this section to general fund receipts in the Treasury such amounts as he determines are in excess of the actuarial liabilities of the fund including contingency reserves.

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