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REPORT
No. 2170

AUTHORIZING THE CONVERSION OR EXCHANGE, UNDER CERTAIN CONDITIONS, OF TERM INSURANCE ISSUED UNDER SECTION 621 OF THE NATIONAL SERVICE LIFE INSURANCE ACT AND PROVIDING A ONE-YEAR PERIOD DURING WHICH CERTAIN VETERANS MAY BE GRANTED NATIONAL SERVICE LIFE INSURANCE

AUGUST 4, 1958.—Ordered to be printed

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

REPORT

[To accompany H. R. 11382]

The Committee on Finance, to whom was referred the bill (H. R. 11382) to authorize the conversion or exchange, under certain conditions, of term insurance issued under section 621 of the National Service Life Insurance Act, and for other purposes, having considered the same, report favorably thereon with amendments, and recommend that the bill, as amended, do pass.

The amendments are as follows:

Amend the title of the bill to read:

An Act to authorize the conversion or exchange, under certain conditions, of term insurance issued under section 621 of the National Service Life Insurance Act and to provide a one-year period during which certain veterans may be granted National Service life insurance, and for other purposes.

On page 3, line 15, after the period, add a new section to read as follows:

SEC. 3. (a) Notwithstanding the provisions of section 619 of the National Service Life Insurance Act of 1940, as amended, insurance may be granted under section 602 (c) (2) of the National Service Life Insurance Act of 1940, as amended, to any individual who has had active service (as defined in such Act) between October 8, 1940, and April 24, 1951, both dates inclusive, upon application made in writing within one year after the effective date of this Act, and subject to the limitations provided in such section, and to

the other provisions of the National Service Life Insurance Act of 1940, as amended.

(b) Notwithstanding any time limitation for filing application for insurance contained in section 620 or section 621 of the National Service Life Insurance Act of 1940, as amended, any person heretofore eligible to apply for insurance under such sections shall, upon application made in writing within one year after the effective date of this Act, be granted insurance thereunder, subject to the other limitations specified in such sections, except that where application for insurance under the provisions of section 621 of the Act is made more than one hundred and twenty days after separation from active service the applicant shall be required to submit evidence satisfactory to the Administrator of Veterans' Affairs of good health at the time of such application. Insurance granted pursuant to this subsection under section 621 (as amended by sec. 1 and 2 of this Act) shall be on the limited convertible term or permanent plans of insurance and the premiums shall be based on table X-18 and interest at the rate of 2½ per centum with an additional amount for administrative costs as determined by the Administrator. The Administrator is authorized to transfer annually an amount representing such administrative cost from the revolving fund to the general fund receipts in the Treasury.

(c) All premiums paid and other income received on account of national service life insurance granted under the authority contained in subsection (a) shall be segregated in the national service life insurance fund and, together with interest earned thereon, shall be available for the payment of liabilities under such insurance.

Notwithstanding the provisions of section 606 of the National Service Life Insurance Act of 1940, as amended, the Administrator of Veterans' Affairs shall determine annually the administrative costs which in his judgment are properly allocable to such insurance and shall thereupon transfer the amount of such costs from any surplus otherwise available for dividends on such insurance from the national service life insurance fund to the national service life insurance appropriation.

On page 3, line 16, strike out the figure "3" and insert the figure "4".

EXPLANATION OF AMENDMENT

The purpose of the amendment is to provide a 1-year period during which certain veterans may be granted national service life insurance. It would extend the privilege of securing national service life insurance to veterans who served between September 2, 1945, and April 24, 1951, and to make clear that the insurance granted pursuant to the bill shall be subject to all provisions of the National Service Life Insurance Act. In order to reinstate insurance under this amendment the veteran must file application and upon showing of good health would be granted the insurance. It also contains provisions to cover the administrative costs necessitated by this amendment.

GENERAL STATEMENT

Section 621 of the National Service Life Insurance Act was added by Public Law 23, 82d Congress, effective April 25, 1951, and provided nonparticipating term insurance to any veteran who had service between the period of April 25, 1951, through December 31, 1956. As of that date, Public Law 881, 84th Congress—the Servicemen's and Veterans' Survivor Benefits Act—terminated the authority to issue such insurance.

