

SERVICEMEN'S GRATUITOUS INSURANCE

HEARING

BEFORE THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

EIGHTY-SECOND CONGRESS

FIRST SESSION

ON

S. 84, S. 304, S. 506, S. 654,

and H. R. 1

JANUARY 25, 1951

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SERVICEMEN'S GRATUITOUS INSURANCE

THURSDAY, JANUARY 25, 1951

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
Washington, D. C.

The committee met, pursuant to call, at 10 a. m., in Room 312, Senate Office Building, Senator George (chairman) presiding.

Present: Senators George, Connally, Johnson, Hoey, Kerr, Frear, Taft, Butler, Brewster, Martin, and Williams.

Also present: Mrs. Elizabeth B. Springer, chief clerk.

The CHAIRMAN. The committee will please be in order.

The chairman of the committee introduced S. 84 for himself, Senator Kerr, and Senator O'Connor, and that is a bill to provide automatic \$10,000 gratuitous insurance to servicemen killed in line of duty since June 27, 1950, provided they are not comparably covered by national service life insurance or United States Government life insurance.

We also have before the committee three other Senate bills which provide for a gratuitous indemnity insurance program for active members of the Armed Forces, as follows: S. 304, introduced by Senator Lister Hill, S. 506, introduced by Senator Edwin Johnson, a member of this committee, and S. 654, by Senator Langer.

Yesterday the House passed H. R. 1, a bill introduced by Congressman Rankin, which also provides for a gratuitous insurance program for active members of the Armed Forces. Our hearings today will cover all of the bills mentioned.

The bills will be made a part of the record.

(S. 84, S. 304, S. 506, S. 654, and H. R. 1, are as follows:)

[S. 84, 82d Cong., 1st sess.]

A BILL To provide automatic national service life insurance coverage for certain persons in the active military or naval service

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That any person in the active military or naval service, or reporting for such active service under orders of competent authority, on or after June 27, 1950, and before the expiration of one hundred and twenty days after the date of enactment of this Act, who, while in such service, or while reporting under orders for such service, dies, or has died, in line of duty, shall be deemed to have applied for and to have been granted national service life insurance in the amount of \$10,000 and such insurance shall be deemed to be or to have been continued in force to the date of death of such person: *Provided*, That the amount of insurance herein granted, when added to any other insurance in force under the World War Veterans' Act, 1924, as amended, or the National Service Life Insurance Act of 1940, as amended, shall not in the aggregate exceed \$10,000: *Provided further*, That the insurance herein granted shall be payable in accordance with the modes of settlement under options (2), (3), or (4), provided in section 602 (t) of the National Service Life Insurance Act of 1940, as amended, to the following beneficiaries and in the order named:*

- (A) To the widow or widower of the insured, if living and while unremarried ;
 (B) If no widow or widower entitled thereto, to the child or children of the insured, if living, in equal shares ;
 (C) If no widow or widower entitled thereto, or child, to the mother or father of the insured, if living, in equal shares.

[S. 304, 82d Cong., 1st sess]

A BILL To authorize the payment by the Administrator of Veterans' Affairs of a gratuitous indemnity to survivors of members of the Armed Forces who die in active service, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

PART I—SERVICEMEN'S INDEMNITY

SECTION 1. This part may be cited as the "Servicemen's Indemnity Act of 1951."

SEC. 2. Except as hereinafter provided, on and after June 27, 1950, any person in the active service of the Army, Navy, Air Force, Marine Corps, Coast Guard, or the Reserve components thereof, including the National Guard, when called or ordered to active duty or active training duty for fourteen days or more; cadets and midshipmen at the United States Military, Naval, and Coast Guard Academies; commissioned officers of the Public Health Service while entitled to full military benefits as provided in section 212 (a) of the Act of July 1, 1944 (58 Stat. 689), as amended (42 U. S. C. 213); and commissioned officers of the Coast and Geodetic Survey while assigned to duty during a period of war or an emergency as proclaimed by the President or the Congress on projects for the Army, Navy, or Air Force in areas outside the continental United States or in Alaska or in coastal areas of the United States determined by the Department of Defense to be of immediate military hazard, shall be automatically insured by the United States, without cost to such person, against death in such service in the principal amount of \$10,000: *Provided*, That any person called to extended active service for a period exceeding thirty days shall continue to be so protected for a period of ninety days after separation or release from such active service: *Provided further*, That persons in the Reserve components, including the National Guard, while engaged in aerial flights in Government-owned or leased aircraft for any period, with or without pay, as an incident to their military or naval training, shall be deemed to be in the active service for the purposes of this Act.

SEC. 3. Upon certification by the Secretary of the service department concerned of the death of any person deemed to have been automatically insured under this part, the Administrator of Veterans' Affairs shall cause the indemnity to be paid as provided in section 4 only to the surviving spouse, child or children (including a stepchild, adopted child, or an illegitimate child if the latter was designated as beneficiary by the insured), parent (including a stepparent, parent by adoption, or person who stood in loco parentis to the insured), brother, or sister of the insured. The insured shall have the right to designate the beneficiary or beneficiaries of the indemnity within the classes herein provided; to designate the proportion of the principal amount to be paid to each; and to change the beneficiary or beneficiaries without the consent thereof but only within the classes herein provided. If the designated beneficiary or beneficiaries do not survive the insured, or if none has been designated, the Administrator shall make payment of the indemnity to the first eligible class of beneficiaries according to the order set forth above, and in equal shares if the class is composed of more than one person.

Any installments not paid to a beneficiary during such beneficiary's lifetime shall be paid to the named contingent beneficiary, if any; otherwise, to the beneficiary or beneficiaries within the permitted class next entitled to priority.

SEC. 4. The indemnity shall be payable in equal monthly installments of one hundred and twenty in number with interest at the rate of 2¼ per centum per annum.

SEC. 5. The automatic indemnity coverage authorized by section 2 shall apply to any person in the active service of the named Armed Forces who, upon death in such active service, or within ninety days after separation or release from such active service as prescribed in section 2, is insured against such death under a contract of national service life insurance or United States Government life

insurance, but only with respect to a principal amount of indemnity equal to the difference between the amount of insurance in force at the time of death and \$10,000. Any person in active service, who is insured under a permanent plan of national service life insurance or United States Government life insurance, may elect to surrender such contract for its cash value. In any such case the person, upon application in writing made within ninety days after separation from active service, may be granted, without medical examination, permanent plan insurance on the same plan not in excess of the amount surrendered for cash, or may reinstate such surrendered insurance upon payment of the required reserve and the premium for the current month. Waiver of premiums under the National Service Life Insurance Act of 1940, as amended, shall not be denied in any case in which it is shown to the satisfaction of the Administrator that total disability of the applicant commenced prior to the date of his application.

SEC. 6. The Administrator of Veterans' Affairs is authorized to promulgate such rules and regulations, not inconsistent with the provisions of this part, as are necessary or appropriate to carry out its purposes.

SEC. 7. There is hereby authorized to be appropriated, out of any money in the Treasury not otherwise appropriated, such sums as may be necessary to carry out the provisions of this part, to be known as the servicemen's indemnity appropriation, for the payment of liabilities under this part.

SEC. 8. Any person guilty of mutiny, treason, spying, or desertion, or who, because of conscientious objections refuses to perform services in the land or naval forces of the United States or refuses to wear the uniform of such force, shall forfeit all rights to an indemnity under this Act: *Provided*, That this provision shall not apply to any person who is thereafter restored to active duty. No indemnity shall be payable for death inflicted as a lawful punishment for crime or for military or naval offense, except when inflicted by an enemy of the United States.

SEC. 9. The provisions of Public Law Numbered 262, Seventy-fourth Congress, approved August 12, 1935 (49 Stat. 607), and titles II and III of Public Law Numbered 844, Seventy-fourth Congress, approved June 29, 1936 (49 Stat. 2031), insofar as they are applicable, shall apply to the provisions of this part: *Provided*, That assignments of all or any part of the beneficiary's interest may be made by a beneficiary to a widow, widower, child, father, mother, brother, or sister of the insured, when all other persons within the permitted classes join in the assignment.

PART II—RESTRICTIONS ON ISSUANCE OF UNITED STATES GOVERNMENT LIFE INSURANCE AND NATIONAL SERVICE LIFE INSURANCE

SEC. 10. The National Service Life Insurance Act of 1940, as amended, is hereby amended by adding the following new sections:

"SEC. 619. On and after the date of enactment of the Insurance Act of 1951, except as otherwise provided in section 11 thereof, and section 5 of the Servicemen's Indemnity Act of 1951 and section 620 hereof, no national service life insurance or United States Government life insurance shall be granted to any person under the provisions of the National Service Life Insurance Act of 1940, as amended, or the World War Veterans Act, 1924, as amended, nor shall any Government life insurance or national service life insurance, on which the United States is authorized by law to pay the premium, be issued or granted to any person under any provision of law: *Provided*, That the foregoing shall not be construed to prohibit the granting or issuing of national service life insurance or United States Government life insurance in cases in which acceptable applications accompanied by proper and valid remittances or authorizations for the payment of premiums have, prior to the date of approval of the Insurance Act of 1951, been received by the Veterans' Administration, or which have, prior to said date, been placed in the mails properly directly to the Veterans' Administration, or been delivered to an authorized representative of any of the uniformed services.

"SEC. 620. Any person who is released from active service under other than dishonorable conditions on or after the date of enactment of the Insurance Act of 1951, and is found by the Administrator to be suffering from a disability or disabilities for which compensation would be payable if 10 per centum or more in degree which renders such person uninsurable at standard rates for ordinary life insurance, according to recognized underwriting requirements of nongovernmental insurers, shall, upon application in writing made within one year from the date of release from active service and payment of premiums as provided in

this Act, be granted insurance by the United States against the death of such person occurring while such insurance is in force. Insurance granted under the provisions of this section shall be on a nonparticipating basis and all premiums and other collections therefor and premiums and other collections hereafter received on nonparticipating insurance issued under other provisions of this Act, as amended, shall be credited directly to a revolving fund in the Treasury of the United States, and any payments on such insurance shall be made directly from such fund. Appropriations to such fund are hereby authorized. **Except as herein provided, the other provisions of this Act shall be for application to such insurance: *Provided*, That waiver of premiums under section 602 (n) shall not be denied under this subsection on the ground that total service-connected disability commenced prior to the effective date of such insurance.**

SEC. 11. Nothing contained in this Act shall be construed to affect any rights under insurance contracts issued on or prior to the date of this enactment.

SEC. 12. This part may be cited as the "Insurance Act of 1951."

[S. 506, 82d Cong., 1st sess.]

A BILL To authorize the payment by the Administrator of Veterans' Affairs of a gratuitous indemnity to survivors of members of the Armed Forces who die in active service, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

PART I—SERVICEMEN'S INDEMNITY

SECTION 1. This part may be cited as the "Servicemen's Indemnity Act of 1951."

SEC. 2. Except as hereinafter provided, on and after June 27, 1950, any person in the active service of the Army, Navy, Air Force, Marine Corps, Coast Guard, or the Reserve components thereof, including the National Guard, when called or ordered to active duty or active training duty for fourteen days or more: cadets and midshipmen at the United States Military, Naval, and Coast Guard Academies: commissioned officers of the Public Health Service while entitled to full military benefits as provided in section 212 (a) of the Act of July 1, 1944 (58 Stat. 689), as amended (42 U. S. C. 213); and commissioned officers of the Coast and Geodetic Survey while assigned to duty during a period of war or an emergency as proclaimed by the President or the Congress on projects for the Army, Navy, or Air Force in areas outside the continental United States or in Alaska or in coastal areas of the United States determined by the Department of Defense to be of immediate military hazard, shall be automatically insured by the United States, without cost to such person, against death in such service in the principal amount of \$10,000: *Provided*, That any person called to extended active service for a period exceeding thirty days shall continue to be so protected for a period of ninety days after separation or release from such active service: *Provided further*, That persons in the Reserve components, including the National Guard, while engaged in aerial flights in Government owned or leased aircraft for any period, with or without pay, as an incident to their military or naval training, shall be deemed to be in the active service for the purposes of this Act.

SEC. 3. Upon certification by the Secretary of the service department concerned of the death of any person deemed to have been automatically insured under this part, the Administrator of Veterans' Affairs shall cause the indemnity to be paid as provided in section 4 only to the surviving spouse, child, or children (including a stepchild, adopted child, or an illegitimate child if the latter was designated as beneficiary by the insured), parent (including a stepparent, parent by adoption, or person who stood in loco parentis to the insured), brother, or sister of the insured. The insured shall have the right to designate the beneficiary or beneficiaries of the indemnity within the classes herein provided; to designate the proportion of the principal amount to be paid to each; and to change the beneficiary or beneficiaries without the consent thereof but only within the classes herein provided. If the designated beneficiary or beneficiaries do not survive the insured, or if none has been designated, the Administrator shall make payment of the indemnity to the first eligible class of beneficiaries according to the order set forth above, and in equal shares if the class is composed of more than one person.

Any installments not paid to a beneficiary during such beneficiary's lifetime shall be paid to the named contingent beneficiary, if any; otherwise, to the beneficiary or beneficiaries within the permitted class next entitled to priority.

SEC. 4. The indemnity shall be payable in equal monthly installments of one hundred and twenty in number with interest at the rate of 2¼ per centum per annum.

SEC. 5. The automatic indemnity coverage authorized by section 2 shall apply to any person in the active service of the named Armed Forces who, upon death in such active service, or within ninety days after separation or release from such active service as prescribed in section 2, is insured against such death under a contract of national service life insurance or United States Government life insurance, but only with respect to a principal amount of indemnity equal to the difference between the amount of insurance in force at the time of death and \$10,000. Any person in active service, who is insured under a permanent plan of national service life insurance or United States Government life insurance, may elect to surrender such contract for its cash value. In any such case the person, upon application in writing made within ninety days after separation from active service, may be granted without medical examination, permanent plan insurance on the same plan not in excess of the amount surrendered for cash, or may reinstate such surrendered insurance upon payment of the required reserve and the premium for the current month. Waiver of premiums under the National Service Life Insurance Act of 1940, as amended, shall not be denied in any case in which it is shown to the satisfaction of the Administrator that total disability of the applicant commenced prior to the date of his application.

SEC. 6. The Administrator of Veterans' Affairs is authorized to promulgate such rules and regulations, not inconsistent with the provisions of this part, as are necessary or appropriate to carry out its purposes.

SEC. 7. There is hereby authorized to be appropriated, out of any money in the Treasury not otherwise appropriated, such sums as may be necessary to carry out the provisions of this part, to be known as the servicemen's indemnity appropriation, for the payment of liabilities under this part.

SEC. 8. Any person guilty of mutiny, treason, spying, or desertion, or who, because of conscientious objections refuses to perform services in the land or naval forces of the United States or refuses to wear the uniform of such force, shall forfeit all rights to an indemnity under this Act: *Provided*, That this provision shall not apply to any person who is thereafter restored to active duty. No indemnity shall be payable for death inflicted as a lawful punishment for crime or for military or naval offense, except when inflicted by an enemy of the United States.

SEC. 9. The provisions of Public Law Numbered 262, Seventy-fourth Congress, approved August 12, 1935 (49 Stat. 607), and titles II and III of Public Law Numbered 844, Seventy-fourth Congress, approved June 29, 1936 (49 Stat. 2031), insofar as they are applicable, shall apply to the provisions of this part: *Provided*, That assignments of all or any part of the beneficiary's interest may be made by a beneficiary to a widow, widower, child, father, mother, brother, or sister of the insured, when all other persons within the permitted classes join in the assignment.

PART II—RESTRICTIONS ON ISSUANCE OF UNITED STATES GOVERNMENT LIFE INSURANCE AND NATIONAL SERVICE LIFE INSURANCE

SEC. 10. The National Service Life Insurance Act of 1940, as amended, is hereby amended by adding the following new sections:

"SEC. 619. On and after the date of enactment of the Insurance Act of 1951, except as otherwise provided in section 11 thereof, and section 5 of the Servicemen's Indemnity Act of 1951 and section 620 hereof, no national service life insurance or United States Government life insurance shall be granted to any person under the provisions of the National Service Life Insurance Act of 1940, as amended, or the World War Veterans Act, 1924, as amended, nor shall any Government life insurance or national service life insurance, on which the United States is authorized by law to pay the premium, be issued or granted to any person under any provision of law: *Provided*, That the foregoing shall not be construed to prohibit the granting or issuing of national service life insurance or United States Government life insurance in cases in which acceptable applications accompanied by proper and valid remittances or authorizations for the payment

of premiums have, prior to the date of approval of the Insurance Act of 1951, been received by the Veterans' Administration, or which have, prior to said date, been placed in the mails properly directed to the Veterans' Administration, or been delivered to an authorized representative of any of the uniformed services.

"SEC. 620. Any person who is released from active service under other than dishonorable conditions on or after the date of enactment of the Insurance Act of 1951, and is found by the Administrator to be suffering from a disability or disabilities for which compensation would be payable if 10 per centum or more in degree which renders such person uninsurable at standard rates for ordinary life insurance, according to recognized underwriting requirements of non-governmental insurers, shall, upon application in writing made within one year from the date of release from active service and payment of premiums as provided in this Act, be granted insurance by the United States against the death of such person occurring while such insurance is in force. Insurance granted under the provisions of this section shall be on a nonparticipating basis and all premiums and other collections therefor and premiums and other collections hereafter received on nonparticipating insurance issued under other provisions of this Act, as amended, shall be credited directly to a revolving fund in the Treasury of the United States, and any payments on such insurance shall be made directly from such fund. Appropriations to such fund are hereby authorized. Except as herein provided, the other provisions of this Act shall be for application to such insurance: *Provided*, That waiver of premiums under section 602 (n) shall not be denied under this subsection on the ground that total service-connected disability commenced prior to the effective date of such insurance."

SEC. 11. Nothing contained in this Act shall be construed to affect any rights under insurance contracts issued on or prior to the date of this enactment.

SEC. 12. This part may be cited as the "Insurance Act of 1951".

[S. 654, 82d Cong., 1st sess.]

A BILL To authorize the payment of a gratuitous indemnity to survivors of members of the Armed Forces who die in active service, to amend the National Service Life Insurance Act of 1940, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

PART I—SERVICEMEN'S INDEMNITY

SECTION 1. This part may be cited as the "Servicemen's Indemnity Act of 1951."

