

WAIVER OF INSURANCE PREMIUMS UPON BECOMING DISABLED PRIOR TO AGE 65

JUNE 25, 1964.—Ordered to be printed

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

REPORT

[To accompany H.R. 6777]

The Committee on Finance, to whom was referred the bill (H.R. 6777) to amend section 712 of title 38 of the United States Code to provide for waiver of premiums for certain veterans holding national service life insurance policies who become or have become totally disabled before their 65th birthday, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

EXPLANATION OF THE BILL

The purpose of this bill is to extend from age 60 to age 65 the delimiting age before which a person insured under a national service life insurance (NSLI) policy must become totally disabled to be eligible for waiver of premiums on such insurance. Under section 712 of title 38, United States Code, as now in effect, payment of premiums on NSLI may be waived during the continuous total disability of the insured, which continues or has continued for six or more consecutive months if such total disability began (1) after the date of application for insurance, (2) while the insurance was in force under premium paying conditions, and (3) before the insured's 60th birthday. The waiver is effective from the beginning of the total disability, if application is made within 1 year therefrom, and the waiver continues for the duration of such disability.

The age 60 limitation was placed in the law in 1940 when the National Service Life Insurance Act was enacted. Today the trend in the insurance industry is toward providing more health protection for our senior citizens. This trend is based upon experience which has established that persons age 60 and over who are alive today can

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expect to live longer, healthier, and more productive lives than could a similar person in 1940. The Veterans' Administration has, therefore, recently restudied the question of premium waiver for the older veterans. As the result of such restudy the VA advises that it favors the objective of H.R. 6777. Further, we understand that the Actuarial Advisory Committee, composed of eminent authorities from the private insurance industry, concurs in this position.

COST ESTIMATE

It should be pointed out that almost 88 percent of all NSLI policies in force are participating and any additional benefit cost which will flow from this extended coverage will be borne solely by the policyholders themselves in the form of very slightly reduced dividends. *This cost will range from zero to a maximum of \$12 per year for each policyholder and is expected to average approximately 20 cents per year per policyholder.*

As to the relatively small group of nonparticipating policies (under 38 U.S.C. 723) there is now a substantial surplus in the revolving fund and future premiums are expected to continue to add to this surplus. The Veterans' Administration believes that the benefit cost of this bill as to such group will be met by earnings from premiums and interest and the proposal to set aside \$1,350,000 as additional contingency reserves (out of amounts that would otherwise be transferred from this surplus to the Treasury) is simply for conservative fiscal management. When this type of nonparticipating insurance was originally authorized by the Congress there was no intent that the veterans' excess premiums should enrich the Federal Treasury.

As to administrative costs, all of the over 5.6 million policies now in force have the benefit of the existing statute (38 U.S.C. 782) which has provided since the inception of the program that the United States shall bear such administrative costs. The committee has no intention in this instance of departing from this longstanding policy as to existing contracts and the only cost involved in this proposal is as listed in the VA letter on page 11.

Pertinent information on this subject follows:

Government life insurance programs for veterans and servicemen—Distribution of in-force as of the end of 1962 by ages attained in 1962