Under section 621, any person serving in the Armed Forces during that period of time, could, within 120 days after discharge, obtain national service life insurance of the type designated as special term insurance, with premiums based on the 1941 Commissioners Standard Ordinary Table of Mortality and interest at 2½ percent per annum. This special term insurance is renewable every 5 years and at the end of each 5-year-term period the veteran pays a higher premium rate according to his then attained age.

As of March 31, 1958, there were 695,963 policies in force having a total face value of \$6,354,131,500. The average face value per policy is \$9,130.

The Commissioners 1941 Standard Ordinary Table of Mortality was the most modern table available to the Congress at the time Public Law 23 was enacted and provided reasonable premiums. However, the fact that there has accumulated considerable surplus in the revolving fund indicates clearly that even the low rates presently authorized are in excess of those required to keep the fund solvent and pay the claims.

EXPLANATION OF THE BILL

Sections 1 and 2 of the bill, as reported, would permit a section 621 policyholder three choices:

1. Maintain his present term policy at the Commissioners Standard Ordinary premium rates.
2. Exchange his present policy for a limited convertible term policy with lower premiums based on the new X-18 table. Such policy may not be renewed after age 50 or 2 years after the effective date of this legislation.
3. Convert to a permanent-type policy with premiums based on the X-18 table.
4. Section 3 of the bill will provide a 1-year period during which certain veterans may be granted national service life insurance.

The tables reproduced show for ages 20 through 6 the premiums for the various types of policies which will be available under the bill under the X-18 table to the insured.

CONVERSION OF TERM INSURANCE

Annual premiums per \$1,000 of insurance based on table X-18 and 2½ percent interest

Age	5-year level premium term	Ordinary life	20-pay life	30-pay life	20 year endowment	Endowment at age 60	Endowment at age 65
20	\$0.83	\$9.73	\$17.92	\$13.63	\$38.80	\$15.66	\$13.55
21	.83	10.09	18.39	13.70	38.80	16.26	14.00
22	.95	10.44	18.75	14.12	38.80	16.97	14.48
23	.95	10.68	19.22	14.48	38.80	17.08	15.07
24	.95	11.03	19.70	14.83	38.80	18.39	15.66
25	.95	11.51	20.17	15.19	38.92	19.10	16.23
26	.95	11.87	20.65	15.64	38.92	19.93	16.97
27	1.07	12.22	21.12	16.02	39.04	20.88	17.56
28	1.07	12.70	21.59	16.37	39.04	21.83	18.39
29	1.07	13.17	22.19	16.85	39.16	22.78	19.10
30	1.19	13.65	22.66	17.32	39.16	23.85	19.93
31	1.19	14.12	23.26	17.68	39.27	25.04	20.76
32	1.31	14.71	23.85	18.15	39.39	26.34	21.71
33	1.42	15.19	24.44	18.75	39.51	27.65	22.78
34	1.54	15.78	25.04	19.22	39.63	29.07	23.86
35	1.66	16.37	25.75	19.81	39.87	30.73	24.92
36	1.90	17.09	26.34	20.41	39.99	32.39	26.22
37	2.02	17.68	27.05	21.00	40.22	34.29	27.53
38	2.37	18.39	27.76	21.59	40.46	36.31	28.95
39	2.61	19.22	28.48	22.19	40.70	38.44	30.49
40	2.85	19.93	29.31	22.90	40.94	40.94	32.04
41	3.20	20.76	30.02	23.61	41.29	43.00	33.93
42	3.56	21.59	30.85	24.44	41.53	46.63	35.83
43	3.92	22.54	31.68	25.15	41.88	49.95	37.97
44	4.39	23.49	32.63	26.10	42.30	53.75	40.22
45	4.86	24.44	33.46	26.93	42.71	58.02	42.71
46	5.34	25.51	34.41	27.88	43.19	62.89	45.56
47	5.93	26.70	35.48	28.83	43.78	68.46	48.65
48	6.64	27.83	36.55	29.90	44.38	74.99	52.09
49	7.24	29.07	37.61	30.97	44.97	82.58	56.00
50	8.07	30.38	38.68	32.15	45.68	91.84	60.39
51	8.90	31.80	39.87	33.40	46.39	102.99	65.38
52	9.73	33.22	41.17	34.77	47.22	116.00	71.07
53	10.68	34.88	42.48	36.19	48.17	134.70	77.72
54	11.87	36.43	43.90	37.73	49.12	158.52	85.43
55	13.05	38.21	45.33	39.27	50.19	191.74	94.80
56	14.24	39.99	46.99	41.05	51.38	241.34	106.03
57	15.66	42.00	48.65	42.83	52.68	323.92	120.20
58	17.32	44.02	50.31	44.73	54.11	488.85	138.23
59	18.98	46.27	52.21	46.87	55.53	682.68	162.20
60	20.76	48.53	54.22	49.12	57.19	-----	195.54

