

VETERANS REOPENED INSURANCE FUND

MAY 26 (legislative day, MAY 24), 1965.—Ordered to be printed

Mr. LONG of Louisiana, from the Committee on Finance, submitted the following

REPORT

[To accompany H. R. 7597]

The Committee on Finance, to whom was referred the bill (H. R. 7597) to establish the veterans reopened insurance fund in the Treasury and to authorize initial capital to operate insurance programs under title 38, United States Code, section 725, having considered the same, report favorably thereon without amendment, and recommend that the bill do pass.

BRIEF EXPLANATION OF THE BILL

This proposal authorizes the Veterans' Administration to transfer up to \$1,650,000 from the veterans special term insurance fund, for the purpose of providing administrative expenses in connection with the reopening of national service life insurance. The veterans special term insurance fund is a revolving fund into which premiums from the so-called W insurance are paid. This type of insurance was first authorized by Public Law 23, 82d Congress. The insurance is nonparticipating and any excess of receipts over claims and the requirements of reserves is paid into the Treasury. At the present time approximately \$10 million in excess of the needs of this fund have accumulated. Any amounts so transferred will be repaid, with interest. The veterans reopened insurance program, authorized by Public Law 88-664, is to be self-sustaining and the Administrator must include the cost of administration in premiums and has authority to raise and lower premiums as experience may dictate. The present authorization should be sufficient to provide initial capital.

This legislation, is advocated by the Veterans' Administration, as shown in the following report:

VETERANS' ADMINISTRATION,
Washington, D.C., May 6, 1965.

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

DEAR MR. CHAIRMAN: This is in reply to your request for a report on H.R. 7597, a bill to establish the veterans reopened insurance fund in the Treasury and to authorize initial capital to operate insurance programs under title 38, United States Code, section 725.

Existing law, 38 U.S.C. 725, reopens the national service life insurance (NSLI) program for 1 year beginning May 1, 1965, to three groups of disabled veterans who served after October 7, 1940, and before January 1, 1957. The law provides that the insurance issued to veterans who, notwithstanding their service-connected disabilities, meet the good health requirements will be financed through a revolving fund. On the other hand, insurance issued to veterans whose insurability is impaired as the result of service-connected disabilities and to veterans whose non-service-connected disabilities render them uninsurable to the extent they are unable to obtain commercial insurance at a substandard rate would be financed through the NSLI appropriation.

The bill, if enacted, would finance the insurance programs for these three groups of disabled veterans through a single revolving fund. For actuarial and accounting purposes, the assets and liabilities (including liabilities for repayment of advances to provide initial capital, and adjustment of premiums) attributable to each of the three insured groups will be separately determined.

If the bill is enacted, it is our plan to establish four subfunds within this one revolving fund, one for each of the three insurance programs, and one for the administrative cost. Each of these will be credited with its own income and debited with its own disbursements. Separate accounting and actuarial records will be maintained for each of the three insurance programs so that the premiums can be adjusted as required to keep the program self-supporting. Similarly, the administrative costs will be adjusted periodically, as permitted by law, to meet the requirements of the programs.

It was the clear intent of the Congress that each of these insurance programs be self-supporting. Premiums on insurance are calculated with an interest factor on the assumption that the money will be invested to earn interest. Under the new insurance this interest factor is 3½ percent. The existing provisions of 38 U.S.C. 725 provide for investment of funds only with respect to the first insured group composed of those who, notwithstanding their service-connected disabilities meet the requirements of good health. On the other hand, the funds of the two substandard groups would, under the law, be placed on the NSLI appropriation, would not earn interest, and would be used currently to the extent needed for whatever purposes the appropriation serves.

H.R. 7597 would authorize the investment at interest of the reserves on the two substandard insurance programs in the same manner as that authorized under existing law for the standard insurance program and would thus avoid the potential interest earnings loss and the need in the later years for appropriated moneys.

Existing law authorizes appropriations to provide the initial capital needed to start operations under the programs. H.R. 7597 would provide for a transfer of such amounts, not to exceed \$1,650,000 in the aggregate, from the veterans special term insurance fund referred to in 38 U.S.C. 723(a) to the veterans reopened insurance fund established under the bill. Repayment of these amounts would be made to the Treasury with interest. This proposed method of providing initial capital would in no way adversely affect the Korean veteran insureds in the veterans special term insurance fund. That fund is by law nonparticipating (nondividend paying) and all surplus accruing therein must be transferred from time to time to the general receipts of the Treasury. To date a total of \$4 million of these earnings has been returned to the Treasury. In the current fiscal year we plan to borrow for the veterans reopened insurance fund \$1,650,000 from the surplus in the veterans special term insurance fund and to repay it to the Treasury with interest over a reasonable period of time.