SEC. 2. Except as hereinafter provided, on and after June 27, 1950, any person in the active service of the Army, Navy, Air Force, Marine Corps, Coast Guard, or the Reserve components thereof, including the National Guard, when called or ordered to active duty or active training duty for fourteen days or more; cadets and midshipmen at the United States Military, Naval, and Coast Guard Academies; commissioned officers of the Public Health Service while entitled to full military benefits as provided in section 212 (a) of the Act of July 1, 1944 (58 Stat. 689), as amended (42 U. S. C. 213); and commissioned officers of the Coast and Geodetic Survey while assigned to duty during a period of war or an emergency as proclaimed by the President or the Congress on projects for the Army, Navy, or Air Force in areas outside the continental United States or in Alaska or in coastal areas of the United States determined by the Department of Defense to be of immediate military hazard, shall be automatically insured by the United States, without cost to such person, against death in such service in the principal amount of \$10,000: *Provided*, That any person called to extended active service for a period exceeding thirty days shall continue to be so protected for a period of ninety days after separation or release from such active service: *Provided further*, That persons in the Reserve components, including the National Guard, while engaged in aerial flights in Government-owned or leased aircraft for any period, with or without pay, as an incident to their military or naval training, shall be deemed to be in the active service for the purposes of this Act.

SEC. 3. Upon certification by the Secretary of the service department concerned of the death of any person deemed to have been automatically insured under this part, the Administrator of Veterans' Affairs shall cause the indemnity to be paid as provided in section 4 only to the surviving spouse, child, or children (including a step-child, adopted child, or an illegitimate child if the latter was designated as beneficiary by the insured), parent (including a step-parent, parent

by adoption, or person who stood in loco parentis to the insured), brother, or sister of the insured. The insured shall have the right to designate the beneficiary or beneficiaries of the indemnity within the classes herein provided; to designate the proportion of the principal amount to be paid to each; and to change the beneficiary or beneficiaries without the consent thereof but only within the classes herein provided. If the designated beneficiary or beneficiaries do not survive the insured, or if none has been designated, the Administrator shall make payment of the indemnity to the first eligible class of beneficiaries according to the order set forth above, and in equal shares if the class is composed of more than one person.

Any installments not paid to a beneficiary during such beneficiary's lifetime shall be paid to the named contingent beneficiary, if any; otherwise, to the beneficiary or beneficiaries within the permitted class next entitled to priority.

SEC. 4. The indemnity shall be payable in equal monthly installments of one hundred and twenty in number with interest at the rate of $2\frac{1}{4}$ per centum per annum.

SEC. 5. The automatic indemnity coverage authorized by section 2 shall apply to any person in the active service of the named Armed Forces who, upon death in such active service, or within ninety days after separation or release from such active service as prescribed in section 2, is insured against such death under a contract of national service life insurance or United States Government life insurance, but only with respect to a principal amount of indemnity equal to the difference between the amount of insurance in force at the time of death and \$10,000. Any person in active service, who is insured under a permanent plan of national service life insurance or United States Government life insurance, may elect to surrender such contract for its cash value. In any such case the person, upon application in writing made within ninety days after separation from active service, may be granted, without medical examination, permanent plan insurance on the same plan not in excess of the amount surrendered for cash, or may reinstate such surrendered insurance upon payment of the required reserve and the premium for the current month. Waiver of premiums under the National Service Life Insurance Act of 1940, as amended, shall not be denied in any case in which it is shown to the satisfaction of the Administrator that total disability of the applicant commenced prior to the date of his application.

SEC. 6 (a) Except as provided in this section and notwithstanding the time limitations contained in section 2, the automatic indemnity coverage authorized by section 2 shall apply in the case of any person whose death while in the active service of the named Armed Forces occurred after December 6, 1941, and prior to September 3, 1945, and who—

(1) is survived, on the date of enactment of this Act, by a dependent parent;

(2) was not insured or deemed to be insured against such death under a contract of national service life insurance or United States Government life insurance

(b) Upon certification by the Secretary of the service department concerned of the death of any person deemed to have been automatically insured under this section, the Administrator of Veterans' Affairs shall cause the indemnity to be paid only to the dependent parent of such person, or if there is more than one dependent parent surviving, to the dependent parents in equal shares.

(c) The amount of the indemnity payable under this section shall be reduced in each case by an amount equal to the total amount of the premiums which would have been payable if the person had applied for and been granted five-year-level-term insurance in the amount of \$10,000 under the National Service Life Insurance Act of 1940 at the time of his entry into active service. The amount of the indemnity, so reduced, shall be payable in the manner provided in section 4, but no interest shall accrue with respect to such indemnity prior to the date of the payment of the first installment of such indemnity

SEC. 7. The Administrator of Veterans' Affairs is authorized to promulgate such rules and regulations, not inconsistent with the provisions of this part, as are necessary or appropriate to carry out its purposes.

SEC. 8. There is hereby authorized to be appropriated, out of any money in the Treasury not otherwise appropriated, such sums as may be necessary to carry out the provisions of this part, to be known as the servicemen's indemnity appropriation, for the payment of liabilities under this part.

SEC. 9. Any person guilty of mutiny, treason, spying, or desertion, or who, because of conscientious objections refuses to perform services in the land or naval forces of the United States or refuses to wear the uniform of such force,

shall forfeit all rights to the indemnity under this Act: *Provided*, That this provision shall not apply to any person who is thereafter restored to active duty. No indemnity shall be payable for death inflicted as a lawful punishment for crime or for military or naval offense, except when inflicted by an enemy of the United States.

SEC. 10. The provisions of Public Law Numbered 262, Seventy-fourth Congress, approved August 12, 1935 (49 Stat. 607), and titles II and III of Public Law Numbered 844, Seventy-fourth Congress, approved June 29, 1936 (49 Stat. 2031), insofar as they are applicable, shall apply to the provisions of this part: *Provided*, That assignments of all or any part of the beneficiary's interest may be made by a beneficiary to a widow, widower, child, father, mother, brother, or sister of the insured, when all other persons within the permitted classes join in the assignment.

PART II—RESTRICTIONS ON ISSUANCE OF UNITED STATES GOVERNMENT LIFE INSURANCE AND NATIONAL SERVICE LIFE INSURANCE

SEC. 11. The National Service Life Insurance Act of 1940, as amended, is hereby amended by adding the following new sections:

"SEC. 619. On and after the date of enactment of the Insurance Act of 1951, except as otherwise provided in section 12 thereof, and section 5 of the Servicemen's Indemnity Act of 1951 and sections 620 and 621 hereof, no national service life insurance or United States Government life insurance shall be granted to any person under the provisions of the National Service Life Insurance Act of 1940, as amended, or the World War Veterans Act, 1924, as amended, nor shall any Government life insurance or national service life insurance, on which the United States is authorized by law to pay the premium, be issued or granted to any person under any provision of law: *Provided*, That the foregoing shall not be construed to prohibit the granting or issuing of national service life insurance or United States Government life insurance in cases in which acceptable applications accompanied by proper and valid remittances or authorizations for the payment of premiums have, prior to the date of approval of the Insurance Act of 1951, been received by the Veterans' Administration, or which have, prior to said date, been placed in the mails properly directly to the Veterans' Administration, or been delivered to an authorized representative of any of the uniformed services.

"SEC. 620. Any person who is released from active service under other than dishonorable conditions on or after the date of enactment of the Insurance Act of 1951, and is found by the Administrator to be suffering from a disability for which compensation would be payable if 10 per centum or more in degree which renders such person uninsurable at standard rates for ordinary life insurance, according to recognized underwriting requirements of nongovernmental insurers, shall, upon application in writing made within one year from the date of release from active service and payment of premiums as provided in this Act, be granted insurance by the United States against the death of such person occurring while such insurance is in force. Insurance granted under the provisions of this section shall be on a nonparticipating basis and all premiums and other collections therefor and premiums and other collections hereafter received on nonparticipating insurance issued under other provisions of this Act, as amended, shall be credited directly to a revolving fund in the Treasury of the United States, and any payments on such insurance shall be made directly from such fund. Appropriations to such fund are hereby authorized. Except as herein provided, the other provisions of this Act shall be for application to such insurance: *Provided*, That waiver of premiums under section 602 (n) shall not be denied under this subsection on the ground that total service-connected disability commenced prior to the effective date of such insurance.

"SEC. 621. Any person who is released from active service under other than dishonorable conditions on or after the date of enactment of the Insurance Act of 1951 shall be granted insurance by the United States against the death of such person occurring while such insurance is in force, upon application therefor in writing (made within 120 days from the date of release from active service) and upon payment of premiums as provided in this Act and furnishing of evidence satisfactory to the Administrator showing such person to be in good health at the time of such application. In any such case, the Administrator shall not deny, for purposes of this Act, that the applicant is in good health because of any disability resulting from or aggravated by active service, unless such disability is one for which compensation would be payable if ten per centum or

more in degree and which renders such persons uninsurable at standard rates for ordinary life insurance, according to recognized underwriting requirements of nongovernmental insurers."

SEC. 12. Nothing contained in this Act shall be construed to affect any rights under insurance contracts issued on or prior to the date of this enactment

SEC. 13. This part may be cited as the "Insurance Act of 1951."

UNION CALENDAR No. 7

[H. R. 1, 82d Cong., 1st sess.]

[Report No. 6]

A BILL To authorize the payment by the Administrator of Veterans' Affairs of a gratuitous indemnity to survivors of members of the Armed Forces who die in active service, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

PART I—SERVICEMEN'S INDEMNITY

SECTION 1. This part may be cited as the "Servicemen's Indemnity Act of 1951."

SEC. 2. Except as hereinafter provided, on and after June 27, 1950, any person in the active service of the Army, Navy, Air Force, Marine Corps, Coast Guard, or the Reserve components thereof, including the National Guard, when called or ordered to active duty or active training duty for fourteen days or more, cadets and midshipmen at the United States Military, Naval, and Coast Guard Academies; commissioned officers of the Public Health Service while entitled to full military benefits as provided in section 212 (a) of the Act of July 1, 1944 (58 Stat. 689), as amended (42 U. S. C. 213); and commissioned officers of the Coast and Geodetic Survey while assigned to duty during a period of war or an emergency as proclaimed by the President or the Congress on projects for the Army, Navy, or Air Force in areas outside the continental United States or in Alaska or in coastal areas of the United States determined by the Department of Defense to be of immediate military hazard, shall be automatically insured by the United States, without cost to such person, against death in such service in the principal amount of \$10,000: *Provided*, That any person called to extend active service for a period exceeding thirty days shall continue to be so protected for a period of ninety days after separation or release from such active service: *Provided further*, That persons in the Reserve components, including the National Guard, while engaged in aerial flights in Government owned or leased aircraft for any period, with or without pay, as an incident to their military or naval training, shall be deemed to be in the active service for the purposes of this Act: *And provided further*, That for the purposes of this part, any person, who, on or after June 27, 1950, was or shall be provisionally accepted and directed or ordered to report to a place for final acceptance or for entry upon active duty in the military or naval service and who died or shall die as the result of disability incurred while en route to such place, or any registrant under the Selective Service Act of 1948, as amended, who on or after June 27, 1950, in response to an order to report for induction into the Armed Forces and who, after reporting to a local draft board, died or dies as the result of disability incurred while en route from such draft board to a designated induction station shall be deemed to have died in active service.

SEC. 3. Upon certification by the Secretary of the service department concerned of the death of any person deemed to have been automatically insured under this part, the Administrator of Veterans' Affairs shall cause the indemnity to be paid as provided in section 4 only to the surviving spouse, child or children (including a stepchild, adopted child, or an illegitimate child if the latter was designated as beneficiary by the insured), parent (including a stepparent, parent by adoption, or person who stood in loco parentis to the insured), brother, or sister of the insured. The insured shall have the right to designate the beneficiary or beneficiaries of the indemnity within the classes herein provided; to designate the proportion of the principal amount to be paid to each; and to change the beneficiary or beneficiaries without the consent thereof but only within the classes herein provided. If the designated beneficiary or beneficiaries do not

survive the insured, or if none has been designated, the Administrator shall make payment of the indemnity to the first eligible class of beneficiaries according to the order set forth above, and in equal shares if the class is composed of more than one person

Any installments of an indemnity not paid to a beneficiary during such beneficiary's lifetime shall be paid to the named contingent beneficiary, if any; otherwise, to the beneficiary or beneficiaries within the permitted class next entitled to priority.

SEC. 4. The indemnity shall be payable in equal monthly installments of one hundred and twenty in number with interest at the rate of $2\frac{1}{4}$ per centum per annum.

SEC. 5. The automatic indemnity coverage authorized by section 2 shall apply to any person in the active service of the named Armed Forces who, upon death in such active service, or within ninety days after separation or release from such active service as prescribed in section 2, is insured against such death under a contract of national service life insurance or United States Government life insurance, but only with respect to a principal amount of indemnity equal to the difference between the amount of insurance in force at the time of death and \$10,000. Any person in active service, who is insured under a permanent plan of national service life insurance or United States Government life insurance, may elect to surrender such contract for its cash value. In any such case the persons, upon application in writing made within ninety days after separation from active service, may be granted, without medical examination, permanent plan insurance on the same plan not in excess of the amount surrendered for cash, or may reinstate such surrendered insurance upon payment of the required reserve and the premium for the current month. *Any person in the active service having United States Government life insurance or national service life insurance on the five-year level premium term plan, the term of which expires while such person is in active service after the date of this enactment, shall, upon application made within ninety days after separation from service, payment of premiums and evidence of good health satisfactory to the Administrator, be granted an equivalent amount of insurance on the five-year level premium term plan at the premium rate for his then attained age.* Waiver of premiums under the National Service Life Insurance Act of 1940, as amended, shall not be denied in any case of issue or reinstatement of insurance on a permanent plan under this section in which it is shown to the satisfaction of the Administrator that total disability of the applicant commenced prior to the date of his application.

SEC. 6. The Administrator of Veterans' Affairs is authorized to promulgate such rules and regulations, not inconsistent with the provisions of this part, as are necessary or appropriate to carry out its purposes.

SEC. 7. There is hereby authorized to be appropriated, out of any money in the Treasury not otherwise appropriated, such sums as may be necessary to carry out the provisions of this part, to be known as the servicemen's indemnity appropriation, for the payment of liabilities under this part.

SEC. 8. Any person guilty of mutiny, treason, spying, or desertion, or who, because of conscientious objections refuses to perform services in the land or naval forces of the United States or refuses to wear the uniform of such force, shall forfeit all rights to an indemnity under this Act: *Provided*, That this provision shall not apply to any person who is thereafter restored to active duty. No indemnity shall be payable for death inflicted as a lawful punishment for crime or for military or naval offense, except when inflicted by an enemy of the United States.

SEC. 9. The provisions of Public Law Numbered 262, Seventy-fourth Congress, approved August 12, 1935 (49 Stat. 607), *as amended*, and titles II and III of Public Law Numbered 844, Seventy-fourth Congress, approved June 29, 1936 (49 Stat. 2031), *as amended*, insofar as they are applicable, shall apply to the provisions of this part: *Provided*, That assignments of all or any part of the beneficiary's interest may be made by a beneficiary to a widow, widower, child, father, mother, brother, or sister of the insured, when all other persons within the permitted classes join in the assignment.

PART II—RESTRICTIONS ON ISSUANCE OF UNITED STATES GOVERNMENT LIFE INSURANCE AND NATIONAL SERVICE LIFE INSURANCE

SEC. 10. The National Service Life Insurance Act of 1940, as amended, is hereby amended by adding the following new sections:

"SEC. 619. On and after the date of enactment of the Insurance Act of 1951, except as otherwise provided in section 11 thereof, and section 5 of the Service-

men's Indemnity Act of 1951 and section 620 hereof, no national service life insurance or United States Government life insurance shall be granted to any person under the provisions of the National Service Life Insurance Act of 1940, as amended, or the World War Veterans Act, 1924, as amended, nor shall any Government life insurance or national service life insurance, on which the United States is authorized by law to pay the premium, be issued or granted to any person under any provision of law: *Provided*, That the foregoing shall not be construed to prohibit the granting or issuing of national service life insurance or United States Government life insurance in cases in which acceptable applications accompanied by proper and valid remittances or authorizations for the payment of premiums have, prior to the date of approval of the Insurance Act of 1951, been received by the Veterans' Administration, or which have, prior to said date, been placed in the mails properly ~~directly~~ *directed* to the Veterans' Administration, or been delivered to an authorized representative of any of the uniformed services.

"SEC. 620 Any person who is released from active service under other than dishonorable conditions on or after the date of enactment of the Insurance Act of 1951, and is found by the Administrator to be suffering from a disability or disabilities for which compensation would be payable if 10 per centum or more in degree which renders such persons uninsurable at standard rates for ordinary life insurance, according to recognized underwriting requirements of nongovernmental insurers, shall, upon application in writing ~~made within one year from the date of release from active service~~ and payment of premiums as provided in this Act, be granted insurance by the United States against the death of such person occurring while such insurance is in force. Insurance granted under the provisions of this section shall be on a nonparticipating basis and all premiums and other collections therefor and premiums and other collections hereafter received on nonparticipating insurance issued under other provisions of this Act, as amended, shall be credited directly to a revolving fund in the Treasury of the United States, and any payments on such insurance shall be made directly from such fund. Appropriations to such fund are hereby authorized. Except as herein provided, the other provisions of this Act shall be for application to such insurance: *Provided*, That waiver of premiums under section 602 (n) shall not be denied under this subsection on the ground that total service-connected disability commenced prior to the effective date of such insurance."

SEC. 11. Nothing contained in *part I or part II* of this Act shall be construed to ~~affect~~ *cancel or restrict* any rights under insurance contracts issued on or prior to the date of this enactment.

SEC. 12. This part may be cited as the "Insurance Act of 1951"

The CHAIRMAN. I would like to put into the record a report—which I have not had the opportunity to fully read and digest—from the Veterans' Administration. This report deals with S. 304, Eighty-second Congress.

Also a report from the Federal Security Agency, to which is attached a report made to that agency by the Bureau of the Budget, dealing with S. 304 and S. 506, identical bills as they are described by the Federal Security Agency, and I would like to have this go into the record in this matter.

Also a report from the Bureau of the Budget. I understand there is a budget representative here, if we desire to ask any questions. That will go into the record. That is dealing specifically with S. 304 and S. 506. Also we have a report by the Secretary of Defense, stating that the Department of the Navy has been designated to express the views of the Department of Defense on bill H. R. 1. I understand also that there is a representative of the Department of Defense, or at least of the Navy, present, and we may desire to ask him some questions. This statement is furnished to the committee at the request of the committee itself, because the committee desired to have the views of the various departments.