Attained age in 1962	World War I, USGLI (K)		World War II, NSLI (V)		Korean, VSLI (RS & W)		Service disabled, SD VI (RH)	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
25 and under			66	\$467,228	6,769	\$58,222,358	5,253	\$48,115,651
26			40	288,859	13,271	119,125,818	2,792	25,550,701
27			115	1,000,365	33,528	303,858,056	3,555	32,281,687
28			3,981	35,163,360	59,360	534,968,654	4,317	39,139,166
29			28,322	232,493,921	112,654	1,004,756,924	5,333	48,166,789
30			83,983	675,325,031	115,383	1,024,544,505	5,536	49,153,958
31			133,344	1,035,587,841	103,367	913,057,236	5,098	44,692,068
32			166,297	1,265,127,407	80,514	710,638,779	4,484	38,433,294
33			154,282	1,388,169,773	54,790	484,504,080	3,228	27,857,782
34			193,481	1,387,148,311	29,569	259,978,159	2,180	18,580,804
35			237,077	1,616,927,345	10,403	88,615,035	1,217	10,346,548
36			226,246	1,490,398,193	6,258	52,831,268	888	7,537,987
37	1	\$338	235,326	1,520,749,798	3,486	28,806,481	705	5,981,730
38	4	6,000	252,881	1,616,963,803	2,394	19,738,482	540	4,489,778
39	121	295,967	252,500	1,594,950,736	2,060	17,072,104	495	4,145,000
40	2,429	4,650,375	255,676	1,591,642,484	1,795	14,457,500	546	4,331,500
41	6,478	12,326,545	282,872	1,760,607,937	1,501	12,141,000	533	4,340,500
42	7,116	14,233,302	281,081	1,732,893,715	1,294	10,610,500	490	3,816,196
43	6,591	15,881,115	250,949	1,524,953,674	1,053	8,509,000	435	3,428,711
44	6,516	19,867,411	244,935	1,502,719,323	1,097	8,818,027	409	3,152,000
45	5,768	20,839,301	215,308	1,327,793,533	1,000	7,832,500	393	2,984,000
46	5,251	20,128,103	194,210	1,208,861,685	915	6,880,000	303	2,329,500
47	4,609	19,035,759	172,947	1,077,449,170	751	5,617,500	290	2,204,500
48	3,610	15,259,150	150,505	934,942,148	706	5,473,000	249	1,748,990
49	2,901	12,856,627	131,631	818,755,932	604	4,572,000	219	1,550,941
50	2,251	9,754,847	120,101	753,485,963	523	3,976,383	181	1,358,000
51	1,843	8,294,433	106,990	672,900,056	481	3,539,000	168	1,215,500
52	1,695	7,814,541	97,264	618,687,067	400	2,786,500	137	905,500
53	1,541	7,760,118	87,805	561,979,183	327	2,156,500	126	869,000
54	1,512	7,661,246	81,833	525,821,501	306	2,115,000	123	796,500
55	1,379	7,001,127	72,933	408,537,756	275	1,869,000	99	652,500
56	1,158	5,740,708	58,461	371,855,618	216	1,421,000	80	478,000
57	1,180	5,201,550	39,752	248,691,373	171	1,076,000	65	423,000
58	1,224	5,456,663	24,876	160,493,167	159	1,067,500	52	343,000
59	1,352	5,773,756	21,117	135,616,633	122	783,000	44	303,500
60	1,875	8,335,148	18,116	115,230,929	115	689,500	35	223,000
61	2,800	13,319,975	14,941	93,875,480	99	620,500	36	249,000
62	9,727	49,699,673	12,993	77,662,801	68	461,500	22	139,000
63	14,006	68,704,354	10,266	59,071,084	54	385,000	34	197,500
64	15,448	76,305,323	8,811	49,952,320	39	240,000	30	171,000
65	19,705	91,350,134	6,487	36,544,338	31	177,500	28	180,500
66	25,007	111,546,342	3,779	22,629,319	28	185,000	15	107,000
67	24,651	110,848,660	2,987	17,947,223	30	225,000	20	157,500

Government life insurance programs for veterans and servicemen—Distribution of in-force as of the end of 1962 by ages attained in 1962—Con.

