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ENDOWMENT AT AGE 96 FOR WORLD WAR I TERM INSURANCE POLICYHOLDERS

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

REPORT

[To accompany H.R. 10068]

The Committee on Finance, to whom was referred the bill (H.R. 10068) to amend section 742 of title 38, United States Code, to permit the exchange of 5-year term policies of U.S. Government life insurance to a special endowment at age 96 plan, having considered the same, report favorably thereon, without amendment, and recommend that the bill do pass.

GENERAL EXPLANATION

H.R. 10068 amends section 742 of title 38, United States Code, to provide that an insured who, on or after his 65th birthday, has a 5-year level premium term policy of U.S. Government life insurance (USGLI) in force by payment of premiums may exchange such policy for insurance on a special endowment plan payable at age 96. This plan provides primarily for death protection; however, in those cases where the policy is in force on the anniversary date nearest the insured's 96th birthday, the insurance matures as an endowment. The new special endowment plan of insurance would be offered on a voluntary basis upon written application, payment of the required premium, and surrender of the term policy and any total disability provision attached thereto with all rights, title, and interest thereunder. The new endowment policy will not mature because of the total permanent disability of the insured; however, the insured, upon application at the time of the exchange and payment of an extra premium, may be issued a provision which would provide for waiver of premiums on the new policy (including premiums on such a provision) during the total and permanent disability of the insured which commences after the date of the application for the provision and while payment of premiums is not in default.

The Veterans' Administration, the Congress, and veterans' organizations are aware of the problems that arise because of failure on the part of certain veterans to convert their term policies to permanent plans of insurance. H.R. 10068 is designed to alleviate these problems with respect to U.S. Government life insurance term policyholders who are age 65 or older and who find that the premiums on their 5-year term insurance (which increase with each 5-year renewal) are prohibitive. There are at the present time approximately 14,000 term policies of U.S. Government life insurance in force. About 10,000 U.S. Government life insurance term policyholders will be age 65 or over in 1962, and about 7,000 term policyholders of all ages will have to renew their 5-year term policies during 1962. The average increase in premium rates at renewal for persons age 65 or older will be more than 55 percent.

All existing U.S. Government life insurance policies contain provisions for maturity of the insurance upon the death or the total permanent disability of the insured. If the insured becomes totally and permanently disabled while the insurance is in force, the face amount of a policy is payable in 240 equal monthly installments to the insured with such payments continuing during permanent total disability so long as he lives. If the disabled insured dies before 240 installments are paid, the commuted value of the remaining unpaid installments are payable to the beneficiary. If such insured recovers from his disability before 240 installments are paid, the commuted value of the remaining unpaid installments are restored to insurance on a premium-paying basis.

The premiums charged insureds for insurance on the special endowment at age 96 plan will not increase and will be lower than premiums on the existing term policies. It is expected that this lower cost will salvage a valuable part of the total protection which might otherwise be abandoned because of the insured's inability to pay the ever-increasing premiums on his term insurance. The elimination of the provision which matures the policy because of the total permanent disability of the insured will permit the issuance of the new endowment policy on a level premium basis at a reduction in cost. As may be seen in the enclosed premium tabulations the new plan will permit some reduction in cost even in those cases where the policyholder elects to pay an additional premium for the waiver of premium provision. Insurance on the special endowment plan payable at age 96 will have cash, loan, paid-up, and extended term insurance values.

The bill provides that if it is found after the exchange that prior thereto the 5-year term policy matured because of total permanent disability of the insured or that he was entitled to benefits under the total disability provision attached to his term policy, the insured shall have the right to elect to surrender the new endowment policy and any waiver of premium provisions attached thereto and to receive the benefits payable under the prior contract. In such cases, the cash value of the endowment policy less any indebtedness and any premiums paid on the waiver of premium provision would be refunded.