Also a report to the Secretary of Commerce from the Director, Coast and Geodetic Survey on H. R. 1, enclosing a letter from the Bureau of the Budget.

(The reports referred to are as follows:)

JANUARY 18, 1951.

HON. WALTER F. GEORGE,
Chairman, Committee on Finance,
United States Senate, Washington 25, D. C.

DEAR SENATOR GEORGE: This is with further reference to your request of January 13, 1951, for a report on S. 304, Eighty-second Congress, entitled "A bill to authorize the payment by the Administrator of Veterans' Affairs of a gratuitous indemnity to survivors of members of the Armed Forces who die in active service, and for other purposes."

The principal purposes of S. 304 are as follow:

1. To provide automatic, gratuitous, life indemnity protection in the maximum amount of \$10,000 for all persons who on or after June 27, 1950, were in the active service of the Armed Forces, or within 90 days after separation or release from such active service. The indemnity protection in the case of any person insured under a contract of national service life insurance or United States Government life insurance would be limited to a principal amount of indemnity equal to the difference between the amount of such insurance in force at the time of death and \$10,000. The indemnity would be payable in 120 equal monthly installments at the rate of \$9.29 per thousand.

2. To provide indemnity protection for certain groups not eligible to apply for national service life insurance under existing law, including cadets and midshipmen at the service academies; and persons in the Reserve components, including the National Guard, while engaged in aerial flights in Government-owned or leased aircraft for any period of time, or while engaged in active duty or active training duty for certain periods less than 31 days. The right to apply for national service life insurance is limited presently to those ordered to active service for more than 30 days.

3. To prohibit the future issue of national service life insurance or United States Government life insurance except to those who are rendered uninsurable as the result of service-connected disability, and, in certain cases, to those who surrender their permanent plan insurance after entry into active service.

4. To authorize those in active service having permanent plans of national service life insurance or United States Government life insurance to surrender such insurance for its cash value and to reinstate such insurance or to apply for an equal amount of such insurance on the same plan upon application made within 90 days after separation from active service.

5. To authorize the granting of nonparticipating life insurance to any person who is released from active service, under other than dishonorable conditions, on or after the date of enactment of the bill, and who is found by the Administrator of Veterans' Affairs to be suffering from a disability or disabilities for which compensation would be payable if 10 percent or more in degree which renders such person uninsurable at standard rates for ordinary life insurance, according to recognized underwriting requirements of nongovernmental insurers. Written application and payment of premium would have to be made within 1 year from date of release from active service.

No doubt, enactment of the bill would provide automatic, gratuitous, life indemnity protection for all persons embraced by the bill and it would eliminate a great amount of administrative work which otherwise would be required under the National Service Life Insurance Act of 1940, as amended, if that program is continued. The proposed plan would guarantee maximum (\$10,000) protection to all, which is favored by many as being a great improvement over the present system under which many servicemen do not apply for any insurance and, in many instances, for less than the maximum protection. The manpower savings which eventually would result from enactment of the bill, particularly in the event of an all-out emergency, would be very desirable.

The following comments are furnished the committee with the view to inviting attention to certain provisions of the bill which require clarification or which are of such nature as to suggest the advisability of careful consideration in the light of experience and legislative history. Such comments are not intended to indicate any judgment or recommendation on my part on the basic purpose of the bill to provide an indemnity system as a substitute for the present system of Government insurance.

Under the provisions of section 2 of the bill the indemnity would cover persons ordered to active duty or active training duty for periods of less than 31 days in the Armed Forces and in the Reserve components thereof, including the National Guard. Persons in such groups would be included while engaged in

aerial flights for any period of time if the flight is incident to their military or naval training. Under the provisions of the National Service Life Insurance Act, members of the Armed Forces and Reserve components, including the National Guard, are not eligible to purchase such insurance unless they are ordered to active duty in the land or naval forces of the United States for a period of not less than 31 days. Also, cadets and midshipmen at the various academies have not been considered as being in the active military or naval service for the purpose of purchasing national service life insurance, except during the period of World War II, which was terminated for this purpose on December 31, 1946. Under existing law cadets and midshipmen and their dependents are entitled to compensation for service-connected disability or death. Generally speaking, the other groups mentioned above are entitled to such compensation for disability or death due to disease if ordered to active duty in excess of 30 days, and for injury were ordered to active duty for training or inactive duty training for any period of time.

The provisions of section 2 of the bill could be construed as providing an indemnity to all persons while in the active service for any period of time, other than the National Guard, and provide an indemnity to persons in the National Guard only when called or ordered to active duty or active training duty for 14 days or more. On the other hand, it could also be construed with respect to all persons in the named services, including the National Guard, as providing an indemnity only for those called or ordered to active duty or active training duty for 14 days or more, other than those engaged in aerial flights in Government-owned or leased aircraft. If the 14-day limitation is intended to apply only to the National Guard, it is suggested that such intent could be clarified by striking the comma after the words "National Guard" in line 9, page 1 of the bill.

Section 3 provides that the indemnity shall be paid by the Administrator of Veterans' Affairs "upon certification by the Secretary of the service department concerned of the death of any person deemed to have been automatically insured under this part." As it is not clear whether it is intended that such official shall also certify as to the death of persons within the 90-day period after separation, it is suggested that the committee may wish to clarify this aspect.

The indemnity would be payable only to the surviving spouse, child or children (including a stepchild, adopted child, or illegitimate child if the latter was designated as beneficiary by the insured), parent (including a stepparent, parent by adoption, or person who stood in loco parentis to the insured), brother, or sister of the insured. It is noted that there is no requirement as to the length of time or when the relationship of one standing in loco parentis must have existed. Under the provisions of the National Service Life Insurance Act, relationship of parent in such cases must have existed for not less than 1 year prior to entry of the "child" into active service. Such requirements have been deemed necessary to assure bona fide relationships and to prevent possible trafficking in the lives of servicemen.

It should be noted that an individual may have more than two parents, as that term is defined by the bill, all of whom might share the indemnity at the same time. Thus, adoptive parents who reared a child from infancy would have to share the Government's bounty equally with the natural parents who abandoned the child or with parents who stood in loco parentis for any period however short. Under the National Service Life Insurance Act, insurance is payable only to the parent or parents who last bore that relationship to the insured unless some other parent is designated as beneficiary by the insured. Gratuitous insurance under the mentioned act is payable to a parent only if dependent at the time of death of the insured, and is not payable in any case to a brother or sister. In fact, this provision is a radical departure from all of the existing veterans' laws authorizing gratuitous benefits, insofar as it includes as direct beneficiaries nondependent parents and the new group of brothers and sisters, without regard to dependency.

It is suggested that the provisions pertaining to payments not paid to a beneficiary during his lifetime would be clarified by inserting the words "of an indemnity" after the word "installments" in line 22, page 3 of the bill.

Section 4 provides that the indemnity shall be payable in equal monthly installments of 120 in number with interest at the rate of 2¼ percent per annum. In other words, the indemnity would be payable for 10 years at the monthly rate of \$9.29 per 1,000. Experience has proven that a provision limiting payments for

a fixed number of months is difficult to maintain because of the resulting hardship to those who would be cut off from the income, especially those who would be more dependent upon that income in their declining years. When the termination of the 240 installments of insurance payable occurred with respect to dependent parents of deceased veterans of World War I, the Congress saw fit to increase their monthly rates of death compensation. It was to overcome this result that provision was made for the life income guarantee for persons in the older age brackets under the original National Service Life Insurance Act. Under the National Service Life Insurance Act interest is at the rate of 3 percent per annum as contrasted with the interest rate of 2¼ percent per annum under the bill. This reduction in the interest rate will create a reduced benefit in comparison with payments made over a similar period of time under contracts of national service life insurance. Under the National Service Life Insurance Act, as amended, insurance may be payable in a lump sum, in installments of from 36 to 240 months, or under certain life annuity settlements.

The provisions of section 5 make clear that the maximum indemnity will not be payable in addition to any Government insurance in force at the time of death. However, it is provided that in case a person is also insured under a contract of Government insurance, a principal amount of indemnity equal to the difference between the amount of such insurance and \$10,000 would be payable. Therefore, in order to take full advantage of the maximum free indemnity, persons in the active service having national service life insurance or United States Government life insurance will be required to take certain steps to terminate their coverage under such insurance. In this regard the bill provides that persons having permanent plans of such insurance may surrender it for its cash value and upon application within 90 days after separation from active service reinstate the same or be granted new insurance on the same plan in an equal amount, without medical examination. It would appear that this provision is included to protect the interest of those who surrender for cash by exempting them from the provision in the National Service Life Insurance Act (sec. 602 (c) (2)) that insurance surrendered for cash may not be reinstated nor may such person be granted new insurance in an amount in excess of the difference between the amount of the insurance surrendered and \$10,000. No provision is contained in the bill with respect to preserving or reviving any rights under 5-year level premium term contracts issued prior to January 1, 1948, in cases where the term period may expire during the active service of the insured. However, such term policyholders may renew their insurance prior to expiration of the term, or they may convert to a permanent plan while in the active service, lapse the same, and then reinstate such insurance after separation from service, upon a showing of good health.

Section 5 also provides that waiver of premiums under the National Service Life Insurance Act of 1940, as amended, shall not be denied in any case in which it is shown to the satisfaction of the Administrator that total disability of the applicant commenced prior to the date of his application. It is assumed that this provision has reference only to the insurance authorized under section 5, although the broad language might be construed to have general application to all insurance under the mentioned act. It is believed that limiting language to express the intent would be desirable.

The provisions with respect to reinstatement or issue of new insurance without medical examination and waiver of premium for total disability which commenced prior to the application for insurance will impair the integrity of the national service life insurance fund. Such additional liability will arise in those cases in which the pre-existing disability is not traceable to the extra hazard of military service. To avoid impairing the fund, the bill should be amended. It has been my consistent policy to recommend unfavorable consideration of proposals to impair the national service life insurance fund for the benefit of special groups. It is suggested that the committee may wish to consider amending this provision so as to place those risks which are uninsurable under the good health provisions of the National Service Life Insurance Act in the same category as the nonparticipating insurance proposed to be granted under section 10 of the bill.

The provisions concerning waiver of premiums, as contained in sections 5 and 10 of the bill, with respect to findings of total disability are not identical, although the reason for such difference is not clear.

The indemnity would be payable generally regardless of the cause of death unless inflicted as lawful punishment for crime or for military or naval offense, except when inflicted by an enemy of the United States. All rights to an indemnity would be forfeited by any person guilty of mutiny, treason, spying, or

desertion, or who, because of conscientious objections refuses to perform services in the land or naval forces of the United States or refuses to wear the uniform of such force. The proviso in section 8 could be construed as exempting an individual from forfeiture for subsequent offenses if restored to active duty after the first offense specified. If such effect is not intended, it is suggested that any possibility of such construction could be avoided if the proviso were amended to read: "Provided, That restoration to active duty after commission of any such offense shall restore all rights to an indemnity under this part."

Section 9 of the bill would make the provisions of Public, Nos. 262 and 844, Seventy-fourth Congress, applicable to the indemnity provisions. Among other things, these acts would exempt the indemnity from taxation and claims of creditors; provide for the payment of benefits to minors and incompetents with or without guardians and regulate the recognition and fees of attorneys and agents. As both Public, No. 262 and Public, No. 844 have been amended, it is suggested that the words "as amended," should be added before the words "and titles II" in line 2, page 6, and before the words "insofar as" in line 4, page 6.

Section 9 also provides that assignments of all or any part of the beneficiary's interest may be made by a beneficiary to a widow, widower, child, father, mother, brother or sister of the insured, when all other persons within the permitted classes join in the assignment. The National Service Life Insurance Act provides that assignments of all or any part of the beneficiary's interest in insurance may be made only by a designated beneficiary to certain classes when the designated contingent beneficiary, if any, joins in the assignment and on the further condition that the assignment is delivered to the Veterans' Administration before any payments of the insurance shall have been made to the beneficiary. The administration of the assignment provision of the bill without conditions similar to those contained in the National Service Life Insurance Act would be extremely difficult because it would be necessary to contact relatives whose whereabouts and identity may not be known, and would result in considerable controversy and delay in certain cases.

Part II (sec 10) of the bill would prohibit issue of United States Government life insurance or national service life insurance to any person after its enactment except former insureds under the mentioned permanent plans of insurance surrendered for cash and except those released from active service under other than dishonorable conditions who are found by the Administrator to be suffering from a disability or disabilities for which compensation would be payable if 10 per centum or more in degree and which renders such persons uninsurable at standard rates for ordinary life insurance. In such latter cases applications must be made within one year from the date of release from active service and payment of the required premiums. Such insurance would be issued on a nonparticipating basis and all premiums and other collections therefor and premiums and other collections hereafter received on nonparticipating insurance issued under other provisions of the National Service Life Insurance Act of 1940, as amended, would be credited directly to a revolving fund in the Treasury of the United States and any payments on such insurance would be made directly from such fund. It is clear that a disability or disabilities for which compensation would be payable if 10 per centum or more in degree would include those which are presumptively as well as those which are directly service-incurred, many of which are not the direct result of the performance of military duty. This is in contrast with a provision in the National Service Life Insurance Act with respect to this type of insurance which requires that the disability be the direct result of the performance of military duty. It is suggested that the word "directly" in line 10 of page 7, should be "directed"

Section 11 specifically provides that nothing contained in the bill shall be construed to affect any rights under insurance contracts issued on or prior to the date of its enactment. This would include the right to reinstate or convert any insurance issued prior to the enactment of the bill. As under existing law, such rights under 5-year level premium term insurance, including any right of renewal, would have to be asserted before the expiration of the term period. It is suggested that for clarification the words "cancel or restrict" should be substituted for the word "affect" in this section.

As the bill provides that part I may be cited as the "Servicemen's Indemnity Act of 1951" and part II as the "Insurance Act of 1951," the words "this Act" as used in section 11 could be construed as applying to part II only. If intended to relate to both parts, it is suggested that the words "part I or part II" be inserted before the words "in this Act" in line 16, page 8.

To avoid possible misunderstanding, attention is invited to the fact that administrative savings within the Veterans' Administration cannot be expected until a considerable period of time has elapsed after enactment of the bill. Underwriting activities required by the provisions of the National Service Life Insurance Act would be materially curtailed. However, many persons in service and those entering who have term policies would convert their term insurance and subsequently surrender such insurance for cash. This will, of course, entail the processing of an unknown number of cash surrender applications and making the necessary refunds. It will also entail the processing of an unknown number of applications for conversion, issuing policies, and subsequently processing cash surrender applications. There will also be an unknown amount of administrative expense and manpower involved in reissuing and reinstating this insurance at time of discharge, as well as the adjudication of many disability claims. Furthermore, those persons in active service who do not convert and surrender their insurance for cash will very likely discontinue their existing Government life insurance in order to take advantage of the indemnity payment. Administratively this will entail the discontinuance of allotments, closing out of premium record cards, and refunding of any unearned premiums.

The granting of insurance under the proposed section 620 to be added to the National Service Life Insurance Act will impose unique problems involving the determination as to whether the serviceman's disability is such that compensation would be payable if 10 per centum or more in degree, and whether the veteran is uninsurable. There are no existing "standard rates for ordinary life insurance, according to recognized underwriting requirements of nongovernmental insurers," which have been adopted by all private insurers. Accordingly, strict compliance with this requirement would be impossible. In view of this, it is suggested that the committee may desire to revise this language of the bill to refer instead to the standards which have been established by the Administrator for qualifying under the good health provisions of the National Service Life Insurance Act, and the regulations issued pursuant thereto.

Because of the many unknown factors, the Veterans' Administration is unable to estimate the cost of the bill, if enacted. Moreover, for the same reasons, it may be noted that the Veterans' Administration would be unable to estimate the future cost of the national service life insurance program if continued on the present basis.

With respect to a similar report on a bill (H. R. 1, 82d Cong.), identical to S. 304 here under consideration, the Bureau of the Budget advised that there would be no objection to the submission of the report to the Congress, and it invited attention to the recommendations contained in the President's budget message of January 15, 1951, for the enactment of legislation embracing the principles involved in the bill.

Sincerely yours,

CARL R. GRAY, Jr., *Administrator.*

FEDERAL SECURITY AGENCY,
Washington, January 24, 1951.

HON. WALTER F. GEORGE,
Chairman, Committee on Finance,
United States Senate, Washington, D. C.

DEAR MR. CHAIRMAN: This is in response to your letters of January 22, 1951, requesting a report on S. 304 and S. 506, identical bills to authorize the payment by the Administrator of Veterans' Affairs of a gratuitous indemnity to survivors of members of the Armed Forces who die in active service, and for other purposes.

The objective of S. 304 and S. 506 is to substitute a program of noncontributory life insurance applicable to all members of the Armed Forces of the United States in "active service" in place of the existing provisions of law relating to national service life insurance and United States Government life insurance. Under these bills, no national-service life insurance or United States Government life insurance would be granted in the future with one exception. Insurance would continue to be available, under the National Service Life Insurance Act of 1940 (as amended by sec. 10 of the bills), to any veteran who is released from active service and who has a disability for which compensation would be payable if 10 percent or more in degree and which makes him uninsurable by private companies at standard rates, but only if the veteran applies for the insurance within a year of his release from active service and pays the required premiums.

S. 304 and S. 506 would provide automatic and noncontributory life insurance, in the amount of \$10,000, for all members of the Armed Forces who die in active service or, if they were called to extended active service for more than 30 days, who die within 90 days after separation or release from active service. Where the veteran holds national-service life insurance or United States Government life insurance of less than \$10,000, this noncontributory insurance would apply only to the difference between the amount of such national service or Government insurance and \$10,000.

This Agency has no comments to offer on the substance of these bills, since we assume that other agencies who are in a better position than we to discuss such matters will direct their attention to the rather basic questions involved in substituting this gratuitous insurance for the existing national-service life insurance and United States Government life insurance. We have, instead, confined our comments to matters with which this Agency is peculiarly concerned.

The gratuitous insurance protection provided by the bills would be extended to "commissioned officers of the Public Health Service while entitled to full military benefits as provided in section 212 (a) of the act of July 1, 1944 (58 Stat. 689), as amended (42 U. S. C. 213)." Should your committee decide to make only this limited extension of the bills' provisions so far as the Public Health Service officers are concerned (for reasons given below, we trust the extension will not be so limited). I should like to suggest that the statutory reference be changed from "section 212 (a) of the act of July 1, 1944 (58 Stat. 689), as amended (42 U. S. C. 213)," to "section 212 of the Public Health Service (42 U. S. C. 213)." Subsection (a) of section 212 of that act merely defines what is meant by "full military benefits" and "limited military benefits." The conditions under which commissioned officers of the Public Health Service may be entitled to such benefits are stated elsewhere in that section. In addition, the portion of the act in which section 212 appears has a short title and I believe the use of that title would be more meaningful to persons reading the bills.