Attained age in 1962	World War I, USGLI (K)		World War II, NSLI (V)		Korean, VSLI (RS & W)		Service disabled, SD VI (RE)	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
68.....	21,952	\$99,482,700	2,375	\$13,927,578	32	\$196,500	15	\$126,000
69.....	18,548	84,748,298	1,954	11,321,328	12	84,000	17	112,500
70.....	15,674	72,772,883	1,479	8,517,962	14	71,000	4	24,000
71.....	12,062	57,922,820	1,005	5,766,665	9	43,500	6	39,000
72.....	10,026	47,719,984	749	4,403,755	4	37,000	1	10,000
73.....	7,878	38,416,673	631	3,391,372	3	13,000	1	4,000
74.....	6,264	29,981,802	480	2,507,799	5	15,000		
75.....	4,699	22,810,053	333	1,755,303			1	7,000
76.....	2,446	12,976,972	238	1,187,308				
77.....	1,147	6,773,638	154	746,312				
78.....	848	5,209,573	124	539,246				
79.....	636	3,855,069	65	317,070				
80.....	483	2,927,485	55	226,500				
81.....	442	2,650,069	32	162,000				
82.....	324	1,942,441	11	51,500				
83.....	266	1,624,593	15	57,500				
84.....	183	1,027,015	4	32,000				
85 and over.....	490	2,849,533	9	44,498				
Total.....	284,067	1,251,740,212	4,977,880	32,387,319,370	648,045	5,729,864,849	50,828	443,451,281

Personnel in insurance offices

	Insurance personnel on rolls as of—		
	June 30, 1961	June 30, 1962	June 30, 1963
Central office.....	275	269	¹ 118
Philadelphia Insurance Center.....	2,223	1,853	1,600
Philadelphia Data Processing Center.....			² 29
Denver.....	544	500	³ 6
St. Paul.....	482	445	³ 570
Total.....	3,524	3,073	2,332

¹ Actual personnel on rolls, Central Office, Department of Insurance, as of Jan. 31, 1963, prior to reorganization—257. The estimated insurance employment prior to reorganization as of June 30, 1963—255.

Subsequent to reorganization (effective Feb. 1, 1963), actual insurance service employment as of June 30, 1963, was 118 (July 1, 1963—113). The difference of 137 (255—118) resulted from transfers of personnel to other activities within the Department of Veterans' Benefits and transfers to the Department of Data Management.

² Data Processing Center established July 1962; personnel on rolls end of July 1962—18.

³ Denver consolidated with St. Paul in June 1963. Staffing prior to consolidation as of:

	Apr. 30, 1963	May 31, 1963
Denver.....	425	395
St. Paul.....	460	464

Number of insurance policies in force, June 30, 1963:

	Philadelphia	St. Paul	Total
NSLI.....	3,024,159	2,034,363	5,058,522
USGLI.....	277,276		277,276

EXPENDITURES FOR INSURANCE OPERATIONS, FISCAL YEAR 1961 THROUGH FISCAL YEAR 1964

	Fiscal year 1961	Fiscal year 1962	Fiscal year 1963	Fiscal year 1964	Estimated average employment, fiscal year 1964
Philadelphia.....	\$15,363,615	\$13,552,124	\$13,701,005	\$5,904,000	928
Denver.....	3,725,587	3,436,386	3,700,021		
St. Paul.....	3,570,851	3,283,459	3,581,845	3,120,000	480
Central office.....	2,541,940	2,523,755	2,568,915	1,095,000	113
Field office cost paid by central office ¹	720,846	649,284	735,638		
Manila.....	16,300	13,165	7,908		
Total.....	25,930,139	23,458,173	24,395,532	10,128,000	1,521

¹ Principally postage cost.

² The increase in operating cost for fiscal year 1963 was due to nonrecurring costs of about \$2,800,000 for the purchase of automatic data processing equipment.