Under the new endowment plan, an insured who purchases the provision for waiver of premiums and who subsequently becomes totally and permanently disabled while the insurance and the provision are in force, upon filing a timely claim, will be eligible for waiver of premiums on his insurance and the provision so long as he remains totally and permanently disabled. On the other hand, an insured who exchanges his term insurance for the new endowment plan but who does not purchase the waiver of premium provision must continue to pay premiums until death or maturity at age 96, whichever first occurs, irrespective of any disability he may incur after such exchange.

It is not known how many U.S. Government life insurance term policyholders would exchange their policies for insurance on the new endowment plan. Under the bill all such insureds over age 65 will be notified of the right to make such an exchange and will be given a full explanation of the rights they would be giving up in making such an exchange. If the 5-year term policyholder has an existing disability which may be totally and permanently disabling, he should, of course, file claim for benefits rather than exchange his insurance.

The premiums on the new policy are as indicated in the table reproduced below:

Premium rates per $1,000 insurance for special endowment at 96

Age at issue	Monthly		Quarterly		Semiannual		Annual	
	Without premium waiver	With premium waiver	Without premium waiver	With premium waiver	Without premium waiver	With premium waiver	Without premium waiver	With premium waiver
65	$2.70	$3.77	$8.08	$11.28	$16.08	$22.46	$31.89	$44.53
66	2.77	3.93	8.29	11.76	16.50	23.41	32.72	46.42
67	2.85	4.11	8.53	12.29	16.98	24.48	33.67	48.55
68	2.94	4.30	8.79	12.86	17.51	25.62	34.73	50.80
69	3.03	4.48	9.06	13.40	18.05	26.69	35.79	52.92
70	3.14	4.68	9.39	14.00	18.71	27.88	37.09	55.28
71	3.26	4.88	9.75	14.60	19.42	29.07	38.51	57.65
72	3.40	5.08	10.17	15.20	20.25	30.26	40.16	60.01
73	3.56	5.29	10.65	15.82	21.21	31.51	42.05	62.49
74	3.76	5.54	11.25	16.57	22.40	33.00	44.42	65.44
75	4.01	5.86	12.00	17.53	23.89	34.91	47.37	69.22
76	4.30	6.23	12.86	18.64	25.62	37.11	50.80	73.59
77	4.65	6.69	13.91	20.01	27.70	39.85	54.93	79.03
78	5.07	7.26	15.17	21.72	30.20	43.25	59.89	85.76
79	5.58	7.95	16.69	23.78	33.24	47.36	65.92	93.91
80	6.18	8.74	18.49	26.15	36.82	52.07	73.00	103.24
81	6.90	9.72	20.64	29.08	41.10	57.90	81.51	114.82
82	7.75	10.87	23.18	32.52	46.17	64.76	91.55	128.41
83	8.77	12.23	26.23	36.59	52.24	72.86	103.60	144.47
84	9.99	13.84	29.88	41.40	59.51	82.45	118.01	163.49
85	11.49	15.93	34.37	47.65	68.45	94.90	135.73	188.18
86	13.50	18.63	40.38	55.73	80.42	110.98	159.47	220.07
87	15.16	21.08	45.35	63.06	90.31	125.58	179.08	249.02
88	16.33	23.15	48.85	69.25	97.28	137.91	192.90	273.47
89	17.66	25.53	52.83	76.37	105.20	152.09	208.62	301.58
90	19.22	28.30	57.50	84.66	114.50	168.59	227.04	334.30

NOTE.—This policy is available only at ages 65 or over as a conversion from a U.S. Government life insurance 5-year term.

The exceedingly high rates which must be charged on this insurance, and which increase with each 5-year renewal, are graphically shown on the table reproduced below:

U.S. Government life insurance—Comparison of annual premiums per $1,000 insurance

Age at issue	Special endowment at age 96		Regular U.S. Government life insurance premiums for comparison purposes	
	Without premium waiver	With premium waiver	5-year term (net after dividends)	Book rate, 5-year term
65	$31.89	$44.53	$34.90	$46.78
70	37.09	55.28	54.29	72.77
75	47.37	69.22	82.96	111.16
80	73.00	103.24	132.08	176.96
85	135.73	188.18	205.23	312.92
90	227.04	334.30	----------	652.78

NOTE.—The premiums on the endowment policy are set at issue and remain the same throughout the duration of the contract.