Under section 212 of the Public Health Service Act, commissioned officers of the Public Health Service are entitled to full military benefits (1) with respect to active service performed while detailed for duty with the Army, Navy, or Coast Guard; (2) with respect to active service outside the continental limits of the United States or in Alaska in time of war; and (3) with respect to active service performed while the Service is part of the military forces of the United States pursuant to Executive order of the President.

Since July 29, 1945, the commissioned corps of the Public Health Service has, under Executive Order 9575, been a military service and a branch of the land and naval forces of the United States; consequently, S. 304 and S. 506 in their present form would cover all active-duty members of such corps at the present time and for so long as that Executive order remains in effect. However, should the Executive order be rescinded at some future date, only a small portion of the active-duty officers would then be covered under the present provisions of the bills. Members of the Army, Navy, Air Force, Marine Corps, or Coast Guard would, on the other hand, continue to get this protection while in active service regardless of what the military or world conditions might be at that time. We do not believe that this discrimination is justified.

The Public Health Service regards benefits such as those offered under the gratuitous indemnity bills as essentially a matter of pay and allowances. They were also so regarded by the Hook Commission in its comprehensive study which resulted in the Career Compensation Act of 1949. The gratuitous-indemnity plan recommended by the Hook Commission, consequently, included commissioned officers of the Public Health Service without any limitation depending on their entitlement to "full military benefits." (See, e. g., title V of H. R. 2553, 81st Cong.) Commissioned officers of the Public Health Service are appointed, promoted, paid, and retired under legislation which is substantially the same as that governing Army officers. A limitation in the proposed coverage for the Public Health Service commissioned officers would amount to a reduction in over-all pay and allowances since they would have to purchase commercial insurance at considerable personal expense when not entitled to full military benefits in order to obtain the protection for survivors afforded to members of other services without cost.

While coverage presently given in the bills under consideration is similar to that provided under existing law, it should be noted that national-service life insurance provides a benefit which, when once obtained, no longer depends on active service. Under the gratuitous-indemnity plan the gratuity provided would be limited primarily to members on active duty and is, therefore, in the

nature of an active-duty benefit rather than a veterans' benefit even though the bills designate the Veterans' Administration as the paying agent. Further support for this view of the gratuitous indemnity is given by the fact that payment of the benefits is authorized upon a determination that the person was on active duty at the time of death. Whether or not there was any casual relationship between such active duty and the death is of no significance. For this reason it is believed that this gratuitous-insurance protection should be extended to Public Health Service officers without qualification or limitation, on the same basis as are other perquisites relating to active-duty pay, allowances, or retirement.

Since the commencement of World War II the commissioned corps of the Public Health Service has been specifically granted many of the benefits which are generally applicable to the other military services. More recently the legislative trend has been toward uniformity in the benefits extended to members of all the uniformed services. Consequently, to place any limitation on the coverage provided for the Public Health Service commissioned officers under the bills while not placing any such limitation on members of the Army, Navy, Air Force, Marine Corps, or Coast Guard would constitute a reversal of the current trend toward uniformity of treatment among the uniformed services.

We should also like to call your attention to the administrative problem that would be created, and some of the inequities which some Public Health Service commissioned officers would suffer, if the present limitations were to remain in the bills. In time of peace, Public Health Service officers who are detailed to the Army, Navy, or Coast Guard would be eligible for this gratuity. These details are usually limited to a period of 2 to 3 years and are made primarily without the consent of the officers involved. Granting the protection afforded by S. 304 and S. 506 to these officers merely on the basis of assignment would discriminate against other officers of the Public Health Service commissioned corps who would be denied such protection. This is especially true since payment of benefits under the bills is not dependent upon any connection between the service activities and the cause of death. Any such result would create a serious morale problem within a closely knit commissioned corps insofar as it would create an over-all pay differential in the monetary benefits to which such officer would be entitled.

In view of the above considerations, we urge that the insurance protection afforded by the bills to commissioned officers of the Public Health Service not be dependent upon their entitlement to full military benefits, but that instead it be extended to all such officers while in active service.

Section 7 of the Federal Employees' Compensation Act, as amended, already requires an election by beneficiaries between benefits payable under that act on account of the death of an individual and "any payments or benefits (other than the proceeds of any insurance policy)" payable under any other Federal statute. We do not believe that the beneficiaries of a Public Health Service officer should be entitled to benefits under S. 304 or S. 506 and under the Federal Employees' Compensation Act at the same time, and section 7 of the latter would probably be construed to prevent such a duplication. It might be desirable, however, to preclude any other interpretation of that section by making it clear that the indemnity provided by S. 304 and S. 506 is not to be regarded as "the proceeds of any insurance policy." The desirability of this change would not, of course, be affected by your action on our recommendation made above.

In connection with the problem of the insurance protection to be afforded members of the uniformed services during and after active service, we feel we should call your attention to the existence of provisions affecting veterans in the old-age and survivors insurance program and to recommendations of this Agency which would further affect servicemen and veterans.

Under the Social Security Act Amendments of 1950, veterans of World War II have in fact, acquired coverage under the old-age and survivors insurance program for their period of military service during World War II through retroactive wage credits for that service. These credits are not, however, given for military service after July 24, 1947. Consequently, members of the Armed Forces will get no credits under the old-age and survivors insurance program for their service during the Korean conflict or any other future service which may be required in view of the world conditions.

The Federal Security Agency has recommended for many years that old-age and survivors insurance be extended to members of the Armed Forces. Such

an extension of coverage would make available to servicemen the valuable benefits of old-age and survivors insurance, which include retirement benefits for the serviceman and his dependents at age 65, monthly benefits to the widow and children or the dependent parents of a deceased serviceman, and a lump-sum death payment in each case. It would be particularly valuable for the short-term serviceman who does not qualify for benefits under the service retirement programs, and arrangements could be made to prevent duplication in case the serviceman should remain in the service long enough to qualify under a service retirement program.

S. 304 and S. 506 are identical with H. R. 1 as introduced in the House. In accordance with established procedure, we submitted to the Bureau of the Budget our proposed report on the House bill which was in substance the same as this report. I am enclosing herewith a copy of a letter, dated January 16, 1951, from Mr. Jones, Assistant Director, Legislative Reference, Bureau of the Budget, replying to your request for clearance of our proposed report on the House bill.

Sincerely yours,

/S/ JOHN L. THURSTON,
Acting Administrator.

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D. C., January 16, 1951.

Hon. OSCAR R. EWING,
Administrator, Federal Security Agency, Washington, D. C.

MY DEAR MR. EWING: This is in reply to Mr. Thurston's letter of January 8, 1951, enclosing four copies of a proposed report to the chairman of the House Committee on Veterans' Affairs on H. R. 1 and H. R. 3, bills to authorize payment by the Administrator of Veterans' Affairs of a gratuitous indemnity to survivors of members of Armed Forces who die in active service, and for other purposes.

H. R. 1 and H. R. 3 would extend gratuitous indemnity protection to the commissioned corps of the Public Health Service only under the requirements set forth in section 212 of the Public Health Service Act for providing full military benefits. Under these requirements, full military benefits would be extended to officers of this corps (1) with respect to active service performed while detailed for duty with the Army, Navy, or Coast Guard; (2) with respect to active service outside the continental limits of the United States or in Alaska in time of war; and (3) with respect to active service performed while the service is part of the military forces of the United States pursuant to Executive order of the President. Since Executive Order 9575 now classifies the commissioned corps of the Public Health Service as a military service, all officers of this corps on active duty would be covered under the gratuitous indemnity protection of H. R. 1 or H. R. 3, if enacted, so long as that Executive order remains in effect.

Your report recommends that H. R. 1 and H. R. 3 be revised to extend their benefits to all commissioned officers of the Public Health Service on active duty without regard to the conditions set forth in section 212 of the Public Health Service Act governing the provision of full military benefits to officers of this corps. This would mean that, if, at some future time, Executive Order 9575, which classifies this corps as a military service, should be rescinded, gratuity indemnity protection would nevertheless still be provided all officers in this corps on active duty. It is the view of the Bureau of the Budget that this would constitute a basic change in the principles underlying section 212 of the Public Health Service Act and, as such, should not be considered in the context of H. R. 1 or H. R. 3. Moreover, since Executive Order 9575 remains in effect, it would seem unnecessary to consider such a basic change at this time.

Your attention is also called to the fact that certain of the individuals eligible for survivor protection under H. R. 1 or H. R. 3 would also be eligible for survivor protection under the terms of the Federal Employees' Compensation Act, 1916, as amended. Section 7 of this act provides that any individual entitled to receive gratuitous benefits under the Federal Employees' Compensation Act shall elect whether to receive such benefits or those provided under other provisions of law. There appears to be some doubt that the benefits provided by H. R. 1 and H. R. 3 would be covered by section 7. The Bureau of the Budget is,

therefore, recommending that the language in H. R. 1 and H. R. 3 be clarified to eliminate any possibility of duplicate benefits in this respect.

While there is no objection to the submission of your report to the committee, it is requested that a copy of this letter be transmitted therewith for the committee's information. A copy of the Bureau of the Budget's report to the committee is enclosed.

Very truly yours,

ROGER W. JONES,
Assistant Director, Legislative Reference.

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D. C., January 25, 1951.

HON. WALTER F. GEORGE,
Chairman, Committee on Finance,
United States Senate, Washington, D. C.

MY DEAR SENATOR GEORGE: This letter is in reply to a verbal request from your staff for the views of the Bureau of the Budget concerning S. 304 and S. 506, bills "to authorize the payment by the Administrator of Veterans' Affairs of a gratuitous indemnity to survivors of members of the Armed Forces who die in active service, and for other purposes." This report is also generally applicable to H. R. 1 which passed the House of Representatives yesterday, the purpose of which is identical with that of S. 304 and S. 506. Views are also expressed on S. 84, a bill "to provide automatic national service life insurance coverage for certain persons in the active military or naval service."

Part I of S. 304 and S. 506 provides for an indemnity of \$10,000 in the event of death during active service or within 90 days after separation from such service for personnel of the Armed Forces. The indemnity would be payable to certain specified classes of beneficiaries in accordance with a designation by the serviceman or, failing such designation, in a sequence provided in the bill, in 120 equal monthly installments, with interest computed at the rate of 2¼ percent per annum. The indemnity would be reduced by the amount of national service life insurance or Government life insurance in force at the time of death. Provision is included granting certain reinstatement rights to individuals who surrender during periods of active service any national service or Government life insurance other than term insurance. The indemnity provisions would apply in all cases of active service on and after June 27, 1950. H. R. 1, as passed by the House, differs from S. 304 and S. 506 in that it would in addition enable any person in active service having United States Government life insurance or national service life insurance on the 5-year level premium term plan, the term of which expires while he is in active service after the date of enactment of the bill, to be granted the privilege of acquiring an equivalent amount of term insurance on his release from service.

Part II of these bills would terminate the issuance of national service life insurance or Government life insurance contracts upon the effective date of this legislation. It provides for a special insurance system open to any person who is released from active service under other than dishonorable conditions and who is suffering from a service-connected disability which renders him uninsurable at standard rates according to recognized underwriting requirements of nongovernmental insurers. Application is to be made within a year from the date of discharge. This insurance, on a nonparticipating basis, is to be generally subject to the provisions of the National Service Life Insurance Act of 1940, as amended. Premiums and other collections are to be deposited and covered into the Treasury to the credit of a separate revolving fund and any payments on such insurance are to be made directly from the fund. Appropriations to the fund would be authorized.

In their general outlines and objectives, these bills would effectuate the recommendations for immediate revision of the servicemen's insurance system which were proposed in the President's budget message of January 15. Advantages of an indemnity system which make it preferable to continuance of a voluntary insurance system, such as the present one, are:

(a) An indemnity would provide a uniform and equitable minimum of protection for dependents of all servicemen, which is not achieved by the present insurance system;

(b) An indemnity would eliminate virtually all the present costly administration required for payroll deductions and other record keeping under the present insurance system; and

(c) An indemnity would fill a gap that might otherwise occur for some survivors of servicemen if the present voluntary insurance were dropped and no special substitutes were provided

S. 304, S. 506, and H. R. 1 all fulfill the first two objectives identified above. The importance of reducing administrative expense and conserving manpower now and in the foreseeable future is emphasized both by the greatly increased insurance workloads resulting from rapid Armed Forces expansion and by the manpower problems directly resulting from defense requirements. Although the Veterans' Administration is expanding its staff to handle the increased insurance workloads as expeditiously as possible, some backlog is inevitable and every worker absorbed by national service life insurance work is, of course, unavailable for defense activities. All these factors were taken into consideration by the President in the formulation of the recommendations in his budget message referred to above.

There are, however, some points with respect to the current bills which I should like to call to your attention.

(a) Payment of the gratuity in 120 monthly installments in many cases would leave a gap between the termination of the payments and the age at which the survivor would begin to receive income under other plans of survivor protection. This gap would be only partially filled by the continued receipt of veterans' compensation benefits. Thus the third objective set forth above would in many instances not be fulfilled by these bills. More adequate protection could be made available through the provision for some flexibility in the settlement provisions so that the indemnity could be paid on a basis more consistent with the needs of the beneficiary. Such flexibility could be provided by permitting the beneficiary to choose the 10-year income, income to age 65, or life income.

(b) These bills incorporate by reference various procedural and administrative aspects of the National Service Life Insurance Act of 1940, as amended, which have been the subject of concern both to the Congress and the Executive Branch of the Government. In particular, the bills fail to require use of modern mortality tables for premium rates and life-income settlements. Further the bills would continue interest at 3 percent rather than specify the $2\frac{1}{4}$ percent rate used in section 4, which is more nearly the average interest rate on Government obligations.

(c) The bills provide for a 90 day "grace" period after separation from the Armed Forces during which time the former serviceman would continue to receive gratuitous protection. It would appear that this period is longer than necessary to permit the serviceman to make such arrangements as he wished with regard to providing protection to his survivors through commercial insurance. In view of the fact that this unnecessarily extended period of Government liability would increase the cost of the bill at no apparent benefit to the Government, we suggest a shorter period of postservice protection.

(d) Certain individuals who would be eligible for survivor protection under these bills are now eligible for survivor protection under the terms of the Federal Employees' Compensation Act, 1916, as amended. Section 7 of that act provides that any individual entitled to receive benefits under the Federal Employees' Compensation Act shall elect whether to receive such benefits or those available gratuitously under other provisions of law. Language changes necessary to assure avoidance of dual benefits are recommended.

The prospective cost of this legislation depends upon such factors as the size of the Armed Forces and more particularly the number of casualties which may occur. Some indication of the comparative cost, however, is provided by a comparison of the estimated cost of national service life insurance from 1940 to 1949, with the estimated cost of these bills over the same period of time had they been in effect. The basic data are from the seventh intermediate report of the House Committee on expenditures in the Executive Departments (H. Report No. 2761, 81st Cong.), the Veterans' Administration, and the Armed Forces.

Actual or estimated cost, in billions

Item	NSLI	S. 304, S. 506, H. R. 1	Indemnity legislation plus or minus NSLI
Death claims.....	\$3.8	\$4.4	+\$0.6
Premium waivers and aviation cadet premiums.....	.1	0	-.1
Extra interest (0.8 percent).....	.3	0	-.3
Subtotal direct benefit payments.....	4.2	4.4	+.2
Administrative costs.....	.7	.1	-.6
Total cost.....	4.9	4.5	-.4

We believe that the comparative cost of the indemnity and the insurance is reflected with substantial accuracy by the above data, and that the savings reflected for the indemnity system represent the reasonable minimum which would have occurred.

In our initial testimony before the House Veterans' Affairs Committee, we estimated that savings might total \$0.8 billion as compared with the \$0.4 billion indicated above. The range in estimates is attributable to a difference in allocating two elements of cost which we feel should be considered by the Congress.

(a) The elimination from national service life insurance costs of \$0.1 billion in interest included in our earlier estimate, which subsequent analysis has indicated to be a questionable charge; and

(b) The inclusion in H. R. 3 costs of an allowance of \$0.3 billion for 30,000 Philippine Army claims at \$10,000 each. This represents a maximum allowance for these gratuitous claims, which are included in national service life insurance death claim costs at \$5,000 each, the amount actually paid.

You will note that while death claim benefit payments under these bills would have been \$0.6 billion greater, the total estimated cost under any of these measures would have been \$0.4 billion less due primarily to reduction in administrative costs. This reduction would have resulted in part from the simpler administrative problem in handling in-service cases, and in part from the reduction in the postservice insurance program.

In addition to reflecting lower costs under the indemnity approach, the estimate also indicates that about 98 percent of the total costs of S. 304, S. 506, or H. R. 1 would be represented by death-claim payments, as compared with about 78 percent under national service life insurance. The \$0.6 billion in additional death benefits which would have been paid out under indemnity legislation would have gone to the survivors of servicemen without insurance, to the survivors of servicemen with less than \$10,000 insurance, or to the survivors of servicemen who were determined by the Veterans' Administration to have died as a result of normal hazards. In other words, not only would the cost of these bills have been less but they would have provided survivor benefits to many thousands of beneficiaries who did not have national service life insurance protection at all, and to many thousands of others they would have provided more benefits than were available under national service life insurance. In those cases where more than \$10,000 was paid to the beneficiary under national service life insurance because of the obsolete mortality tables used, the bills would limit the benefits paid to \$10,000. This assurance of universal survivor protection in the amount of \$10,000 which is given by S. 304, S. 506, and H. R. 1 appears to us to be desirable, and would result in greater equity to all.

S. 84 would provide gratuitous national service life insurance protection in the amount of \$10,000 to persons dying in line of duty or reporting for service in the Armed Forces during a period commencing June 27, 1950, and ending 120 days after the enactment of the bill. While the bill has in common with S. 304, S. 506, and H. R. 1 the desirable objective of providing universal protection retroactively since June 27, 1950, future coverage would be provided through optional national service life insurance, which results in only partial survivor protection. S. 304, S. 506, and H. R. 1, on the other hand, provide continuous universal coverage under an indemnity system. Furthermore, even the retroactive protection provided under S. 84 would be achieved through the use of the administratively cumbersome national service life insurance system, with resultant additional cost and workload. For these reasons S. 84 cannot be considered in accord with the program of the President.