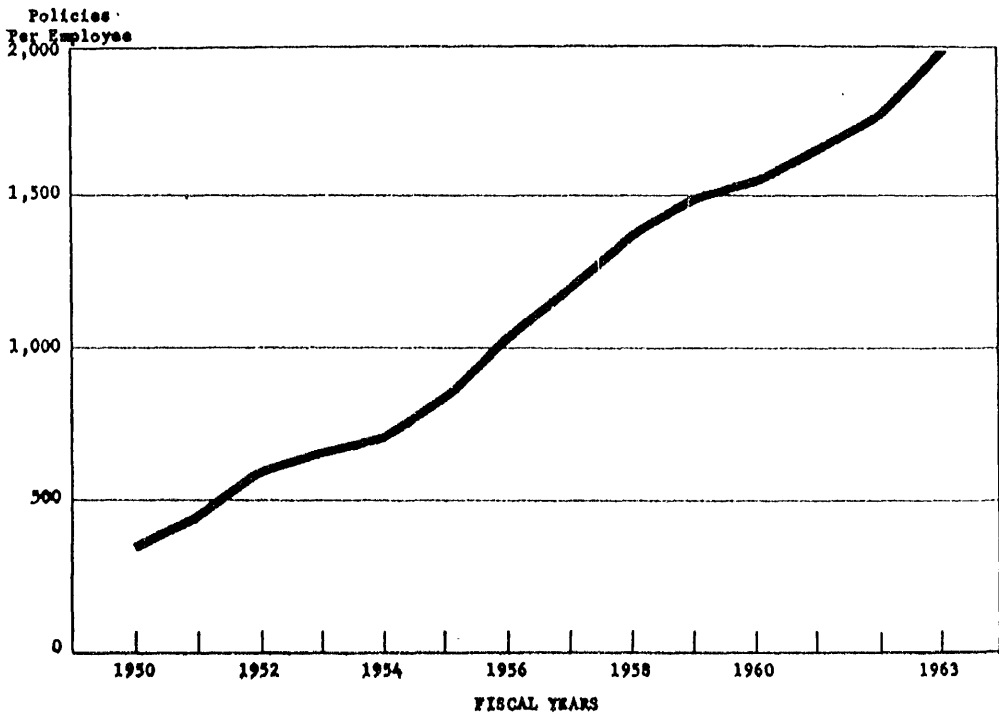
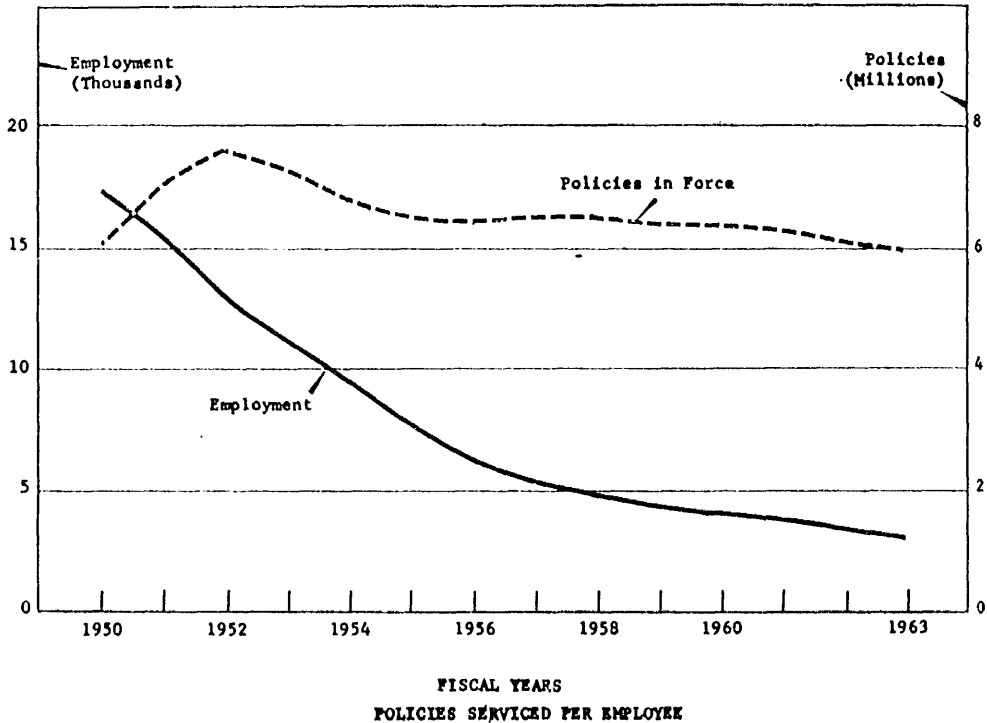
³ Represents only personal service and travel costs. The recent reorganization resulted in transfer of all data processing functions from insurance to the Department of Data Management and the administrative, finance, and personnel functions from insurance to other elements of the Department of Veterans' Benefits. Costs other than personal services and travel are budgeted on the basis of total station and total central office requirements rather than by program.

