

CONVERSION OF ADJUSTED-SERVICE CERTIFICATES

APRIL 15 (calendar day, APRIL 25), 1935.—Ordered to be printed

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

REPORT

[To accompany H. R. 3896]

The Committee on Finance, to whom was referred the bill (H. R. 3896) to provide for the immediate payment to veterans of the face value of their adjusted-service certificates, for controlled expansion of the currency, and to extend the time for filing applications for benefits under the World War Adjusted Compensation Act, and for other purposes, having considered the same, report favorably thereon with amendments and recommend that the bill do pass.

The act of May 19, 1924, made provision for the granting to persons serving in the military or naval forces, within a delimited period, of adjusted compensation at the rate of \$1 per day for services in the United States and \$1.25 per day for services overseas. Sixty days of service were excluded for the purpose of computing the amount of adjusted compensation, as was also service in a grade above that of captain in the Army or Marine Corps and lieutenant, senior grade, in the Navy. Entitlement was not acquired by service in certain specified organizational units nor under prescribed conditions stated in the act. For a service credit of \$50 or less payment was made in cash, but if the service credit exceeded \$50 an adjusted-service certificate was issued. A restricted class of surviving dependents of eligible veterans were privileged to receive benefits. If the amount of the credit was \$50 or less a lump sum cash settlement was authorized. If the credit exceeded \$50 payments were made in 10 equal quarterly installments. The amount of the adjusted-service certificate was determined by taking the net service credit and adding thereto 25 percent and the figure thus arrived at was used as a net single premium, according to the American Experience Table of Mortality, with interest at the rate of 4 percent, compounded annually, to procure for the veteran a paid-up 20-year endowment policy of insurance. The amount of insurance procurable by a fixed

credit varied according to the age of the insured at the time of issuance, but in the average case the amount stated on the face of the adjusted-service certificate represents approximately two and one-half times the net credit as computed by allowing the adjustment of \$1 and \$1.25 per-day, based upon the field of service.

The original act permitted certificates to be borrowed upon at the expiration of 2 years from the date of issuance to an amount equivalent to 90 percent of the reserve value of the certificate on the last day of the current certificate year, the reserve value to be based upon an annual level net premium for 20 years and computed according to the American Experience Table of Mortality with interest at the rate of 4 percent per annum, compounded annually. The maximum rate of interest was fixed at 2 percent above the rediscount rate for 90-day commercial paper in the Federal Reserve district in which the loan was made. The law as first enacted provided for loans to be made only by incorporated banks and trust companies. The law was amended on March 3, 1927, in order to permit loans to be made out of the United States Government life-insurance fund. This fund represents a trust administered by the Government but the beneficial interest therein lies with the holders of United States Government life-insurance policies, so that to all purposes, loans made from this fund are in the same category as loans made by banks. On March 4, 1929, a further enactment limited the rate of interest to 6 percent per annum on loans made by the Veterans' Bureau. Legislation which became effective February 27, 1931, granted authority for the making of loans from the adjusted-service certificate fund.

This is the fund which was created for the purpose of accumulating the necessary reserve in order to meet the maturity values on the certificates. This amendment also discarded the actuarial basis upon which loans had formerly been computed and fixed the loan value at 50 percent of the maturity values of the certificates, as well as reducing the maximum rate of interest which could be charged on loans to 4½ percent. On July 21, 1932, a further change in the rate of interest on loans was made, reducing the maximum rate to 3½ percent, and the provision requiring that a 2-year period elapse from the date of issuance of the certificate before a loan could be secured thereon was eliminated. This amendment had the effect of permitting veterans to borrow at a rate of interest the maximum of which was one-half of 1 percent less than that allowed on the adjusted-service credit in accumulating the maturity value.

The House bill provides for the immediate payment of the face value of adjusted-service certificates and waives the collection of interest from October 1, 1931, on loans made. It amends the law so that the time for filing applications for benefits is extended from January 2, 1935, to January 2, 1940. Provision is made for payment by the issuance of United States noninterest bearing notes. Alternative methods for the contraction of the issues of currency are also provided for.

The bill reported by the committee declares a policy relative to benefits to veterans of the World War and provides for the optional conversion of adjusted-service certificates.