Subject to your further consideration of the suggestions concerning (a) the optional settlement provisions, (b) continuance of outmoded mortality tables and a subsidized interest rate in the postservice insurance system for disabled veterans, (c) the 90-day grace period, and (d) dual coverage under the Federal Employees' Compensation Act, we wish to advise you that the general approach embodied in S. 304, S. 506, and H. R. 1 is sound and in accord with the program of the President.

Sincerely yours,

ELMER B. STAATS, *Assistant Director.*

JANUARY 25, 1951.

Senator WALTER F. GEORGE,

Chairman of the Committee on Finance,

United States Senate.

DEAR MR. CHAIRMAN: The Department of the Navy has been designated by the Secretary of Defense to express the views of the Department of Defense on the bills, H. R. 1 and H. R. 3, to authorize the payment by the Administrator of Veterans' Affairs of a gratuitous indemnity to survivors of members of the Armed Forces who die in active service, and for other purposes.

Sections 2 and 3 of the bills provide that a uniform death indemnity of \$10,000 will be paid to designated classes of beneficiaries of servicemen who die in active service. The beneficiaries may be the spouse, parent, child, brother, or sister. The indemnity will be paid to such of the beneficiaries and in such proportions as the serviceman may designate. In the event he fails to designate any beneficiary, the indemnity will be paid to a surviving spouse, child, parent, or brother or sister, in that order. No showing of dependency is required to entitle a person to the indemnity.

Under the subject bills, a widow would receive \$11,148 over a 10-year period. Under a \$10,000 national service life insurance contract a widow now receives \$11,532 over a similar period. In the course of a 5 year term, a man pays approximately \$120 for a term national-service contract. These bills deprive the beneficiaries of protection in the amount of \$384 and give to servicemen a sum of about \$2 per month by way of a premium which he does not have to pay. If the annuity option of a national service life insurance is taken as the basis of payment, the discounted present value of a national-service policy in the amount of \$10,000 is \$12,573.60 for a widow 35 years of age. If she lives her normal life expectancy, payments to her will total over \$20,000. The loss of protection to such widow of the serviceman will approximate \$9,000 if either of these bills is enacted.

The Department of Defense believes that any reduction of the protection now afforded the dependents of servicemen is unwise. The maximum amount of Government insurance available to the serviceman was fixed at \$10,000 by the War Risk Act of October 6, 1917 (40 Stat. 4093). After a period of 33 years, during which the cost of living has more than doubled, the sum of \$10,000 apparently is still considered adequate. Because of the rapid rise in the cost of living, every serviceman who has an insurance contract of a few years' duration now finds that his dependents or beneficiaries are not protected to the extent he had intended when he purchased the insurance.

It is believed that any new insurance act or amendments to previous acts should—

(a) Make available an amount of insurance of at least \$20,000 which would give truly adequate protection to the dependent beneficiaries of service personnel;

(b) Provide for a periodic review and change of this amount should the cost of living index vary in excess of specified limits;

(c) Provide for changing the principal amount of existing policies at the option of the holder when the amount of insurance available is changed.

Provisions such as these which could be included in an insurance act are not appropriate in gratuitous indemnity bills such as H. R. 1 and H. R. 3. Any mortality benefit to which the serviceman does not contribute and to which nondependents as well as dependents are entitled would be prohibitively costly to the Government if it adequately provided for the families of deceased servicemen. The protection afforded dependents by the indemnity could be increased without increasing the cost to the Government by requiring recipients of the indemnity to be actually dependent on the serviceman. If the bills were so amended and enacted, a number of servicemen without dependents would com-

plain of discrimination, and many nondependent relatives of such servicemen would probably insist for reasons sufficient to themselves that they were entitled to the gratuity in the same degree as dependents. For these reasons it is not practicable to base entitlement to the gratuity on the degree of dependency. The only feasible way to adequately protect the dependents of servicemen is to require servicemen with dependents to contribute part or all of the cost of the additional protection they need because of the size and circumstances of their family.

Heretofore, United States Government and national service life insurance have been vehicles whereby a serviceman has contributed to part of the cost of providing protection for his family. The Government, recognizing its responsibility to assume some part of the cost of life insurance for servicemen because of the extra hazards to which a serviceman is subject at all times, but especially in war, has also contributed to the cost of the insurance. H. R. 1 and H. R. 3 are now proposed as adequate substitutes for the present contribution of the Government to United States Government and national service life insurance programs.

H. R. 1 and H. R. 3 are not believed to be adequate substitutes for national service life insurance. Servicemen with families necessarily will have to supplement the reduced, inadequate protection afforded by the indemnity with commercial insurance if such insurance is available. It is reported that life-insurance companies are about to limit their liability on new life-insurance contracts to \$5,000 for officers and \$2,500 for enlisted men who die as the result of combat injuries. In any event, the cost of the extra hazards of service and commercial brokerage costs will be assumed by the serviceman on active duty. The Department of Defense considers the imposition of such an additional financial burden on the serviceman who is also the head of a family to be contrary to his interests.

The Department of Defense favors a gratuity such as the 6 months' death gratuity to compensate in some measure the next of kin for the death of their husband, father, son, or brother, and to alleviate temporarily the financial hardship which may result when the breadwinner dies and his dependents are obliged to carry on without him. Such a gratuity need not be so costly that the Government must deny the serviceman its help through providing him low-cost insurance protection according to his needs and the needs of his family. The Department does not favor a gratuity such as that proposed in H. R. 1 and H. R. 3 whereby the Government discharges its obligation to help protect the families of servicemen by granting a gratuity which often will be inadequate, and simultaneously takes away the opportunity for him to purchase adequate insurance protection at a reasonable cost, assuming additional commercial insurance is available at any price.

Not only do H. R. 1 and H. R. 3 fail to adequately protect dependents, but they eliminate a means whereby a serviceman may provide financial protection for himself. Many servicemen have created a substantial savings fund represented by the cash value of their low cost, permanent plan Government insurance. It is believed that the creation of such cash reserves contributes to the healthy morale of our fighting forces and fosters self-reliance and self-confidence, qualities which are necessary for survival on the battlefield and in civilian life. In relieving the serviceman of the cost of providing such financial protection for his dependents as the bills afford, the bills also deprive him of an opportunity to achieve some degree of financial independence.

The necessary equitable, saving provisions of sections 5 and 11 of the bills which preserve most of the rights of present holders of national service and Government insurance contracts will tend to continue national service life insurance for many years. Section 10 of the bills, which adds a new section 620 to the National Life Insurance Act, would permit a serviceman separated from active service with a disability of 10 percent or more, making him uninsurable at standard commercial rates, to apply for national service life insurance. This provision will tend to perpetuate national service life insurance. The new section 620 would also set up a revolving fund separate and distinct from the national service life insurance fund, further complicating the administration of the Federal insurance program for a long time.

The continuation of national service life insurance for many years for many persons, and its perpetuation for others, will result in the continuance of a large part of the present expense incident to the administration of the United States Government and National Service Life Insurance Acts. Superimposed on this existing administrative expense will be additional costs incident to the admin-

istration of the indemnity. In addition, the mortality costs of all servicemen who die on active service will be borne by the Government. It is difficult to perceive how enactment of this bill will result in any savings to the Government. An analysis of the cost of national service life insurance seems to indicate that savings to the Government could readily be accomplished by amending the National Service Life Insurance Act.

From the date of enactment of the National Service Life Insurance Act on October 8, 1940, to December 1, 1949, the Government has paid out of appropriated funds, mortality benefits under national service contracts in an amount of approximately \$3,456,000,000. During this period the administrative cost to the Government has been no higher than \$700,000,000. The total cost to the Government has been approximately \$4,156,000,000. Had the gratuitous indemnity been paid during this period as provided in H. R. 1 and H. R. 3, the cost to the Government would have been \$4,380,000,000. Assuming there would be no administrative expense in connection with the gratuitous indemnity, the Government would have paid \$230,000,000 more than was actually paid under the provisions of the National Life Insurance Act, including all administrative expense. This estimate is based on estimates made by the Veterans' Administration. The Comptroller General estimates that had the indemnity program been in effect during the subject period a saving of \$587,000,000 would have resulted. In considering these estimates it should be remembered that all deceased persons who might have been covered under an indemnity program were not insured for \$10,000 and, conversely, that many insured veterans who have died after separation from the service would not have been covered under the indemnity program.

It is well known that the premiums paid for national service life insurance are less than those paid for commercial insurance. Nevertheless, a national service dividend approximating \$2,800,000,000 has been declared, and it is understood that a second dividend of \$1,000,000,000 is contemplated. These dividends accrued because the National Service Life Insurance Act prescribed that the national service life insurance fund into which premiums were paid should only bear the mortality cost resulting from deaths not the result of the extra hazards of the service, and because the act prescribed the use of obsolete mortality tables. In some cases a serviceman paid a net amount of \$90 for a 5-year term contract of insurance in the principal amount of \$10,000. Clearly, the provisions of the National Service Life Insurance Act are unrealistic if the net cost to the insured of a term contract for insurance in the amount of \$10,000 is only \$1.50 per month. Because of such unrealistic provisions of the National Service Life Insurance Act, the cost to the Government has been high. Hence, it is now proposed to abolish Government insurance and substitute for it an even more expensive gratuitous indemnity plan even though benefits to survivors are considerably reduced.

In lieu of the subject bill the Department of Defense recommends that the National Service Life Insurance Act be amended or a new insurance act be drafted so that the Government would bear only the mortality and disability costs in excess of the costs that would be incurred under up-to-date mortality experience tables, plus a fixed administrative expense for each policy in force. Ordinary mortality and disability costs should not be borne by the Government, even though the cause of death is traceable to active service. If the present act had so provided during the 9 years it has been effective, a large part of the \$3,800,000,000 dividend would not have accrued, the mortality costs paid from appropriated funds would have been substantially less, and the cost to the Government of national service life insurance would have been greatly decreased.

Other principles which the Department of Defense believes should be embodied in any amendment to the National Service Life Insurance Act, or in drafting a new insurance act, are as follows:

(a) Premiums on insurance should be paid by deductions from pay, in the case of persons entitled to receive basic or other pay, and should be computed on proper, accurate, and up-to-date mortality tables.

(b) All persons entitled to receive basic pay, except reservists ordered to active or training duty for 30 days or less, should be eligible to purchase insurance. Midshipmen and cadets at the service academies should also be eligible. All persons eligible should be granted automatic insurance upon entry, to continue in force unless and until canceled in writing by the insured. This procedure would eliminate the controversy which sometimes occurs under existing law as to whether a decedent had applied for insur-

ance, yet would not work an injustice upon individuals in whose life no one has an insurable interest.

(c) Conversion and payment options should remain as under existing law; however, calculations should be based on proper, accurate, and up-to-date mortality tables.

(d) Interest paid on funds invested should bear a close relationship to the open-market interest rate prevailing at the time of investment.

(e) Policies of insurance now in effect, being contracts with the Government, should not be affected by any new insurance program.

These principles were set forth in the letter of the Secretary of Defense to you dated July 31, 1950, and were restated by Rear Adm. F. W. McMahon, United States Navy, at a hearing before the Subcommittee on Insurance of the House Committee on Veterans' Affairs on November 30, 1950.

Enactment of either H. R. 1 or H. R. 3 will result in less protection for dependents of servicemen than is presently available under the National Service Life Insurance Act. Such protection as the bills would afford is inadequate in view of present living costs. The serviceman who wishes to adequately protect his family will be forced to buy commercial insurance, if it is available, and to pay the additional premium imposed because of the extra risk incident to the hazards of combat or of the service. He will be deprived of the opportunity to achieve some degree of financial independence through low cost, permanent Government insurance. Large and often undeserved sums of money will be paid to non-dependent relatives of servicemen who die without surviving dependents. The indemnity will be direct charge on the Government bearing no relation to the needs of the eligible classes of recipients. There will be little inclination ever to increase the amount of such an indiscriminate grant regardless of rising living costs and the needs of true dependents. Considerable Government insurance will continue to be granted to uninsurables with the result that the indemnity program will but augment the administrative and mortality costs now incurred under the United States Government and National Service Life Insurance Acts. Lastly, the principles which the Department of Defense believes to be sound and properly includable in an insurance act will not be given effect.

If it be assumed that all servicemen desire and need the protection afforded their beneficiaries by these bills, the bills might be said to be worth a maximum \$4 per month to each serviceman. That would be about the net premium he would have to pay for term insurance in the amount of \$10,000 under a realistic Government insurance act. If the serviceman has no one to whom he wishes to leave an estate, the bills will be worth nothing to him.

The bills appear to be contrary to the interests of the serviceman, his dependents, and the Government. Accordingly, the Department of the Navy, on behalf of the Department of Defense, opposes enactment of H. R. 1 and H. R. 3.

In the event that either H. R. 1 or H. R. 3 is considered sufficiently meritorious to warrant enactment by the Congress, the Department of Defense recommends that they be amended in order to achieve some degree of consonance with the principles advocated by the Department of Defense and in order to cure the following deficiencies:

(1) The first proviso of section 2 grants a 90-day extension of coverage after separation or release from active service to those who are "called to extended active service for a period exceeding 30 days." Regular personnel are not "called to extended active service," and probably would not be granted the 90-day extension of coverage under this proviso. It is believed that Regular personnel, as well as Reservists, should be allowed a period of grace after separation or retirement from active service during which they may purchase commercial insurance prior to the lapse of the gratuitous indemnity.

(2) No flexibility in the manner of payment of the indemnity is provided for in the bills. A payment period of 10 years may result in monthly payments which are too small to cover urgent expenses of a more or less transient nature, or are too large if the circumstances of the deceased serviceman's family are such that a small monthly payment over a long period of time is desired. It is believed that more flexibility in the manner of payment of the indemnity should be provided even though an increase in the cost of administration would result.

(3) The heirs or beneficiaries of some of the personnel insured under the bills are also eligible to receive under certain circumstances the death benefits provided by section 10 of the Federal Employees Compensation Act of September 7, 1916 (39 Stat. 744, as amended, 5 U. S. C. 760). The beneficiaries of Public Health Service officers, and, in time of peace, the bene-

ficiaries of members of the Reserve components are among those eligible to receive such death benefits (act of July 1, 1944 (58 Stat. 712, as amended, 5 U. S. C. 760b) ; act of July 15, 1939 (53 Stat. 1042, as amended, 5 U. S. C. 797) ; act of June 25, 1938 (52 Stat. 1181, as amended, 34 U. S. C. 355e)). The benefit provided by the Federal Employees Compensation Act varies from 45 percent of pay and allowances, payable to a widow with no child ; to 75 percent, payable to a widow with three children ; or, in any case, a maximum payment of \$525 per month. There appears to be little need to grant beneficiaries eligible to this benefit the additional \$10,000 gratuitous indemnity.

(4) Part II, section 10, amends the National Service Life Insurance Act by adding a new section 619 to the act. The new section prohibits the making of new contracts of national service or Government life insurance after enactment of the bill. The act of June 29, 1948 (62 Stat. 1109, 38 U. S. C. 802f) provides that holders of term contracts of national service life insurance issued before January 1, 1948, may renew such contracts for a term of 5 years. Section 10 would, in effect, repeal the act of June 29, 1948, and all persons whose term contracts of national service life insurance expire after the date of enactment of this section could not renew their term contracts as now provided by the act of June 29, 1948. There will be a number of holders of term contracts whose terms will expire on the day of enactment of either of these bills. On that day, the right to renew such term contracts under the act of June 29, 1948, may be lost. The holders of these expired, nonrenewable term contracts may not be able to avail themselves of the election to convert term contracts to permanent contracts as provided in sections 5 of the bills. Other holders of term contracts will have from 1 day to 5 years after the day of enactment of either of these bills to convert their term contracts to permanent contracts for the purpose of continuing their right to national service insurance. It is believed that all present holders of term contracts should be given a reasonable period of time in which to decide whether or not they will convert their term insurance to permanent insurance in order to preserve their right to national service life insurance. Because the right to renew term contracts is statutory, not contractual, it probably would not be saved by section 11.

(5) For a number of years the serviceman has had an opportunity to purchase low-cost insurance at any time while he was in the service. A number of servicemen have felt that the purchase of low-cost national service life insurance was not a matter of urgency, and they have neglected to take advantage of the opportunity to do so. They have had no reason to believe that this opportunity might suddenly be denied them as will be done if section 10 is enacted and is effective on the date of enactment. It is believed that all persons presently eligible for national service life insurance should be given a further opportunity to purchase such insurance after being put on notice that the privilege of purchasing a national service contract is to be replaced by the grant of a noncontractual gratuity.

These five deficiencies may be cured by the proposed amendments enclosed herewith. The Department of Defense recommends that these amendments be made to H. R. 1 or H. R. 3 if the Congress sees fit to enact either measure into law.

This report has been coordinated within the Department of Defense pursuant to the procedures prescribed by the Secretary of Defense.

This report was submitted to the Bureau of the Budget. The Bureau of the Budget advised that this report was not in accordance with the program of the President in a letter dated January 23, 1951, to the Secretary of Defense which is quoted in full below :

"MY DEAR MR. SECRETARY : This is in reply to a letter under date of January 18, received January 22 and signed by the Under Secretary of the Navy, transmitting a proposed report to the House Committee on Veterans' Affairs by the Navy Department, on behalf of the Department of Defense, with respect to H. R. 1 and H. R. 3, bills authorizing gratuitous indemnities to survivors of members of the Armed Forces who die in active service.

"Because H. R. 1 will come up for House action tomorrow, January 24, and the same bill, together with related Senate bills, is scheduled for hearing before the Senate Finance Committee on Thursday, January 25, it has not been possible, within the short time available, to discuss this proposed report with you in detail. This office believes, however, that the proposed report contains several substantial errors of fact and a number of internal inconsistencies which lead to incorrect conclusions.

"Furthermore, in view of the specific recommendation for legislation on this subject which the President made in his budget message on January 15, it is clear that enactment of insurance legislation of the kind recommended in your proposed report would not be in accord with the program of the President.

"While there would be no objection to the presentation of whatever report you deem appropriate, it is requested that you advise the committee that the enactment of insurance legislation of the type proposed in your report would not be in accord with the program of the President.

"I am enclosing a copy of our recent report to the House Committee on Veterans' Affairs stating that, subject to the consideration of certain suggested revisions, H. R. 1 would be in accord with the President's program.