Insurance employment declined from an average of 17,432 in fiscal year 1950 to an average of 3,001 for fiscal year 1963. Thus, in 1950, 1 employee was needed to service about 350 insurance accounts. Today, 1 employee services about 1,988 accounts—more than 5½ times the number serviced only 13 years ago. Major factors con-

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tributing to this accomplishment were reorganization combined with consolidation of field stations; many improvements and refinements to operating procedures, systems, and methods, including use of the latest mechanical and electronic equipment; and increased employee productivity attained through training and experience.

EMPLOYMENT AND WORKLOAD TRENDS



DEPARTMENTAL REPORT

The favorable report of the Veterans' Administration follows:

DECEMBER 12, 1963.

HON. HARRY F. BYRD,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: Further reference is made to your request for a report on H.R. 6777, 88th Congress.

The purpose of the bill is to extend from age 60 to age 65 the delimiting age before which a person insured under a national service life insurance (NSLI) policy must become totally disabled to be eligible for waiver of premiums on such insurance.

Under 38 U.S.C. 712 payment of premiums on NSLI may be waived during the continuous total disability of the insured, which continues or has continued for 6 or more consecutive months if such total disability began (1) after the date of application for insurance, (2) while the insurance was in force under premium paying conditions, and (3) before the insured's 60th birthday. The waiver is effective from the beginning of the total disability, if application is made within 1 year therefrom, and the waiver continues for the duration of such disability.

As you know, the Veterans' Administration in the past has opposed extension of the delimiting age for waiver of NSLI premiums from age 60 to age 65. When the National Service Life Insurance Act was originally enacted in 1940, the age 60 limitation on the grant of premium waiver was more liberal than the then general practice of private insurance companies. Today the trend in the insurance industry is toward providing more health protection for our senior citizens. This trend is based upon experience which has established that persons age 60 and over who are alive today can expect to live longer, healthier, and more productive lives than could a similar person in 1940. In the light of this we restudied the question of premium waiver for the older veterans. After such restudy we are of the opinion that the extension from age 60 to age 65 of the delimiting age for waiver of premiums will be of considerable value to a large percentage of NSLI policyholders and that the extension has now become an insurable risk area, the cost of which is ascertainable. The matter of such an extension has also been explored with our Actuarial Advisory Committee, composed of eminent authorities from the private insurance industry. They concur in our recommendation that your committee favorably consider legislation such as H.R. 6777.

Since the inception of the program, the premiums on NSLI have been calculated without charge for the waiver of premium benefit granted under such policies where total disability commences prior to age 60. The cost of such premium waiver on participating insurance (other than the cost of waiver of premiums on account of total disability traceable to the extra hazard of service) has been deducted from the surplus that would otherwise have been payable as dividends to the policyholders. Hence, the participating policyholders have been paying most of the cost of the existing age 60 premium waiver benefit. If the delimiting age for waiver of premiums is extended from age 60 to age 65 as proposed by the bill, the additional cost (other than that traceable to the extra hazard of service) on participating policies will

also be deducted from the surplus that would otherwise be available for dividends and will thus be borne by the policyholders. Under 38 U.S.C. 721(c) the cost of premium waiver on participating insurance, where total disability is traceable to the extra hazard of service, is paid by the United States.