COST OF BILL

The Veterans' Administration estimates that the cost of sections 1 and 2 of the bill for the first year to be approximately \$375,000 and \$150,000 for the second year, and reducing to about \$50,000 the fourth year, with no probable additional cost thereafter.

Section 3 of the bill would cost approximately \$425,000 per year.

The reports from the Office of the Secretary of the Treasury and the Veterans' Administration are as follows:

OFFICE OF THE SECRETARY OF THE TREASURY,
Washington, July 8, 1958.

Hon. HARRY F. BYRD,
Chairman, Committee on Finance,
United States Senate, Washington, D. C.

MY DEAR MR. CHAIRMAN: Reference is made to your request for the views of this Department on H. R. 11382, a bill to authorize the conversion or exchange, under certain conditions, of term insurance issued under section 621 of the National Service Life Insurance Act, and for other purposes.

The only provision of the proposed legislation which is of primary interest to this Department is section 2 of the bill which would change the method now used to determine the rate of interest to be paid on

investments of the veterans' special term insurance fund in special obligations of the United States. The section would require the rate of interest on such obligations to be fixed at a rate equal to the average rate of interest borne by all marketable obligations of the United States, outstanding as of the end of the month preceding the date of issue of the special obligations, that are not due or callable for more than 5 years from the date of issue, adjusted to the nearest one-eighth of 1 percent. The rate of interest is presently fixed at a rate not exceeding the average interest rate on all outstanding marketable obligations of the United States.

Since the proposed formula for determining interest rates on special obligations issued to the veterans' special term insurance fund is the same as that presently prescribed by law for special obligations issued to the Federal old-age and survivors insurance and disability insurance trust funds, and the civil service retirement and disability fund, the Treasury Department has no objection to section 2 of the bill.

There is attached a memorandum which discusses the possible effects of the change in the interest rate.

The Bureau of the Budget has advised that there would be no objection to the submission of this report and that it favors enactment of the bill with an amendment to provide for the deposit of surplus (beyond contingency reserves) in the Treasury.

Very truly yours,

JULIAN B. BAIRD,
Acting Secretary of the Treasury.

TREASURY MEMORANDUM RE H. R. 11382, TO AUTHORIZE THE CONVERSION OR EXCHANGE, UNDER CERTAIN CONDITIONS, OF TERM INSURANCE ISSUED UNDER SECTION 621 OF THE NATIONAL SERVICE LIFE INSURANCE ACT, AND FOR OTHER PURPOSES

The formula for determining interest that is used in section 2 of the bill was established for determining the interest rate on special obligations issued to the Federal old-age and survivors insurance and disability insurance trust funds in 1956. Previously the interest rate on these funds had been determined on the basis of the average interest rate on all interest-bearing obligations of the United States, rounded downward to the nearest one-eighth of 1 percent. It should be pointed out that since 1956 the formula has produced a lower rate of interest because of increases in interest rates for short and intermediate issues, generally through the last half of 1956 and throughout 1957, and because in recent years there have not been many long-term issues. Over a long period it is probable that the proposed formula would produce a higher rate for the funds than the present one.

The reduction in interest rates in recent months and the restoration of the pattern whereby rates on short and intermediate issues are now lower than those on long-term issues, establishes a trend which, if long continued, would produce a better rate for the funds using the proposed formula. However, at this time there is no way of definitely determining the long-range effect of the proposed change in the interest rate.

CONVERSION OF TERM INSURANCE

As of May 31, 1958, the veterans' special term insurance fund held the following investments in special Treasury certificates of indebtedness due June 30, 1958:

Date	Interest rate, percent	Amount
June-August 1957.....	2½	\$36,982,000
September 1957-February 1958.....	2½	7,700,000
March-April 1958.....	2¾	1,000,000
May 1958.....	2½	600,000
Total.....		46,282,000

JULY 7, 1958.