This proposal will simplify the fiscal accounting procedures and help to make the two substandard insurance programs self-supporting as required by the Congress. Further, the transfer of amounts between the mentioned funds to provide the initial capital needed for the new program will obviate the need for direct appropriations and in no way adversely affects the existing insureds. Accordingly, the Veterans' Administration strongly recommends early and favorable action by your committee on H.R. 7597.

Advice has been received from the Bureau of the Budget that there is no objection to the submission of this favorable report to your committee.

Sincerely,

W. J. DRIVER, *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 italic, existing law in which no change is proposed is shown in roman):

SECTION 725 OF TITLE 38, UNITED STATES CODE

§ 725. Limited period for acquiring insurance

(a) Any person (other than a person referred to in subsection (f) of this section) heretofore eligible to apply for National Service Life Insurance after October 7, 1940, and before January 1, 1957, who is found by the Administrator to be suffering (1) from a service-connected disability or disabilities for which compensation would be payable if 10 per centum or more in degree and except for which such person would be insurable according to the standards of good health established by the Administrator; or (2) from a non-service-connected disability which renders such person uninsurable according to the standards of good health established by the Administrator and such person establishes to the satisfaction of the Administrator that he is unable to obtain commercial life insurance at a substandard rate, shall, upon application in writing made within one year after the effective date of this section, compliance with the health requirements of this

section and payment of the required premiums, be granted insurance under this section.

(b) If, notwithstanding the applicant's service-connected disability, he is insurable according to the standards of good health established by the Administrator, the insurance granted under this section shall be issued upon the same terms and conditions as are contained in the standard policies of National Service Life Insurance except (1) five-year level premium term insurance may not be issued; (2) the net premium rates shall be based on the 1958 Commissioners Standard Ordinary Basic Mortality Table, increased at the time of issue by such an amount as the Administrator determines to be necessary for sound actuarial operations; and thereafter such premiums may be adjusted as the Administrator determines to be so necessary but at intervals of not less than two years; (3) an additional premium to cover administrative costs to the Government as determined by the Administrator at times of issue shall be charged for insurance issued under this subsection and for any total disability income provision attached thereto, and thereafter such costs may be adjusted as the Administrator determines to be necessary but at intervals of not less than five years; (4) all cash, loan, extended and paid-up insurance values shall be based on the 1958 Commissioners Standard Ordinary Basic Mortality Table; (5) all settlements on policies involving annuities shall be calculated on the basis of The Annuity Table for 1949; (6) all calculations in connection with insurance issued under this subsection shall be based on interest at the rate of $3\frac{1}{2}$ per centum per annum; (7) the insurance shall include such other changes in terms and conditions as the Administrator determines to be reasonable and practicable; (8) the insurance and any total disability income provision attached thereto shall be on a nonparticipating basis [and all premiums and other collections therefor shall be credited to a revolving fund established in the Treasury of the United States and the payments on such insurance and total disability income provision shall be made directly from such fund].

(c) If the applicant's service-connected disability or disabilities render him uninsurable according to the standards of good health established by the Administrator, or if the applicant has a non-service-connected disability which renders him uninsurable according to the standards of good health established by the Administrator and such person establishes to the satisfaction of the Administrator that he is unable to obtain commercial life insurance at a substandard rate and such uninsurability existed as of the date of approval of this section, the insurance granted under this section shall be issued upon the same terms and conditions as are contained in standard policies of National Service Life Insurance, except (1) five-year level premium term insurance may not be issued; (2) the premiums charged for the insurance issued under this subsection shall be increased at the time of issue by such an amount as the Administrator determines to be necessary for sound actuarial operations and thereafter such premiums may be adjusted from time to time as the Administrator determines to be necessary; for the purpose of any increase at time of issue or later adjustment the service-connected group and the non-service-connected group may be separately classified; (3) an additional premium to cover administrative costs to the Government as determined by the Administrator at the time of issue shall be charged for insurance issued under this subsection and for any total disability income provision