"Sincerely yours,

"F. J. LAWTON, *Director.*"

Since this report was originally prepared, the House of Representatives has passed H. R. 1 with amendments.

Sincerely yours,

JOHN F. FLOBERG,
Assistant Secretary of the Navy for Air.

AMENDMENTS TO H. R. 1 AND H. R. 3 RECOMMENDED BY THE DEPARTMENT OF DEFENSE

(Amendments are keyed to H. R. 1)

The numbers of the amendments correspond to the deficiencies listed in the letter of the Navy Department to the chairman of the Senate Committee on Finance dated January 25, 1951.

1. Amend lines 14 through 18 of page 2, section 2, so as to read as follows: "to such person, against death in active service and against death during a period of ninety days after separation, release, or retirement from active service in the principal amount of \$10,000: *Provided*, That any such person who was called or ordered to active duty or active duty for training, for a period of less than thirty days shall not continue to be insured against death during the ninety-day period after separation or release from active service: *Provided*."

2. Amend section 4 to read as follows:

"SEC. 4. The indemnity shall be payable in equal monthly installments of from thirty-six to two hundred and forty in number, in multiples of twelve, with interest at the rate of 2½ per centum per annum. Unless the insured elects some other period of payment, the indemnity shall be paid to the designated beneficiary or beneficiaries in one hundred and twenty equal monthly installments. The first beneficiary may elect to receive payment over a longer period of time than that elected by the insured, or if no such election is made by the insured, in excess of one hundred and twenty months. If the period elected requires payment to any one beneficiary of monthly installments of less than \$10, the amount payable to such beneficiary shall be paid in such maximum number of monthly installments as are a multiple of twelve as will provide a monthly installment of not less than \$10. If the present value of the amount payable at the time any person initially becomes entitled to payment thereof is not sufficient to pay at least twelve monthly installments of not less than \$10 each, such amount shall be payable in one sum."

3. Page 3, line 20. At the end of the first paragraph of section 3 add provisos as follows: "*Provided*, That an insured under the provisions of this Act who is also entitled to the benefits of section 10 of the Act of September 7, 1916 (39 Stat. 744), as amended (5 U. S. C. 760) shall elect which benefits his heirs or beneficiaries shall receive and such election may be changed at any time while the insured is on active service: *Provided further*, That if the insured fails to make such election, his heirs or beneficiaries shall receive benefits under the Act of September 7, 1916 (39 Stat. 744), as amended (5 U. S. C. 760): *And provided further*, That for purposes of this Act a designation of beneficiary or beneficiaries of the indemnity shall be deemed an election of the benefits of this Act."

4. Amend section 10 as follows:

(a) Page 7, line 2. Insert "(1)" after "prohibit"

(b) Page 7, line 11. At the end of sentence, change the period to a comma and add the words: "or (2) the renewal at the expiration of the term period of any national service life insurance policy which was issued on a five-year level premium plan before January 1, 1948, and which has not been exchanged or converted to a permanent plan of insurance, provided that such renewal shall be as level premium term insurance for an additional period of three years at the premium rate for the then attained age and shall be without medical examination: *And provided further*, That the required premiums are tendered prior to the expiration of the first term period."

5. (a) Further amend section 10 of the bill as follows:

Page 6, lines 15 and 16. Delete all after "619" in line 15 and the words, "Insurance Act of 1951", in line 16. Capitalize the initial "e" in the word "except" in line 16.

(b) After section 11, add a new section as follows:

"SEC. 12. The amendments made by this part shall take effect on the first day of the third month following the month in which this Act is enacted."

JANUARY 22, 1951.

Memorandum

To: The Secretary of Commerce.

From: Director, Coast and Geodetic Survey.

Subject: H. R. 1.

This is in reply to your request for the views of the Coast and Geodetic Survey with respect to H. R. 1, a bill to authorize the payment by the Administrator of Veterans' Affairs of a gratuitous indemnity to survivors of members of the Armed Forces who die in active service, and for other purposes.

The Coast and Geodetic Survey agrees with the underlying principle of the bill that the Government has a responsibility for indemnification for loss of life or disability suffered by members of the uniformed services while on active duty. Because of the small number of Coast and Geodetic Survey officers who will be affected by the bill, we do not believe that we are in a position to make recommendation regarding the plan best suited to meet this responsibility.

This bill provides a gratuitous indemnity to all members of the uniformed services while in active service except that commissioned officers of the Coast and Geodetic Survey and of the Public Health Service are covered only under certain limiting conditions. These limitations, as regards Coast and Geodetic Survey personnel, present difficult problems of administration and constitute an inequity in the case of officers who, because of their value elsewhere, do not happen to be assigned to duty to the specific areas mentioned.

The bill is in accord with the recommendations of the Hook Commission as regards gratuitous indemnity except for the definition of persons in service as set forth in section 2. The Department has previously endorsed the findings of the Hook Commission that insurance, retirement, and other benefits should be considered a part of the total emolument of members of the uniformed services. The Commission's report included recommendations as to basic pay, allowances, retirement, and severance pay, as well as a gratuitous plan of insurance for all active duty personnel in the uniformed services including Coast and Geodetic Survey officers without limitation. The Career Compensation Act of 1949 was a result of this study and provides uniform pay, allowances, and disability retirement for all services. The limitation imposed in section 2 of the bill has the net effect of a reduction in pay. Furthermore, the person so excluded will be forced to buy commercial insurance to provide his dependents the same protection that is given to others free of charge.

Coast and Geodetic Survey officers are commissioned, paid, and retired under the same or similar legislation as that for the Navy. It is believed that the uniformity of emoluments should be continued into the insurance program.

At the time he accepts his commission, a Coast and Geodetic Survey officer voluntarily becomes a member of a corps from which the President, under the act of May 22, 1917, at his discretion and without the officer's consent, may transfer

him to the Army, Navy, Marine Corps, or Air Force in time of war or national emergency.

Coast and Geodetic Survey officers lose insurability with commercial companies by reason of their occupation when—

(a) Ordered to duty in foreign countries.

(b) Ordered to duty which requires flights in a capacity other than regular fare-paying passengers in scheduled commercial airplanes.

(c) By virtue of the fact that they are subject to transfer to the Armed Forces, some insurance companies classify our officers as members of those forces or under orders for induction.

Approximately 5 percent of the corps has been or is now on foreign duty. Additional assignments of this type will probably be made in the near future.

Operations in Alaska have been expanded in recent years at the request of the Defense Department. The only available transportation in most of Alaska is the bush plane. Consequently, a large number of our officers are required to make flights which render them uninsurable except at high rates. Nor does this work entitle them to flight pay.

Furthermore, there is no provision of law, except under special conditions, which offers any continuing benefits to the dependents of deceased Coast and Geodetic Survey officers. The gratuity proposed in this bill is a survivor benefit which should accrue to the dependents of all uniformed service personnel without limitation because of rank or assignment of the person in service.

For these reasons it is recommended that the definition of persons in service be rewritten to conform with the language of the Career Compensation Act and include all members of all uniformed services while on active duty, and that the term "Armed Forces" be changed to read "uniformed services" wherever it appears in the bill.

If we can be of further assistance, please call upon us.

R. F. A. STUDDS,

Rear Admiral, United States Coast and Geodetic Survey, Director.

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,

January 17, 1951.

The honorable the SECRETARY OF COMMERCE

MY DEAR MR. SECRETARY: This is in reply to Mr. Davis' letter of January 15, 1951, enclosing four copies of a proposed report to the chairman of the House Committee on Veterans' Affairs on H. R. 1 and H. R. 3, bills to authorize payment by the Administrator of Veterans' Affairs of a gratuitous indemnity to survivors of members of Armed Forces who die in active service, and for other purposes.

H. R. 1 and 3 would extend gratuitous indemnity protection to the Coast and Geodetic Survey employees under the same conditions as national service life insurance protection is extended by the provisions of section 2 of Public Law 786, Seventy-seventh Congress. While it is true that Public Law 786 provides eligibility only during "the period of the present war," World War II has not been terminated for purposes of this law. Commissioned officers of the Coast and Geodetic Survey are therefore eligible for national service life insurance, and would be eligible for indemnity protection under H. R. 1 or 3 if serving outside the continental United States in Alaska, or (under some circumstances) in the coastal waters of the United States.

Your report recommends that H. R. 1 and 3 be revised to extend their benefits to Coast and Geodetic Survey employees under any and all circumstances. This would mean that an agency which under ordinary circumstances has been considered a civilian agency would be for the purposes of these bills be classified as a military agency. It is the view of the Bureau of the Budget that this would represent a basic change in the status of the Coast and Geodetic Survey and therefore should not be considered in the context of H. R. 1 or 3. Moreover, since World War II has not been terminated for the purposes of Public Law 786, Seventy-seventh Congress, it would seem unnecessary to consider such a basic change at this time.

Your attention is also called to the fact that certain of the Coast and Geodetic Survey employees eligible for survivor protection under H. R. 1 or 3, would also be eligible for survivor protection under the terms of the Federal Employees' Compensation Act, 1916, as amended. Section 7 of this act provides that any individual entitled to receive gratuitous benefits under the Federal Employees'

Compensation Act shall elect whether to receive such benefits or those provided under other provisions of law. There appears to be some doubt that the benefits provided by H. R. 1 and 3 would be covered by section 7. The Bureau of the Budget is, therefore, recommending that the language in H. R. 1 and 3 be clarified to eliminate any possibility of duplicate benefits in this respect.

While there is no objection to the submission of your report to the committee, it is requested that a copy of this letter be transmitted therewith for the committee's information.

Very truly yours,

DONALD B. MACPHAIL,

Acting Assistant Director, Legislative Reference.

The CHAIRMAN. We have two Members of the House of Representatives present, Mr. Elliott and Mr. Davis. Mr. Elliott, do you desire to be heard at this time?

Mr. ELLIOTT. I do, Mr. Chairman.

The CHAIRMAN. We shall be glad to give you that privilege, so you can return to your shop.

Mr. ELLIOTT. Thank you, very much.

STATEMENT OF HON. CARL ELLIOTT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ALABAMA

Mr. Chairman, I am appearing here before your committee this morning to discuss the obligation of the United States to provide insurance or indemnity payments to the dependents of persons who die in the armed services of the United States. In the light of the present emergency conditions, and particularly the Korean War, the consideration by this Congress of legislation providing an equitable and uniform form of protection to the dependents of personnel now actively engaged in the service of the country is of paramount importance.

It is to discuss the type of protection which should be afforded and which would, in my opinion, equitably carry out the Government's obligation to its service personnel that I appear before you this morning.

During the last war, the Government provided a form of life insurance known as national service life insurance, under an act which became law in October of 1940. During World War I, the insurance program available was known as United States Government life insurance. These programs generally contemplated the payment by the member of the service of a premium designed to cover the normal risk of death, as distinguished from death attributable to the hazards of war. Thus, in order to be protected against death from war causes, the serviceman was required to buy a policy covering his normal risks.

Also, these programs were designed to allow continuance of this insurance after service and for the life of the person insured.

During the Eighty-first Congress, the Committee on Veterans' Affairs, of which committee I was and am a member, made an extensive study of the existing insurance programs. Open hearings were held, studies were made of prior hearings and recommendations on the subject, including the recommendations of certain members of the armed services made over the last decade and the rather extensive hearings before the Hardy committee of the Expenditures Committee of the House.

Also, testimony was received from the four major veterans' organizations, as well as from the Veterans' Administration, the service

departments, representatives of commercial life insurance companies, and of the Association of Life Underwriters. The extent of these hearings, the statements and recommendations of the witnesses, and a wealth of statistical data, are available in the legislative history of the bill H. R. 9911, which bill, providing for a gratuitous indemnity for all members of the armed services and the reserves thereof, including the National Guard, was reported out unanimously by the Veterans' Affairs Committee and passed the House unanimously. However, time did not permit its consideration by the Senate.

That bill, which is similar in all respects to the bills S. 304 and S. 506, presently pending before this committee, has been reintroduced in the House as H. R. 1 and on yesterday passed the House by a vote of 390 to 0.

I will not attempt to set out in detail this morning the many factors which led the committee to the inescapable conclusion that an entirely new type of approach to this problem of insurance was required.

However, I must state that such conclusion was reached only after a clear showing that the present program was inequitable, lacked uniformity, was unduly costly to the United States, from a financial standpoint as well as from a consumption of manpower standpoint.

The record shows that 1 person out of every 9 combat casualties had no insurance at all and of these carrying such insurance, the average coverage was only \$7,000, from Pearl Harbor Day to VJ-day.

The CHAIRMAN. One out of how many?

Mr. ELLIOTT. One out of nine.

The CHAIRMAN. One out of nine had no insurance?

Mr. ELLIOTT. That is right.

Senator KERR. Did you say 1 out of 9 had none?

Mr. ELLIOTT. That is right.

The CHAIRMAN. One out of nine carried none, and the average amount carried was \$7,000; is that right?

Mr. ELLIOTT. \$7,000; that is right.

The CHAIRMAN. All right, proceed.

Mr. ELLIOTT. I might say in that connection, that during World War II, I think the services made every effort that could reasonably be made to sell in every person in the services a policy of national service life insurance, and, try as hard as they might, only in December of 1945 were they able to reach the point of having sold at that particular time about 95 percent of the people in the services a policy on this insurance.

It was estimated before our committee that in 1943 about 7,000 man-years were expended by the Armed Forces in trying to sell this insurance, and in administering the sales made, taking applications, making allotments, and handling those and transmitting them to the Veterans' Administration, and in 1944, I believe, the figure was about 8,000 man-years of time were expended in doing the same thing.

The record further shows that during the last war approximately 89 percent of those who died were declared to be extra-hazard deaths. Those deaths, of course, were paid not out of the national service life insurance fund, but, rather, out of appropriations made from the Treasury.

This means that, notwithstanding the deceased persons had been paying premiums into the insurance fund, the Government stepped in

and, with the exception of a minute amount attributable to the reserve on such policies, paid the total amount of the face of the policy.

Actually this was, I contend, in effect, a gratuitous system such as is proposed by H. R. 1, S. 304, and S. 506.

A clear example of this type of coverage is indicated by the effect of the present program at the Naval Academy.

Under the present program each midshipman is covered with a \$10,000 policy on which the Government pays the premium.

During a 3-year period the Government paid some \$850,000 into the insurance fund for premiums for these cadets. During this same period two deaths occurred which resulted in the payment of \$20,000 in claims, but these deaths were determined to be from the extra hazards of service.

Thus, the Government bore the cost of the face value of these two policies directly from an appropriation and received no credit for any of the premiums contributed.

Also, the hearings brought out the serious manpower problem involved in the operation of these programs. It was pointed out that considerable manpower in the service agencies was required to sell this insurance and to handle the details of its operation within the service departments. There was brought out, too, the tremendous workload of the Veterans' Administration in servicing such a program; the detail necessary for each individual covered by the program.

In fact, the Assistant Administrator for Insurance testified before the Hardy committee that the manpower load and requirements were so great that, in his opinion, such a program would, in all probability, be completely unworkable during any future war or serious emergency. I may state that the estimates received by the committee from all sources indicated that the Administration costs of the present program approximate \$100,000,000 per year.

Is it any wonder, in the light of facts like these, that the Bureau of the Budget and the General Accounting Office estimated, as they did, that the Government could have given an indemnity of \$10,000 to the dependents of all the servicemen who lost their lives in World War II and still have saved, had H. R. 1 or S. 304 been in effect, over the period from October 1940 through June 30, 1949, a net sum of about \$587,000,000 for the Treasury.

One of the principal defects, it seems to me, or the principal defect of the present NSLI system was, in the first place, the vast amount of manpower, both in the services and Veterans' Administration, required to operate the system, and those requirements come, Mr. Chairman, at a time like this, when manpower is at a premium, and the latest figures show that we have in this country today some 62,500,000 people employed.

As we enter this great emergency where we are faced with a shortage of manpower, and if we continue the NSLI system, which will require undoubtedly many thousands of people additionally to operate both in the services and in the Veterans' Administration, it will be a pinch on our manpower at a time when we can little afford it.

Now in the field of costs, as I say, the cost of the present system has been variously estimated, but I believe to enact H. R. 1, or S. 304 or S. 506, a bill of that nature, would result certainly in a saving to the Government of a figure in the neighborhood of \$50,000,000 a year.

Another defect in the present system is the fact that under it we would never be able to obtain universal coverage. Now these bills I am speaking about provide universal, automatic coverage of every person who comes into the Armed Forces, and such a law will eliminate the very great majority of the paper work that is now necessary to be done. It will have the effect of providing this indemnity to the dependents of the boys who were killed but, for one reason or another, never brought themselves around to purchasing this insurance.

Senator CONNALLY. Would it cover—I suppose it would, of course—a man who was not actually killed in combat but years afterward died from the effects of his wounds? Will they be covered?

Mr. ELLIOTT. Yes; if they are totally disabled from service-connected causes the premium will be waived. If less than total and uninsurable from commercial companies the veteran may purchase NSLI.

Senator CONNALLY. I assumed they would be.

Mr. ELLIOTT. These bills only cover the period of time that the man is in the service plus an additional 3 months, or in the event he develops, as the result of his service, a service-connected disability so that he cannot obtain insurance from commercial companies at standard rates, then he is entitled to continue his insurance under the national service life insurance system.

Senator CONNALLY. Without payment of premiums, of course?

Mr. ELLIOTT. Without payment of premiums, if he is totally disabled.

Senator BREWSTER. But otherwise he pays the standard rate. So he gets insurance at what it would have cost if he was not disabled.

Mr. ELLIOTT. He pays the rate provided by the national service life insurance system; yes, sir.

The CHAIRMAN. And he is covered from the time he is called by the draft board.

Mr. ELLIOTT. Yes; the bill passed in the House covers the time he actually leaves his draft board to report to the induction station, and in the case of a reserve, from the time that he leaves his home to report to a station to begin his duties. The bill which we passed is also retroactive to June 27, 1950, the beginning of the Korean War, and would, therefore, cover those killed in that incident who were not covered by national service life insurance.

The CHAIRMAN. Congressman, let me ask you, Was the bill debated on the floor of the House yesterday?

Mr. ELLIOTT. It was; yes, sir.

The CHAIRMAN. Pretty thoroughly debated?

Mr. ELLIOTT. Yes, sir.

The CHAIRMAN. The reason I asked you, we can get the Record and go through it and see what we can get out of it.

Senator MARTIN. May I ask a question?

The CHAIRMAN. Yes.