DEPARTMENTAL VIEWS

The Veterans' Administration recommends favorable consideration of H.R. 10068.

The Veterans' Administrator advises that the new endowment plan is actuarially sound and will not adversely affect the rights of other policyholders in the U.S. Government life insurance fund. There will, of course, be some administrative cost involved, but in view of the relatively small group concerned, it will not be substantial.

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 italic; existing law in which no change is proposed is shown in roman):

SECTION 742, TITLE 38, UNITED STATES CODE

§ 742. Plans of insurance

(*a*) Regulations shall provide for the right to convert insurance on the five-year level premium term plan into ordinary life, twenty-payment life, endowment maturing at age sixty-two, and into other usual forms of insurance as may be prescribed by the Administrator. Provision shall be made for reconversion of any such policies to a higher premium rate or, upon proof of good health satisfactory to the Administrator, to a lower premium rate, in accordance with regulations to be issued by the Administrator. No reconversion shall be made to a five-year level premium term policy.

(*b*) *An insured who on or after his sixty-fifth birthday has a five-year level premium term policy of insurance in force by payment of premiums may exchange such policy for insurance on a special endowment at age ninety-six plan upon written application; payment of the required premium; and surrender of the five-year level premium term policy and any total disability provision attached thereto with all rights, title, and interest thereunder. However, if it is found by the Administrator subsequent to the exchange that prior thereto the term policy matured because of total permanent disability of the insured or that he was entitled* *to total disability benefits under the total disability provision attached to such policy, the insured, upon surrender of the special endowment at age ninety-six policy and any provision for waiver of premiums issued under subsection (c) of this section with all rights, title, and interest thereunder, will be entitled to benefits payable under the prior contract. In such case, the cash value less any indebtedness on the endowment policy shall be refunded together with any premiums paid on a provision for waiver of premiums. Insurance on the special endowment at age nineth-six plan shall be issued at the attained age of the insured upon the same terms and conditions as are contained in standard policies of United States Government Life Insurance except:*

(1) the insurance shall not mature and no benefits shall be paid thereunder because of total permanent disability;

(2) the premiums for such insurance shall be as prescribed by the Administrator;

(3) such insurance cannot be exchanged, converted, or reconverted to any other plan of insurance;

(4) all cash, loan, paid-up, and extended term insurance values shall be as prescribed by the Administrator; and

(5) the insurance shall be subject to such other changes in terms and conditions as the Administrator determines to be reasonable and practicable.

(c) The Administrator shall, upon application made by the insured at the same time as he exchanges his term policy for an endowment policy issued under the provisions of subsection (b) of this section, and upon payment of such extra premium as the Administrator shall prescribe, include in such endowment policy a provision for waiver of premiums on the policy and on the provision during the total permanent disability of the insured, if such disability began after the date of such application and while the policy and the provision are in force by payment of premiums. The Administrator shall not grant waiver of any premium becoming due more than one year before receipt in the Veterans' Administration of claim for the same, except as provided in this subsection. Any premiums paid for months during which waiver is effective shall be refunded. The Administrator shall provide by regulations for examination or reexamination of an insured claiming waiver of premiums under this subsection, and may deny waiver for failure to cooperate. If it is found that an insured is no longer totally and permanently disabled, the waiver of premiums shall cease as of the date of such finding and the policy and provision may be continued by payment of premiums as provided therein. In any case in which the Administrator finds that the insured's failure to make timely claim for waiver of premiums, or his failure to submit satisfactory evidence of the existence or continuance of total permanent disability was due to circumstances beyond his control, the Administrator may grant waiver or continuance of waiver of premiums. If the insured dies without filing claim for waiver, the beneficiary, within one year after the death of the insured, or, if the beneficiary is insane or a minor, within one year after removal of such legal disability, may file claim for waiver with evidence of the insured's right to waiver under this subsection. Policies containing a provision for waiver of premiums issued under this subsection may be separately classified for the purpose of dividend distribution from otherwise similar policies not containing such provision.

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