attached thereto (for which the insured may subsequently become eligible) and thereafter such costs may be adjusted as the Administrator determines to be necessary but at intervals of not less than five years and for this purpose the service-connected and non-service-connected can be separately classified; (4) the insurance and any total disability income provision attached thereto shall be on a nonparticipating basis; (5) all settlements on policies involving annuities shall be calculated on the basis of The Annuity Table for 1949; (6) all calculations in connection with insurance issued under this subsection shall be based on interest at the rate of $3\frac{1}{2}$ per centum per annum; (7) the insurance shall include such other changes in terms and conditions as the Administrator determines to be reasonable and practicable [; (8) all premiums and other collections on the insurance and any total disability income provision attached thereto shall be credited to the National Service Life Insurance appropriation, and the payments on such insurance and total disability income provision shall be made directly from such appropriation. Appropriations necessary to carry out the provisions of this subsection are hereby authorized].

(d) [(1) There is authorized to be appropriated such sums as may be required to provide capital for the revolving fund to carry out the purpose of subsection (b) of this section. Such appropriations shall be advanced to the revolving fund as needed and shall bear interest as determined by the Secretary of the Treasury, taking into consideration the average yield on all marketable interest-bearing obligations of the United States of comparable maturities then forming a part of the public debt and shall be repaid to the Treasury over a reasonable period of time.] *(1) All premiums and collections on insurance issued pursuant to this section and any total disability income provision attached thereto shall be credited to the Veterans Reopened Insurance Fund, a revolving fund established in the Treasury of the United States, and all payments on such insurance and any total disability provision attached thereto shall be made from that fund. For actuarial and accounting purposes, the assets and liabilities (including liabilities for repayment of advances hereinafter authorized, and adjustment of premiums) attributable to the insured groups established under this section shall be separately determined. Such amounts in the Veterans Special Term Insurance Fund in the Treasury, not exceeding \$1,650,000 in the aggregate, as may hereafter be determined by the Administrator to be in excess of the actuarial liabilities of that fund, including contingency reserves, shall be available for transfer to the Veterans Reopened Insurance Fund as needed to provide initial capital. Any amounts so transferred shall be repaid to the Treasury over a reasonable period of time with interest as determined by the Secretary of the Treasury taking into consideration the average yield on all marketable interest-bearing obligations of the United States of comparable maturities then forming a part of the public debt.*

(2) The Administrator is authorized to set aside out of the revolving fund established under [subsection (b) of] this section such reserve amounts as may be required under accepted actuarial principles to meet all liabilities on insurance issued under [subsection (b) of] this section and any total disability income provision attached thereto. The Secretary of the Treasury is authorized to invest in and to sell and retire special interest-bearing obligations of the United States for the account of the revolving fund. Such obligations issued for this purpose shall have maturities fixed with due regard for the needs of the fund and shall bear interest at a rate equal to the average

market yield (computed by the Secretary of the Treasury on the basis of market quotations as of the end of the calendar month next preceding the date of issue) on all marketable interest-bearing obligations of the United States then forming a part of the public debt which are not due or callable until after the expiration of four years from the end of such calendar month; except that where such average market yield is not a multiple of one-eighth of 1 per centum, the rate of interest of such obligation shall be the multiple of one-eighth of 1 per centum nearest such market yield.

(3) Notwithstanding the provisions of section 782 of this title, the Administrator shall, from time to time, determine the administrative costs to the Government which in his judgment are properly allocable to insurance issued under this section and any total disability income provision attached thereto, and shall transfer from the revolving fund, [or the National Service Life Insurance appropriation, as appropriate,] the amount of such cost allocable to the Veterans' Administration to the appropriation "General Operating Expenses, Veterans' Administration", and the remainder of such cost to the general fund receipts in the Treasury. The initial administrative costs of issuing insurance under this section and any total disability income provision attached thereto shall be so transferred over such period of time as the Administrator determines to be reasonable and practicable.

(e) Notwithstanding the provisions of section 782 of this title, a medical examination (including any supplemental examination or tests) when required of an applicant for issuance of insurance under this section or any total disability income provisions attached thereto shall be at the applicant's own expense by a duly licensed physician.

(f) No insurance shall be granted under this section to any person referred to in section 107 of this title or to any person while on active duty or active duty for training under a call or order to such duty for a period of thirty-one days or more.