Senator MARTIN. Does it cover those that lost their lives in going to camps of induction?

Mr. ELLIOTT. Such as the Pennsylvania train wreck, for example?

Senator MARTIN. Yes.

Mr. ELLIOTT. It does, yes, sir; and also the Tennessee National Guard wreck at Myrtle Beach, S. C.

I think that is all I have. Thank you.

The CHAIRMAN. Thank you very much, Congressman. Congressman Davis, do you wish to make a statement?

Mr. DAVIS. Yes.

STATEMENT OF HON. GLENN R. DAVIS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WISCONSIN

Mr. DAVIS. I do not have any prepared statement, Mr. Chairman.

I have had the honor of sharing work on the subcommittee over in the Veterans' Affairs Committee in the House with the gentleman from Alabama and three other members.

I think the history of this particular legislation does not start with our committee; it goes back to the Hardy subcommittee of the Committee on Expenditures in the House, which looked into this matter of GI insurance quite thoroughly in the Eighty-first Congress, and they developed much of the factual information with which our subcommittee started at the time we held hearings which evolved this bill, H. R. 1, which passed the House yesterday, after quite thorough debate, by a vote of 390 to nothing.

This represents a completely new approach, and I think it should be understood from the start that this is not a continuation of insurance. This is an indemnity program as contrasted to the premium-paying type of insurance, and I think that is one of the chief advantages of it.

This bill does not affect the national service life insurance now in effect.

Perhaps there had been some statements outside of Congress that would lead one to believe that the national service life insurance now in effect was being scuttled, that there is some kind of breach of faith on the part of the Government of the United States. That is not true.

The sacredness of every existing contract is protected, and for the men who leave the services, if they are in good physical condition, there would be a continuation of the national service life insurance program, under what we commonly refer to as H, the letter H insurance, to a man who is a substandard risk.

All he needs to show is that he could not get insurance from the regular commercial companies at the standard rate and he would then be eligible to take the Government insurance at the standard regular rate.

Senator KERR. Would it be up to him to make the showing?

Mr. DAVIS. Yes; as it is at the present time.

Senator KERR. He has to take the initiative; he has to seek the insurance and make the showing?

Mr. DAVIS. I think that would be true. I do not anticipate any difficulty in making that showing, as is the case at the present time.

Senator KERR. And it would be limited to 3 months?

Mr. DAVIS. Yes; that is true.

Senator CONNALLY. He does not have to make that showing if it happens within 3 months. He might show it at some later time, might not he?

Mr. DAVIS. That is right. There was a specific amendment put in this bill to make it plain that if at a later time he could show a service-

connected disability preventing him from getting the regular insurance, he would then be entitled to the Government insurance.

Senator TAFT. Are the benefits provided different from those provided under the present insurance?

Mr. DAVIS. Only because there has been a correction of the interest rate. The present interest rate is rather high. This is lowered to what is considered to be the average Government-paying rate of interest.

It is on the basis of $2\frac{1}{4}$ percent.

Senator TAFT. And the survivors are the same as under the present policy?

Mr. DAVIS. Except at the time of adjustment the total number of dollars would be somewhat less, because of the adjustment on interest. But that is to make it realistic instead of artificial, as under the present system.

There is one change under this bill. The beneficiaries would have 120 payments spread over a 10-year period. There would be no lump-sum payment, and no alternative type of payment.

That was put in, first of all, because of the social policy against the lump-sum payment, and, secondly, it would do away with a great deal of the paper work, and that is one of the major objectives in this bill, to get away from the tremendous administrative overhead that you have under the national service life insurance.

Then if I am to summarize my views, I am enthusiastically in favor of this particular bill. First of all, it would provide adequate coverage, which national service life insurance did not do and could not do. This covers every man who goes into the uniform of his country, automatically.

You have all had experiences in your offices—I know we have over on our side at least—of the many cases where papers have been lost, where the man was in a combat area and the insurance papers were lost, and then it has been a pretty tough thing, plus the great delay that has developed in taking care of the beneficiaries in a case of that kind.

And to that administrative difficulty is added the number of men who did not feel the responsibility of taking care of their beneficiaries. They simply did not take out any insurance.

That put the Government, for instance, in this position: They said to the man, "You can apply for this insurance and the Government will give it to you, but actually all that is covered by it is your normal civilian risk. If it is an extra-hazard risk that develops and you lose your life in action, that money does not come out of the insurance payments, the Government will pay that to you anyway."

So that man who took out an insurance policy which actually covered only normal risk got the benefit of a \$10,000 payment directly out of the Treasury of the United States.

The other man who did not take out any insurance at all and he lost his life, he got nothing.

Under this indemnity program all of them would get that amount of insurance. Their beneficiaries would be protected whether they felt that responsibility as individuals or not.

Mr. Elliott mentioned the tremendous overhead and I would like to correct the record on that, if I might. I think the Hardy subcommittee report showed there were 7,000 man-years for 1944 and 8,000

for 1945, which were the peak years. That is when the manpower was the greatest. Those man-years were in the armed services alone. We were not able to get the figures as to how many man-years were used up in the Veterans' Administration.

That situation prompted Mr. Breining, who is the Assistant Administrator for Insurance in the Veterans' Administration, to testify before the Hardy subcommittee that he would consider that it would be unsatisfactory to attempt to continue national service life insurance in a time of future mobilization, because of the critical manpower situation that would develop from it.

Senator TAFT. Let me ask you this: Under the present insurance system the man has a certain amount deducted from his pay and the Government contributes also part of the premium, doesn't it?

Mr. DAVIS. I don't know that there is any direct contribution by the Government for the premium, I don't believe so. The premium goes into the trust fund, but only the so-called normal death payments are made out of the trust fund.

If a man loses his life as a result of his military duties, that money comes directly out of the Treasury of the United States.

Senator TAFT. Where did this set-up come by which they rebate the cash payments?

Mr. DAVIS. That came out of the surplus of the trust fund.

Senator TAFT. It did not all come from it, because we appropriated quite a bit. The Government had to appropriate money to make up some of that because, as I remember the study of it, the Government had not contributed its proper share.

Mr. DAVIS. I do not think that is quite the proper statement of it, Senator.

The CHAIRMAN. Let us settle that right now.

Mr. Breining, actually what happened was, these insurance refunds were paid out of the trust fund, were they not?

Mr. BREINING. Yes, sir. The fund had gotten all the Government contributed, the extra hazards in military and naval service, and administrative expenses. I think probably the Senator from Ohio has reference to an appropriation that we got, which covered an accumulation of payments for which we did not have money at the time.

Senator TAFT. Why did the Government owe the money and why did it pay it?

Mr. BREINING. Because in the original act the Government undertook to pay up all costs due to extra hazards in the military and naval services.

Senator TAFT. You mean they agreed to pay into the trust fund such a sum?

Mr. BREINING. They agreed to make the trust fund whole for any losses occasioned by the extra hazards in the military and naval services.

Senator TAFT. The Government pays those direct.

Mr. BREINING. No; it does not. The fund pays all the payments on all types of insurance except the so-called H insurance, and a small amount of certain other liabilities, which I only mention so as to be exactly correct. Payments were made first through the national service life insurance fund and then the fund was made whole by the

Government appropriating the money covering the extra hazards in the military and naval services?

The CHAIRMAN. The Government reimbursed the fund for the extra hazardous cases?

Mr. BREINING. Yes.

Senator TAFT. In effect, then, they contributed to this fund the premium required by the extra hazard.

Mr. BREINING. You might say the Government reinsured the fund for the extra hazards in the military and naval services. For the men bearing the expenses of the normal hazard, it was charged to the fund for normal hazards because our experience showed those charges approximated that which was expended on the insurance experience outside of the military and naval services.

Senator BREWSTER. These dividends resulted from (1) the Government assuming the administrative costs, and (2) the reimbursement, which, to the extent that the payments resulted from these extra hazards, decreased the cost of normal insurance.

Mr. BREINING. Well, the Government, in the original contract, has also agreed to pay all the money for expenses and extra hazards.

Senator BREWSTER. I understand that.

Mr. BREINING. The original premium was established on the basis of the American experience table of mortality. No provision was made therein to cover the actual losses in military and naval services.

Senator BREWSTER. But you had no experience to cover your estimate of the savings you would make as a result of the Government assumption of the extra hazards.

Mr. BREINING. No.

Senator BREWSTER. To the extent that came into the picture, that resulted in these savings.

Mr. BREINING. I don't think you can say it resulted in the savings, because the original premium did not contemplate covering those losses, the original premium was predicated on the American experience table.

Senator BREWSTER. Which did not include war hazard.

Mr. BREINING. Which did not include war hazard.

Senator BREWSTER. So that to the extent war hazards entered in, that was a saving to the fund.

Mr. BREINING. If you want to say it that way, but the fund never had liability for war hazard, and since it did not have the liability, I don't think it is a savings.

Senator BREWSTER. I don't care what you call it, but that was how you were able to accumulate the dividends.

Mr. BREINING. No.

The CHAIRMAN. The dividends were accumulated on the premiums actually paid.

Mr. BREINING. Yes, sir.

The CHAIRMAN. And out of this fund disbursements were made which the Government itself should have made under the original act.

Senator BREWSTER. It is all a matter of semantics, I think.

Mr. BREINING. No; I do not think so. I think it is quite different.

Senator BREWSTER. I am not intimating that any advantage has been taken, or anything of that kind. I think you carried out precisely what you were called upon to carry out. I was simply trying to find

out how \$2,000,000,000 was available from this fund, and it is pretty clear how \$2,000,000,000 was available out of this fund. It is not any reflection on anybody.

Mr. BREINING. The reason I tried to make it clear is because I think there has been great misunderstanding, much misinformation spread throughout the country in that regard, in emphasizing certain percentages of war hazard, and that sort of thing, and that certainly had nothing to do with it.

Senator TAFT. It is a fact then, isn't it, that the American experience table payments proved to be excessive?

Mr. BREINING. The mortality contemplated in the American experience table of mortality was much greater than was actually the experience for the nonmilitary hazards, because of the great improvement in mortality over that period.

Senator TAFT. Most of these people are still alive.

Mr. BREINING. Yes, sir; those persons are alive, and therefore, since they had paid for the nonmilitary risk more than was necessary, the mortality saving was returned to them, the same as in any mutual company. The reason that the American experience table of mortality which reflects a high rate of mortality was used was because in the 1918-19 period, due to the flu epidemic, the mortality experience ran a little bit above the American experience table of mortality, and as previous wars had usually been attended with epidemics, we could not foresee that this war would be free of them, and an adequate premium was charged to cover it.

Senator TAFT. It seems to me to pay out \$2,000,000,000 was an outrage. I could not see why it could not have been added to the insurance, I could not see why it could not have been credited against premiums. I just could not understand the theory of law in providing for that. It is not illegal, but it seems to me I would want to come here and ask Congress whether it should be done.

Mr. BREINING. The original act provided specifically that it be done.

Senator TAFT. Nobody who helped pass that act ever thought that you were going to distribute \$2,000,000,000 in cash in 1950.

Mr. BREINING. The \$2,000,000,000 does seem to be a large sum.

Senator TAFT. It is a large sum, it does not only seem to be a large sum. It actually increased the inflation in the United States, at exactly the wrong time.

Mr. BREINING. It seems large, but when you consider that is an accumulation over a period of years, and if you take the sum that the insurance companies paid out annually, I do not think you could consider it to be quite so large.

Senator TAFT. I think the Veterans' Administration is to be condemned for not having come to Congress and put the whole thing up to them before they announced there was going to be such a dividend. I think it is the most unwise and unjustified performance on the part of the Veterans' Administration that I know of.

Mr. BREINING. I would like to make this further point, if I may.

The CHAIRMAN. You may do so now. We are going to call you next, anyway.

Mr. BREINING. First, it was in the law, and the Supreme Court in the Lynch and Wilner decisions said the Congress did not have the right or power to abrogate contracts, so what could the Congress have done to prevent us from paying the \$2,000,000,000?

Senator TAFT. You might have come and given us a chance to say what Congress would have done.

Mr. BREINING. Certainly it was announced in the paper many, many months, and it was given widespread information before we ever attempted it.

Senator BREWSTER. I happened to be running a political campaign at that time. There were certain implications which were a trifle unfortunate. Senator Taft happened to be the subject of those implications, so I can understand how he was concerned. However, all is well that ends well.

Mr. BREINING. I can assure you it was entirely coincidental.

Senator BREWSTER. I think the law was clear enough, but if the Congress had a little more to do with the consummation as well as with the initiation, I think it would have been much happier from the standpoint of the general situation.

But it turned out all right.

Mr. BREINING. I am quite sure no matter what time we paid it some person would have found that it was an unpropitious time.

Senator MARTIN. Has your committee, Congressman, given any attention, in order to save personnel here in the National Capital, to the old-line insurance companies carrying all of this insurance?

Mr. DAVIS. You mean the existing national service life insurance policy?

Senator MARTIN. Yes.

Mr. DAVIS. That was inquired into from the representative of the commercial companies who did appear before the committee, and the representative there made the statement that he did not feel that these companies were in a position to take over the existing Government policies.

Senator BREWSTER. In the report of the House, on page 6, at the top of the page, is this sentence:

The Bureau of the Budget also suggested that a comprehensive study be undertaken to consider the possibilities of integration of the present veterans' compensation program into the social-security system.

Are you, or someone else, going to discuss that? Is there someone to discuss that problem here?

Mr. DAVIS. I do not intend to, and I do not feel competent to.

Senator BREWSTER. May I ask the chairman, do you know whether anyone else is going to address themselves to that?

The CHAIRMAN. No, I do not know. The Social Security Agency made a report on this bill, but, as I understand it, they are asking that the doctors in the Health Service be included.

Senator BREWSTER. I might say that is something which has always greatly interested me, because as we get nearer and nearer to a universal pension system it is more important that the veterans' program be integrated.

I think the two things should be considered very carefully together.

The CHAIRMAN. I don't think the bill raises it now in its present form.

Mr. DAVIS. We did not give too much consideration to it because we felt it was beyond the jurisdiction of our committee, and we felt we had the present problem to deal with and we would get ourselves tangled up in a complex problem and would not reach the objective in this legislation.

Senator BREWSTER. Is someone from the Budget Bureau going to testify?

The CHAIRMAN. Will the representative of the Budget Bureau who is present please submit for the record a statement clarifying this point.

Senator BREWSTER. Thank you, Mr. Chairman.
(The statement referred to follows:)

SUPPLEMENTARY STATEMENT ON RELATIONSHIP OF OLD-AGE AND SURVIVORS
INSURANCE TO SERVICEMEN'S INDEMNITY LEGISLATION

In the budget message for 1952 the President recommended that in legislation directed particularly to the problems of servicemen and their dependents we should provide only for those special and unique needs which arise directly from military service and that many of their other needs can best be met through general programs serving the whole population.

S. 304, S. 506, or H. R. 1 would provide financial protection in case of death during military service and would assure post-service eligibility for life insurance protection for those disabled in service. These are needs which arise directly from military service. We believe these bills would afford protection on a uniform basis to the dependents of all servicemen and, with amendments previously suggested, would be consistent with a sound long-range program for servicemen's and veterans' benefits.

In that long-range program, consideration should be given to the role of the recently improved system of old-age and survivors insurance. Veterans' insurance was adopted during World War I when no general system existed to provide adequate benefits to dependents. The special insurance approach was again adopted in World War II partly in recognition of the fact that our social security system then offered protection to only a limited number of servicemen. Since World War II, our social security system has been expanded until today about 80 percent of all workers are covered under old-age and survivors insurance, and benefit rates have been greatly increased.

As a result, most veterans will eventually qualify for these substantial benefits. But comparatively few will have attained insured status when they enter the Armed Forces. A considerable part of the needs of their dependents for economic protection could be met by establishing survivorship protection for all persons in the active military service and by crediting periods of active military service as covered employment under old-age and survivors insurance. Under such a plan (1) servicemen would automatically have survivorship protection under old-age and survivors insurance from the moment they enter service, and it would remain in force as long as they are in service; and (2) time spent in military service would be counted as covered employment for old-age and survivors insurance, so that the veteran going into civilian employment would not have to make a fresh start to qualify for protection.

Coverage under old-age and survivors insurance would have the following advantages over the national service life insurance system:

1. It would provide to all servicemen and veterans a basic protection that is responsive to needs; that is, the amount of benefits would increase with the number of dependents.

2. It would prevent the loss of social security coverage or eventual reduction of old-age and survivors insurance retirement benefits that some veterans might suffer by reason of their military service.

3. It would relieve the Government of the burden of continuing a specialized and costly program for veterans following their discharge, except for the limited number to whom the Government has a clear obligation because of their loss of insurability.

4. It would establish a clear and simple method for determining the amount of the Government's annual payment for servicemen's protection.

5. It would materially reduce and simplify the administrative burden on the Armed Forces, and the costs in money and manpower would be at a minimum.

In summary, we have suggested that the problem of financial protection for dependents of servicemen may be dealt with in two separate stages. As an immediate measure, in our report on the pending bills we have recommended the enactment of indemnity legislation now in order to meet immediate needs.

In addition, we have suggested that the Congress consider the extension of old-age and survivors insurance coverage to members of the Armed Forces. In

advancing this suggestion, we recognize that in preparing a specific and detailed proposal to carry it out it will be necessary to make a comprehensive analysis of the relationships between the various survivor-benefit programs. This analysis should include both the adequacy of benefits available and their aggregate impact upon the Federal budget and the national economy.

The CHAIRMAN. All right, you may continue, Mr. Davis.

Mr. DAVIS. The third advantage, in addition to giving adequate coverage and getting rid of the tremendous administrative overhead, would be a net saving to the taxpayers of this country. That may seem a little strange, that you could save the money to the Government by giving something to the men in the Armed Forces rather than having them pay premiums for it, and yet that is the actual situation. That is true partially because of the fact that the Government is already paying out for those who suffer as a result of extra-hazardous cases under the present program.

The second major reason for it would be the tremendous saving in overhead that there would be in this indemnity plan. As Mr. Elliott mentioned, the Budget testified there would have been an approximate saving of \$600,000,000, or actually a net saving of \$587,000,000, had this indemnity program been in effect instead of the national service life insurance. That is from 1940, when the NSLI was started, up until the present time. When you take that into consideration and project that into the mobilization period that we are entering into now it begins to amount to a great item to the taxpayers of this country. We would save the amount of the cost under the present program and get into a program that will represent a greater saving.