HON. HARRY F. BYRD,
Chairman, Committee on Finance,
United States Senate, Washington, D. C.

DEAR SENATOR BYRD: The following report on H. R. 11382, 85th Congress, is submitted at your request.

The general purpose of the bill is to amend section 621 of the National Service Life Insurance Act of 1940, as amended, to provide that term insurance issued thereunder may be converted to one of the permanent plans of insurance or exchanged for a policy of limited convertible 5-year level-premium term insurance. The premium rates, upon such conversion or exchange, would be based on table X-18 (1950-54 Intercompany Table of Mortality) and interest at the rate of 2½ percent per annum.

Section 621 insurance was issued between April 25, 1951, and January 1, 1957, if application therefor was made during such period and within 120 days after separation from service. This nonparticipating insurance was issued on the term plan only and cannot be converted to permanent-plan insurance. Hence, at the end of each 5-year-term period when the insurance is renewed the veteran pays a higher premium rate according to his then attained age. As Public Law 881, 84th Congress, prohibited the further issue of section 621 insurance on and after January 1, 1957, the insureds who would be affected by the bill are a closed group. There are about 700,000 section 621 policies in force with a face value of about \$6.4 billion.

Under the bill, if enacted, a section 621 policyholder would be permitted to—

(1) Convert to a permanent plan policy with premiums based on table X-18 (1950-54 Intercompany Table of Mortality) and interest at 2½ percent per annum;

(2) Exchange his present term policy for a limited convertible term policy with lower premiums based on table X-18 and interest at 2½ percent per annum. However, such policy could not be issued or renewed as term insurance after the insured's 50th birthday or after 2 years from the effective date of the bill, whichever is later; or

(3) Maintain his present term policy with premium rates based on the Commissioners 1941 Standard Ordinary Table of Mortality and interest at 2¼ percent per annum.

The bill makes other necessary and desirable perfecting amendments relating to settlements of annuities, values of the permanent

plan policies, nonparticipation, and investment of the revolving fund from which benefits are paid. The bill would be effective January 1, 1959.

Five-year level-premium term insurance is not designed to afford insurance on a lifetime basis. It is designed to provide protection for short periods of time. At the younger ages of life, or even at the early middle ages, the increase in premiums at successive renewals is moderate and is generally absorbed without any difficulty on the part of the insured. At the later ages of life, the renewal premium increase becomes more and more substantial and its effect progressively more burdensome at a time when one's earnings are reducing. It was to obviate these difficulties that level-premium permanent plans of insurance were designed. Under these plans an insured pays a larger premium in the early years of life in order to be relieved of these burdensome increases in later life. The Veterans' Administration has always taken the position that term insurance, while providing high temporary coverage at low cost, was never designed for lifetime coverage, and in its later stages is productive of disillusionment and hardship.

The experience with the World War I group of about 18,000 term policyholders demonstrates the problems that will arise in the future if the nearly 700,000 section 621 policyholders are not permitted to convert their insurance. Bills have been introduced in the present and past Congresses having as their objective relief of the World War I group from the payment of the high premium charges necessary to maintain their insurance in force at the advanced ages.

Section 2 of the bill would provide a different and more stable basis for fixing the rate of interest on obligations in which the section 621 revolving fund is invested. However, there is no guaranty that this fund will earn interest at the rate of 2½ percent per annum, the rate established by the bill for determining premiums and other values on the new insurance. The committee may desire to obtain from the Treasury Department information as to the rate of interest that would have been earned over a period of years in the past had section 2 of the bill been in effect.

The current mortality experience on the section 621 nonparticipating insurance (no dividends are payable thereon) is expected to result in a surplus as of December 31, 1958, of approximately \$42 million. The reason for this surplus is that the Commissioners 1941 Standard Ordinary Table of Mortality with interest at 2½ percent per annum on which premium rates for this insurance are based is not representative of current-day mortality. Table X-18 reflects intercompany commercial experience during the years 1950-54 and exhibits mortality rates roughly comparable to the rates now being experienced on the participating national service life insurance. Adoption of table X-18 with interest at 2½ percent per annum would reduce the premium cost on the new insurance authorized by the bill more in line with the net cost of participating national service life insurance and would eliminate future accretions of surplus to the revolving fund.