The premiums on nonparticipating NSLI issued under section 621 of the NSLI Act and 38 U.S.C. 723(b) are credited to a revolving fund in the Treasury, and liabilities on such insurance are paid from that fund. The fund belongs to the Government and under 38 U.S.C. 723(c) any amounts in excess of the actuarial liabilities of the revolving fund are transferred to the general fund receipts of the Treasury. The extension of the delimiting age for waiver of premiums from age 60 to age 65 will require the establishment of extra reserves in the revolving fund to pay for the benefit granted. These extra reserves will come from the earnings of the fund or from any excess held for the special dividend under 38 U.S.C. 723(d) which cannot be paid in accordance with that section. They will reduce the amount which would otherwise be available for transfer from the 38 U.S.C. 723 revolving fund to the general fund receipts of the Treasury. To this extent the cost of the bill with respect to these policies will be borne by the Government.

The extension proposed by the bill will have little effect on the nonparticipating service disabled veterans insurance issued under section 620 of the NSLI Act or 38 U.S.C. 722(a). Waiver of premiums on such insurance is granted even though the service-connected disability becomes total before the effective date of the insurance. Since many of the persons insured under such provisions are totally disabled at the time their insurance is issued and such disability often continues for life, they never pay any premiums. Many others are seriously disabled at the time the insurance is issued and become totally disabled prior to age 60, the existing age limitation for waiver of premiums. This insurance is not self-supporting and the additional cost of the bill, if any, with respect to these policies will be borne by the taxpayers.

The cost of providing waiver of premiums on account of total disability is not the same for all policyholders but varies with the plan of insurance and the age of the insured. If the age limitation for waiver of premiums is extended from age 60 to age 65, the cost would be greater under the renewable term, ordinary life, and endowment at age 65 plans than on most 20- and 30-payment life and 20-year endowment plans. Many of these latter plan policies will be paid up prior to age 60. Obviously such policyholders could not benefit under the bill. Since premiums on renewable term and ordinary life plan insurance are payable for life, these two groups of insureds would receive the greatest benefit under the bill.

All policyholders should be treated equitably. All within a given class of policyholders should be treated in a like manner, and should generally pay for the benefits granted to that particular class. No class of policyholders should be required to suffer a substantial loss or diminution of dividends because of a benefit granted to another class or other classes of policyholders. As indicated above, the benefit cost of the bill on the participating policies (other than that traceable to the extra hazard of service) will be borne by such policyholders through a reduction in their dividends. In order to properly assess

the cost of the extension to the various classes of participating policyholders it is necessary that the change proposed by the bill be made effective at a date sufficiently in the future to permit a proper reduction in their dividends to cover the benefit granted, and to preclude retroactive waiver of premiums for any period prior to the effective date of the legislation.

H.R. 6777 therefore provides for an effective date of January 1, 1965. Thus, if the legislation is enacted the dividend payable during the calendar year 1965 can be appropriately reduced to bear the cost of the extension for the participating policyholders. Under the bill insureds who have become totally disabled between age 60 and age 65 prior to its effective date and who have remained continuously totally disabled can obtain waiver of future premiums if their insurance is in force on such effective date and the other requirements for waiver are met. The bill precludes retroactive waiver of premiums prior to January 1, 1965, for such persons since the cost of the proposed extension cannot be assessed prior to that date.

It is estimated that the additional claims cost of the bill to the Government on participating insurance for waiver of premiums on account of total disability traceable to the extra hazard of service and the additional benefit claims cost on service disabled veterans insurance issued under section 620 of the NSLI Act and 38 U.S.C. 722(a) will be negligible. As pointed out above, the additional benefit claims cost of the bill on insurance issued under section 621 of the NSLI Act and 38 U.S.C.723(b) will be met by setting up additional reserves out of amounts that would otherwise be transferred from the revolving fund to the general fund receipts in the Treasury. It is estimated that about \$1,350,000 will be needed for this purpose.