At the option of the veteran he may surrender all rights to his adjusted-service certificate and receive in consideration of such surrender the amount of his adjusted-service credit, that is, the \$1 or

\$1.25 a day adjustment stated in title II of the act, as of November 11, 1918, and interest at the rate of 4 percent per annum compounded annually, to the 1st day of the January or July next succeeding the date of filing of the application. Interest, however, may be credited only to January 1, 1945. The veteran may at his election receive either a cash payment or negotiable coupon bonds of the United States bearing interest at the rate of 3 percent per annum payable semiannually. Provision is made for the extending of the time for filing of applications under the act to January 2, 1937.

Section 1 of the bill declares a policy against the enactment of general pension laws for World War veterans or their dependents.

Section 2 amends section 507 of the World War Adjusted Compensation Act by making the adjusted-service certificate fund available for payments therefrom on account of certificates surrendered.

Section 3 permits veterans to surrender their certificates and in lieu thereof receive their adjusted-service credits with interest at the rate of 4 percent per annum, compounded annually from November 11, 1918, to the 1st day of the January or July next succeeding the date of the filing of the application, not beyond January 1, 1945, less any indebtedness against the certificate. No payment is to be made or bonds issued until the certificate is in possession of the Administrator of Veterans' Affairs and all obligations against such certificate discharged. If a certificate is held by a bank, a method is provided whereby a loan thereon may be paid and the certificate redeemed from the bank by the Administrator of Veterans' Affairs. Settlements under the provisions of this section shall be made as of the 1st day of the January or July next succeeding the date of the filing of the application with the Administrator of Veterans' Affairs, whichever is the earlier date. The veteran may receive the benefits of this section by application filed during the lifetime of the veteran with the Administrator of Veterans' Affairs, either by the veteran or his representative. If the veteran dies after the application has been filed, the settlement authorized under the provisions of this section shall be made to the estate of the veteran.

In making settlement of the amounts payable under this section, the Secretary of the Treasury is authorized to issue negotiable United States bonds with coupons attached bearing interest at the rate of 3 percent per annum payable semiannually, up to the highest multiple of \$50 in the amount due, the difference being payable by check drawn upon the Treasurer of the United States. By making election at the time of filing application, the veteran may receive instead of bonds a check in the full amount due drawn upon the Treasurer of the United States. Bonds issued to veterans under this section are protected against exploitation by a provision which prohibits for 6 months negotiation or assignment for an amount less than that shown on the bond as the redemption value thereof. In acquiring title to notes held on account of the United States Government Life Insurance Fund, the Secretary of the Treasury is authorized and directed to make payment therefor by the issuance of bonds. All bonds issued for the purpose of this act shall be issued under the Second Liberty Bond Act.

If, at the date of maturity of the certificate, the certificate has not been surrendered, and if at the time of filing application for payment under section 501 the amount of the adjusted-service credit and interest at 4 percent per annum compounded annually from November 11,

1918, to the date of payment, or to January 1, 1945, whichever is the earlier date, exceeds the face value of the certificate, then such amount, in lieu of the face value, less the amount of any indebtedness required to be deducted under the act, shall be paid immediately by check drawn on the Treasurer of the United States.

Section 4 extends the time for filing application for benefits under the World War Adjusted Compensation Act from January 2, 1935, to January 2, 1937.

Section 5 authorizes the President in his discretion to allocate funds appropriated by the Emergency Relief Appropriation Act of 1935 for the purpose of making any payments under this act.

Section 6 authorizes the appropriation of any sums necessary to carry into effect the provisions of this act.

As is shown by the tables printed in this report, while the gross value of all settlements authorized to be made under the reported bill exceeds the present value of the certificates based upon crediting the earned portion of the 25 percent additional credit, this amount is over a billion dollars less than the comparable cost to the Government of the House bill. A fair and equitable basis of settlement is provided, as veterans are permitted to turn in their adjusted-service certificates and receive the amount of their adjusted-service credit as of November 11, 1918, the date of the Armistice, together with interest thereon at the rate of 4 percent per annum compounded annually. Veterans who do not desire to surrender their certificates may retain them and enjoy the insurance protection provided, and need take no action to insure to themselves the greater benefits provided, since if at the time of the death of the veteran the amount of the adjusted-service credit, and interest at the rate of 4 percent per annum compounded annually, exceeds the face value of the certificate, the beneficiary named will receive the larger amount. If the veteran retains the certificate to January 1, 1945, he will receive the amount of the adjusted-service credit together with interest at the rate of 4 percent per annum compounded annually from November 11, 1918, to January 1, 1945. In the average case the veteran who holds the certificate to this last-mentioned date will receive approximately 11½ percent more than the face of the certificate.