If it is assumed (1) that the mortality rates now being experienced will continue indefinitely in the future, and (2) that 2½ percent interest will be earned on the revolving fund investments, our studies indicate that premiums based on table X-18 with interest at 2½ percent, together with the expected surplus of \$42 million in the revolving

fund, should be adequate to meet future liabilities under the insurance contracts. However, should the mortality in the future be much higher than that assumed, or should the interest earnings be less than 2½ percent, then the premium rates probably would not be adequate and some financial support for the fund would be required. On the other hand, should the opposite be the case and the mortality and interest be more favorable, some surplus would likely develop.

The existing section 621 revolving fund in the Treasury does not belong to the policyholders and any gains therein after payment of liabilities would eventually redound to the Government. If the bill is enacted the present rate of surplus accretion to the revolving fund amounting to approximately \$13 million a year will be eliminated. Also, the surplus of \$42 million which it is estimated will be in the fund as of December 31, 1958, will be required as a contingency reserve.

If it is assumed that as of January 1, 1959, approximately 700,000 policies will be affected by the bill and that 90 percent of these policies will be converted to permanent plan insurance or exchanged for limited convertible term insurance within the next 4 years, it is estimated that the additional administrative cost of the bill would be approximately \$425,000 the first year; \$160,000 the second year; \$80,000 the third year; and \$40,000 the fourth year. There would probably be little or no additional administrative cost thereafter.

The Veterans' Administration favors authorizing the conversion of section 621 insurance and recommends favorable consideration of H. R. 11382 by your committee.

The Bureau of the Budget advises that there is no objection to the submission of this report and the Bureau favors enactment of the bill with an amendment to provide that any surplus in the revolving fund, beyond contingency reserves considered necessary, may be transferred from time to time by the Administrator to the general fund in the Treasury.

Sincerely yours,

SUMNER G. WHITTIER, *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, as reported, 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 621 OF NATIONAL SERVICE LIFE INSURANCE ACT OF 1940, AS AMENDED

SEC. 621. (a) Any person entitled to indemnity protection under section 2 of the Servicemen's Indemnity Act of 1951 who is ordered into active service for a period exceeding thirty days, shall, upon application in writing made within one hundred and twenty days after separation from such active service and payment of premiums as hereinafter provided, and without medical examination, be granted insurance by the United States against the death of such person occurring while such insurance is in force. 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 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 $2\frac{1}{4}$ 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 $2\frac{1}{4}$ per centum per annum; (4) insurance issued hereunder shall be on a nonparticipating basis and all premiums and other collections therefore shall be credited to a revolving fund in the Treasury of the United States and the payments on such term insurance shall be made directly from such fund. Appropriations to such fund are hereby authorized.

(b) *Any term insurance issued under subsection (a) hereof 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 subject to the same terms and conditions as are contained in standard policies of national service life insurance except (1) limited convertible term insurance may not be issued or renewed on the term plan after the insured's fiftieth birthday or after two years from the effective date of this amendatory Act, whichever is later; (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 $2\frac{1}{2}$ 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 $2\frac{1}{2}$ 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 $2\frac{1}{2}$ per centum per annum; (5) insurance issued hereunder shall be on a nonparticipating basis and all premiums and other collections therefor shall be credited directly to the revolving fund established under subsection (a) hereof and payments on such insurance shall be made directly from such fund.*

[(b)] (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: **[Provided, That the rate of interest on such obligations shall be fixed by the Secretary of the Treasury at a rate not exceeding the average interest rate on all marketable obligations of the United States Treasury outstanding as of the end of the month preceding the date of issue of this special obligation]** *Provided, That the rate of interest on such obligations shall be fixed by the Secretary of the Treasury at a rate equal to the average rate of interest, computed as of the end of the month preceding the date of issue of this special obligation, 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.*

· **[(c)]** (d) No insurance shall be granted to any person under this section on or after January 1, 1957, unless prior to such date an acceptable application accompanied by proper and valid remittances or authorizations for the payment of premiums (1) was received by the Veterans' Administration, (2) was placed in the mails properly directed to the Veterans' Administration, or (3) was delivered to an authorized representative of any of the uniformed services.