The following estimate of administrative cost of the bill is based upon the assumption that notification of the proposed change effected thereby will be mailed to the policyholders over a 1-year period. Based upon this assumption it is estimated that the administrative cost of the bill to the Veterans' Administration for the first 5 years after January 1, 1965, will be as follows:

1st year.....	\$418, 300
2d year.....	108, 400
3d year.....	84, 900
4th year.....	108, 400
5th year.....	131, 800

The Veterans' Administration recommends favorable consideration of H.R. 6777 by your committee.

Advice was received from the Bureau of the Budget with respect to a similar report on this bill to the House Committee on Veterans' Affairs that there was no objection to the presentation of such report from the standpoint of the administration's program. The Bureau, however, is of the belief that all expenses relating to any extensions of coverage should properly be borne by the insureds who elect such coverage and paid by an added premium, rather than by Federal funds.

Sincerely,

J. S. GLEASON, Jr.,
Administrator.

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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 712, TITLE 38, UNITED STATES CODE

§ 712. Total disability waiver

(a) Upon application by the insured and under such regulations as the Administrator may promulgate, payment of premiums on insurance may be waived during the continuous total disability of the insured, which continues or has continued for six or more consecutive months, if such disability began (1) after the date of his application for insurance, (2) while the insurance was in force under premium-paying conditions, and (3) before the insured's [sixtieth] *sixty-fifth* birthday. *Notwithstanding any other provision of this chapter, in any case in which the total disability of the insured commenced on or after his sixtieth birthday but before his sixty-fifth birthday, the Administrator shall not grant waiver of any premium becoming due prior to January 1, 1965.*

(b) The Administrator, upon any application made after August 1, 1947, shall not grant waiver of any premium becoming due more than one year before the receipt in the Veterans' Administration of application for the same, except as provided in this section. 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 benefits under this section, and may deny benefits for failure to cooperate. If it is found that an insured is no longer totally disabled, the waiver of premiums shall cease as of the date of such finding and the policy of insurance may be continued by payment of premiums as provided in said policy. In any case in which the Administrator finds that the insured's failure to make timely application for waiver of premiums or his failure to submit satisfactory evidence of the existence or continuance of total disability was due to circumstances beyond his control, the Administrator may grant waiver or continuance of waiver premiums.

(c) If the insured dies without filing application 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 application for waiver with evidence of the insured's right to waiver under this section. Premium rates shall be calculated without charge for the cost of waiver of premiums provided in this section and no deduction from benefits otherwise payable shall be made on account thereof.

(d) In any case in which an insured has been denied or would have been denied premium waiver under section 602(n) of the National Service Life Insurance Act of 1940 or this section solely because he became totally disabled between the date of valid application for insurance and the subsequent effective date thereof, and in which it is shown that (1) the total disability was incurred in line of duty between October 8, 1940, and July 31, 1946, inclusive, or June 27,

1950, and April 30, 1951, inclusive, and (2) the insured remained continuously so totally disabled to the date of death or the date of enactment of this subsection, whichever is earlier, the Administrator may grant waiver of premiums from the beginning of and during the continuous total disability of such insured. Application for waiver of premiums under this subsection must be filed by the insured or, in the event of his death, by the beneficiary within two years after the date of enactment of this subsection, except that if the insured or the beneficiary be insane or a minor within the two-year period, application for such waiver may be filed within two years after removal of such legal disability, or if an insane insured shall die before the removal of the disability, application may be filed by the beneficiary within two years after the insured's death. No insurance shall be placed in force under this subsection in any case in which there was an award of benefits under the Servicemen's Indemnity Act of 1951 or of gratuitous insurance under section 722(b) of this title. The amount of insurance placed in force hereunder together with any other United States Government life insurance or national service life insurance in force at the time of death, or at the time of the insured's application for waiver hereunder, may not exceed \$10,000 and shall be reduced by the amount of any gratuitous insurance awarded under the National Service Life Insurance Act of 1940. Waiver of premiums under this subsection shall render the insurance nonparticipating during the period such premium waiver is in effect. The cost of waiver of premium and death benefits paid as a result of this subsection shall be borne by the United States.