The following tables are included for the information of the Senate.

Statement of payments, etc., under committee bill

Adjusted-service credit with interest at 4 percent per annum compounded annually from Nov. 11, 1918, to July 1, 1935..	\$2, 659, 686, 958
Deduct estimated liens July 1, 1935.....	1, 738, 382, 186
	921, 304, 772
Bank loans to be redeemed.....	60, 000, 000
Cash payments to veterans.....	88, 214, 772
	148, 214, 772
Estimated balance adjusted-service certificate fund July 1, 1935..	259, 000, 000
	110, 785, 228
Estimated unobligated balance.....	110, 785, 228
Bond issue to redeem United States Government Life Insurance Fund liens July 1, 1935.....	470, 800, 370
Bond issue to veterans ¹	833, 090, 000
	1, 193, 105, 142

¹A part or all of this amount is payable in cash instead of bonds at the option of the veterans.

COMPARISON OF AMOUNTS REQUIRED

Committee bill

Estimated surrender value of outstanding certificates.....	\$2, 659, 686, 958
Estimated value of adjusted-service certificate fund.....	1, 460, 000, 000
Additional amount required.....	1, 199, 686, 958

House bill

Maturity value of outstanding certificates.....	3, 479, 802, 408
Interest to be refunded or forgiven.....	182, 132, 302
Estimated value of adjusted-service certificate fund.....	3, 661, 934, 710
Additional amount required.....	1, 460, 000, 000
	2, 201, 934, 710

COMPARISON OF PRESENT VALUES

Committee bill

(July 1, 1935)

Estimated surrender value of outstanding certificates.....	\$2, 659, 686, 958
Estimated value of adjusted service certificate fund.....	1, 460, 000, 000
	1, 199, 686, 958
Gross value of settlement.....	2, 659, 686, 958
Present value of the certificates outstanding (earned portion of additional credit).....	2, 101, 433, 300
	558, 253, 658
Gross value of settlement.....	2, 659, 686, 958
Present value of the certificates outstanding (entire additional credit).....	2, 350, 740, 827
	308, 946, 131

*House bill*¹

Maturity value of outstanding certificates.....	\$3, 479, 802, 408
Interest to be refunded or forgiven.....	182, 132, 302
Value of adjusted-service certificate fund.....	3, 661, 934, 710
Appropriation available July 1, 1935.....	1, 356, 381, 760
	2, 305, 552, 950
	100, 000, 000
	2, 205, 552, 950
Gross value of settlement.....	3, 661, 934, 710
Present value of the certificates outstanding (earned portion of additional credit).....	2, 101, 433, 300
	1, 560, 501, 410
Gross value of settlement.....	3, 661, 934, 710
Present value of the certificates outstanding (entire additional credit).....	2, 350, 740, 827
	1, 311, 193, 883

¹Feb. 28, 1934.

General data relative to adjusted-service certificates, Feb. 28, 1935

Total number of certificates issued.....	3, 726, 569
Maturity value of certificates issued.....	\$3, 677, 808, 710
Number of certificates matured.....	199, 031
Maturity value of certificates matured.....	\$198, 006, 302
Number of certificates outstanding.....	3, 527, 538
Maturity value of certificates outstanding.....	\$3, 479, 802, 408
Number of certificates pledged as collateral for loans.....	3, 019, 449
Total liens outstanding against certificates.....	\$1, 718, 334, 944
Value of adjusted-service certificate fund.....	1, 356, 381, 760
Total net basic credit certificates outstanding.....	1, 384, 650, 781
Present value of certificates outstanding:	
Allowing earned portion of additional credit.....	2, 101, 433, 300
Allowing full additional credit.....	2, 350, 740, 827
Additional appropriation required now to pay maturity value..	2, 123, 420, 648