If I am not getting too much of the committee's time here, there is one other subject I would like to cover. There was one amendment that came up yesterday that I would like to speak about very briefly. That was offered on the floor yesterday, and it is something that one of the senior members of the Veterans' Committee suggested that the Senate probably would take care of here. I hope that member is very much wrong.

That amendment would give to the men in the armed services, after they are covered under this proposed indemnity program, the right, after they are discharged from the service, to get Government life insurance, national-service life insurance.

That, it seems to me, practically takes away the big benefit of this measure. The chief objective here is to save some money, to get rid of some red tape, to get rid of some administrative overhead. If you adopt that amendment, that objective is lost and you simply are imposing one system of indemnity on top of a system of premium-paying insurance.

My feeling on that is, where you have the man who comes out of service with his risk decreased, his insurance decreased, if he is entitled to a Government insurance, and this bill would give it to him, he could continue to carry Government insurance, but when he comes out able-bodied he is a good insurance risk by commercial companies, and I cannot see any more reason why that man should come to the Government for subsidized insurance, insurance for which the Government pays the entire administrative cost, than it would be for him to ask the Government to set up a commissary and sell him his food and clothing, his automobile, and the other necessities and conveniences of his life, and have the Government pay the administrative cost on that, too.

The CHAIRMAN. That amendment was approved?

Mr. DAVIS. That amendment was defeated, with only 14 votes in favor of it in the House, and I hope the Senate will concur in the good judgment of the House on that particular amendment.

That is all I have to submit to the committee.

The CHAIRMAN. Thank you very much, Congressman Davis. The committee wishes to thank you for your very excellent statement.

Mr. DAVIS. I thank you for the opportunity to appear, sir.

The CHAIRMAN. I have a letter from Congressman Evins, of Tennessee, which will be inserted in the record at this point.

(The letter referred to follows:)

HOUSE OF REPRESENTATIVES,
Washington, D. C., January 25, 1951.

HON. WALTER F. GEORGE,
Chairman, Senate Finance Committee,
Washington, D. C.

DEAR SENATOR GEORGE: In connection with the Senate consideration of the bill H. R. 1—to provide gratuitous indemnity insurance to all men called into the service—which was passed by the House on yesterday, I am pleased to submit this statement in support of the measure for the consideration of your committee. This legislation is most meritorious and, in view of the continuing Korean situation, it is of great importance that early action be taken hereon.

As a member of the Committee on Veterans' Affairs of the House, I feel that the bill could be improved by the inclusion of a simple amendment to assure that honorably discharged veterans of the present war be permitted to apply for and on the same basis acquire veterans' insurance as has been the case for veterans of World War I and World War II. In other words, present benefits and the right to obtain veterans' insurance should, in my opinion, be continued for future veterans. This amendment, should the same be added in the Senate, will, in my opinion, greatly improve the legislation and protect and guarantee to future veterans the right to obtain veterans' insurance to provide for the future financial security of their families. By the denial of this right, the new bill represents a retrenchment and abridgement or cut-back on existing veterans' benefits. I feel and the veterans feel and our veterans' organizations, I am sure, feel that there should be no abridgement in this particular and that the same right to acquire veterans' insurance should be preserved for future veterans as that provided for veterans of World War I and World War II. Simple justice and equity demands no less.

I hope the committee may adopt such an amendment which, unfortunately, was not considered in the committee of the House at the time of initial consideration of this legislation.

Very sincerely yours,

JOE L. EVINS,
Member of Congress.

The CHAIRMAN. Mr. Birdsall is listed here from the Veterans' Administration.

Mr. BIRDSALL. Mr. Chairman, Mr. Breining will take over the testimony on these bills.

The CHAIRMAN. Both of you may come around here; and, if you have someone else, bring him around with you.

STATEMENT OF HAROLD W. BREINING, ASSISTANT ADMINISTRATOR FOR INSURANCE, ACCOMPANIED BY FRANK M. GERARDI, ASSISTANT TO MR. BREINING, AND MRS. R. D. PECK, ACTUARY, VETERANS' ADMINISTRATION

The CHAIRMAN. Mr. Breining, do you wish someone to speak for you? You spoke to me before the hearing started about having a cold.

Mr. BREINING. If you wish us to read an analysis of the bill, we will be glad to do it.

The CHAIRMAN. Well, we would like to have an analysis of the bill, and you may call on anyone of your staff here to do that, if you wish to.

Mr. BREINING. We will go along and read the bill first, and then answer any questions that you have of any of us.

The CHAIRMAN. You certainly will be asked some questions as we go along. You might make an explanatory statement as we go along, so we will get what this bill actually covers.

Mr. BREINING. I will ask Mr. Gerardi to analyze the bill for you.

**STATEMENT OF FRANK M. GERARDI, ASSISTANT TO MR. BREINING,
VETERANS' ADMINISTRATION**

The CHAIRMAN. Will you please identify yourself?

Mr. GERARDI. Frank M. Gerardi.

The CHAIRMAN. And you are assistant to Mr. Breining?

Mr. GERARDI. Yes.

The CHAIRMAN. All right.

Mr. GERARDI. This bill will provide a serviceman's indemnity up to a maximum of \$10,000, which would be in the nature of automatic insurance for veterans, as we call them, for a serviceman who died in the Armed Forces on or after June 27, 1950, and within 90 days after the date of the passage of this act.

Mr. BREINING. No; 90 days after leaving the service.

Mr. GERARDI. Ninety days after leaving the service; yes.

There is no cost to the insured. The benefit is provided for persons who enter the active service, without regard to the length of time that they may be ordered into the active service, except that National Guard men to be eligible would have to be ordered into the service for a period of 14 days or more.

The CHAIRMAN. Well now, does this cover all that come into the service, regardless of whether they have national-service life insurance?

Mr. GERARDI. Yes. The benefit would cover those who may have national-service life insurance at this time; but, if they hold any national-service life insurance or, I might add, United States Government life, the amount of the indemnity would be the difference between the amount of insurance which they hold, the face amount of insurance which they hold, and \$10,000. In other words, the maximum indemnity would be \$10,000, but it might be considerably less, of course.

The CHAIRMAN. It might be reduced by any United States insurance that he has?

Mr. GERARDI. Yes.

The CHAIRMAN. That is what I was getting at.

Mr. GERARDI. That is right.

The CHAIRMAN. Then, if the man who went into the service went into the combat area with \$10,000 insurance, he would not really get any automatic indemnity; would he?

Mr. GERARDI. He would not get it if he elects to continue the insurance, but he has a choice.

The CHAIRMAN. He has a choice?

Mr. GERARDI. He has a choice. He may, of course, discontinue the insurance which he is carrying, and he would then be covered by this indemnity.

Senator BUTLER. What shape would his policy be in if he dropped the regular insurance in order to take the indemnity?

Mr. GERARDI. The provisions of the law are these, that if it is a permanent plan policy which has a cash value, then he may surrender it. If it is a term policy, of course it has no cash value, it would merely be in the nature of a lapse of that policy.

Senator BUTLER. If he comes out of service and the indemnity agreement that we propose here lapsed, after 90 days, then in what shape is he for insurance?

Mr. GERARDI. The provision of the law then, Senator, is that he may reapply for the same type of insurance which he had.

Mr. BREINING. Not after 90 days.

Mr. GERARDI. Not after 90 days.

Mr. BREINING. That is what the Senator asked.

Mr. GERARDI. You mean after the 90-day period?

Senator BUTLER. Yes.

Mr. GERARDI. After the 90-day period, of course he can't purchase, but there is a period following the termination of service when he may repurchase this insurance.

Mr. BREINING. As I understand it, in the bill as it passed the House yesterday, H. R. 1, it permitted not only those holding permanent policies but term policies to come in within the 90 days. However, the term policyholders had to make a showing of good health. The permanent plan policyholders did not have to make a showing of good health, they might even be totally disabled.

As far as the permanent plan is concerned, that greatly impairs the interests of the other policyholders, because you get into low, substandard risks, and you would be having the other policyholders carrying the burden of the substandard risks. It seems that would be an inequity as between the two groups, and certainly it would be against the interests of the policyholders who paid their premiums. After the 90-day period, if a person has a service-connected disability, or a disability which would be service-connected, if it was 10 percent, and there was a showing it was a substandard risk according to the insurance criteria, that they could get nonparticipating insurance, which would not have anything to do with the fund, and the act as it is worded I think is unworkable because you have no standards applicable to all policies.

However, it could be arranged to make it apply to our standards.

The CHAIRMAN. All right, you may proceed with an analysis of the bill.

Mr. GERARDI. The provision of the law is to the effect that the serviceman may designate a beneficiary for the indemnity, and it is restricted to classes.

The CHAIRMAN. Just as in the case of insurance?

Mr. GERARDI. No, sir. It runs from wife through children, parents, and brothers and sisters, but as a gratuity it differs from the payments made by the Government of gratuities in that it would indemnify a nondependent parent and also a brother and sister who may not be dependent upon the serviceman.

I think you might say that the principal of indemnity does visualize, or embrace the idea of some damage or loss and, therefore, it is somewhat out of harmony with that principle.

The indemnity is payable in 120 installments, and without lump-sum benefits, without options of any kind, and with interest at $2\frac{1}{4}$ percent. Now the effect of that provision is to reduce the benefit payable under this law as compared with that payable under the existing law. The provision which restricts payments to 120 equal monthly installments is different from that which we now employ in that these persons are able to secure a life income settlement from the Government, which does give them a better sense of security than this bill would provide.

Mr. BREINING. Might I say under the original War Risk Act payments were made in 240 monthly installments. In 1938 most of the installments ran out, and the parents, who were always the major beneficiaries having reached a somewhat advanced stage in life, the Congress felt it incumbent upon itself to increase the pension that was payable, to make up for the losses that they suffered through the termination of this limited number of installments. It was for that reason that the life annuities were placed in the National Service Life Insurance Act.

Now when they were placed in there we recognized that they did constitute a liberal policy, but it was to encourage the persons to accept life annuities. It was in the original act, in order to get public acceptance, that they were made very generous, and of course taking away that life annuity makes a very substantial reduction in the benefits payable. It runs in many cases from 25 to 30 percent, especially when you take into consideration the reduction in interest rate from 3 percent to $2\frac{1}{4}$ percent.

I think that was the question that the Senator asked, and that is the reason I wanted to answer it correctly.

Mr. GERARDI. Section 5 of the bill is one which deals with the question that the Senator asked, and if, in effect, provides that the serviceman holding permanent plan insurance at the time of the passage of this bill may surrender that insurance for the purpose of securing the coverage provided by this bill, and it also provides that he may, within 90 days after separation from the service, reapply for this insurance which he had surrendered without medical examination.

He may secure a new policy on that basis, or he may reinstate the old policy, provided he may not reinstate a term policy which expired during the service.

Mr. BREINING. May I say there, I think that was changed in H. R. 1 as it passed the House so as to permit a showing on a showing of good health for the term policyholder to apply for new insurance.

Mr. GERARDI. He may apply for new insurance or for reinstatement.

Mr. BREINING. Yes, or for reinstatement.

The CHAIRMAN. For new term insurance?

Mr. BREINING. Yes.

The CHAIRMAN. In other words, he can apply for the same type of policy that was canceled.

Mr. BREINING. Yes, that expired or lapsed during the service.

The CHAIRMAN. Within the 90-day period.

Mr. BREINING. But a term policyholder has to make a showing of good health. The person who surrendered his permanent policy does not have to make such a showing.

As a matter of fact, he may be totally disabled. That is the thing that impairs the fund greatly, permitting the disabled lives, either totally disabled or partly disabled lives coming back into the fund and making the other policyholders bear the extra mortality which you may expect from that class of persons.

Senator BUTLER. You say if he applies for insurance within the 90-day period?

Mr. BREINING. Yes.

Senator BUTLER. After he is detached from the service?

Mr. BREINING. Yes.

Senator BUTLER. To whom does he apply. Who writes the policy?

Mr. BREINING. The Veterans' Administration under the National Service Life Insurance Act.

Mr. GERARDI. Now I think it might not be amiss to remark in passing—and Mr. Breining has explained the effect on the fund and the effect on the other policyholders—but I think so much has been said about this manpower provision that I think we should consider the effect of that provision, that is the right to surrender existing insurance to secure the indemnity coverage, and just what the probabilities are, I would say, of those men who are in the situation of holding insurance at the time this bill passes.

Now there are a great many of them in the Service, and if they have term insurance there would be a great inducement to convert that insurance. The reason why that would be to their advantage is that they may secure it later on regardless of their health, without examination, they may secure it if they have already become totally disabled, with the result that they may secure this new policy without the payment of any premium.

That is also true of this term insurance, although it is not likely to occur because of the examination requirement.

Now out of that twisting with this situation, I think we are going to receive applications for conversions from these men, we are going to receive discontinuances of their term insurance allotments, if they have one, we are going to have them reestablishing a new allotment at the conversion rate, and then we are going to have them, in order to secure the benefit of this indemnity coverage, terminating that conversion allotment.

The sole purpose of my making this statement is to clear away some of the smoke as to this manpower proposition and to let it be said, in this very modest way, that there is going to be some manpower requirements under this bill.

Mr. BREINING. There are administrative difficulties, too. But the amendment to the act, which permits them to take out term insurance, may deter the person who is converting for 1 month from preserving his right of reinstatement, since, as I understand the act, it only permits those who surrender for cash the converted insurance the right to come back without physical examination. But undoubtedly there will be quite an administrative burden in connection with these discontinuances.

Mr. GERARDI. There are some intervening sections here, Senator, which I do not think require any comment. That is the one dealing

with the power of the Administrator to regulate; the appropriation which is created, that is the serviceman's indemnity appropriation. There is a forfeiture provision which I should not omit to say would preclude the payment of the indemnity to an individual who is guilty of a military offense and perhaps may be executed for it, desertion, treason, spying and so forth.

It is quite similar to the existing forfeiture provision.

And there is also a provision which permits a beneficiary to make an assignment of the indemnity to another person within the permitted class of beneficiaries. There is some question as to its practicality as presently written, because it requires all persons in the classes to join, and, as you may well understand, we may not be able to find all of them.

So that the idea of an assignment may not work out, because we are unable to find these people.

SENATOR BUTLER. The bad-order discharge does not have any indemnity, does it?

MR. GERARDI. Yes, sir. He is covered if he dies in the service from any cause whatsoever excluding forfeitures—let us say if he is killed while committing an armed robbery, he is covered.

MR. BREINING. I think what the Senator means is this 90-day interim, since he is speaking of a bad-conduct discharge. You mean after discharge and within the 90-day period?

SENATOR BUTLER. Yes. He does not have the 90-day period that the others have?

MR. GERARDI. I think so. I do not recall that there is any limitation on his right.

MR. BREINING. There is no limitation. The forfeiture provision is the only one that takes away this 90-day coverage.

MR. GERARDI. Section 620 provides as to any person released under other than dishonorable conditions, and who have a compensable disability—

MR. BREINING. That is for eligibility for this other insurance, but on separation from the service and a 90-day period following thereafter the only one would be the forfeiture provision, which would be desertion, or something of that character.

MR. GERARDI. Now I had reached the point on this section 620, and it permits any man who is discharged under other than dishonorable conditions to secure nonparticipating Government insurance provided he is uninsurable, that is to say, provided he is unable to secure insurance from private sources.

The test given there is that according to recognized underwriting requirements of nongovernmental insurers. We believe that this provision is impractical, because if the Administrator sought to regulate according to his conception of what recognized underwriting practices are, he would find there is no uniformity on that point.

The various companies have their own standards, at least to a certain extent, and we would then be faced with having to justify a regulation to a man whom we refused to underwrite, who could simply say, "Well, I tried to get this insurance but this company turned me down."

MR. BREINING. I do not mean to interrupt you, but I think that is susceptible of amendment so as to keep the principle and make it

workable. As written it is not workable, in our opinion, but it can be amended to be workable.

Senator JOHNSON. Are you proposing an amendment?

Mr. BREINING. We could suggest one.

Senator JOHNSON. Wouldn't you bring one up?

Mr. BREINING. I think in our letter to the chairman of the House committee we did suggest an amendment, and we can supply that to you.

The CHAIRMAN. All right, Mr. Breining, will you do that?

Mr. BREINING. Simply to make the good health standards of national service life insurance the test.

Mr. GIRARDI. I think, Senator, that completes an analysis of that bill, unless there are any questions on it.

The CHAIRMAN. Are there any questions that any member of the committee wishes to ask at this time of Mr. Breining or his assistant here who is appearing and who is giving us this analysis? If there are no questions, Mr. Breining, you might bring up this amendment, or put it in a separate memorandum and let us have it.

Mr. BREINING. Yes, sir.

(The amendment referred to follows:)

Amend section 10 of the bill to delete from the proposed new section 620 of the National Service Life Insurance Act of 1940, as amended, the following language: "at standard rates for ordinary life insurance, according to recognized underwriting requirements of nongovernmental insurers," and substitute therefor the following: "according to the standards established by the Administrator for qualifying under the good health provisions of the National Service Life Insurance Act of 1940, as amended,"

The CHAIRMAN. The committee will probably want to ask you to come back at some subsequent time so as to aid us when we are finally ready to pass upon the bill.

Mr. BREINING. I shall be always available, Senator.

The CHAIRMAN. Mr. Birdsall, is there anything you wish to add?

Mr. BIRDSALL. No, Mr. Chairman. We will be ready to extend any assistance whatsoever to the committee, and we will work with Mr. Breining in accordance with his desires and the committee's desires.

The CHAIRMAN. Thank you very much.

Mr. Eckert of the General Accounting Office.

**STATEMENT OF CHARLES E. ECKERT, LEGISLATIVE ATTORNEY,
ACCOMPANIED BY LLOYD NELSON AND CHARLES CHRISTOVITCH,
SYSTEMS ACCOUNTANTS, GENERAL ACCOUNTING OFFICE**

The CHAIRMAN. Mr. Eckert, we will be glad to hear from you on this bill or any phase of it which you may wish to discuss.

Mr. ECKERT. The General Accounting Office has been concerned for some time with certain problems inherent in the existing life-insurance programs. As far back as June of 1949 certain objectionable features in the operation of such programs were brought to the attention of the Congress. I refer specifically to a report of the Comptroller General to the Congress of June 24, 1949, concerning the payment of dividends to aviation cadets and a report of July 15, 1949, bringing to the attention of the Congress certain features of the program deemed objectionable by the General Accounting Office such as the use of outmoded mortality tables, the subsidization by the United

States of certain parts of the program as a result of such things as excessive interest factors, and undisclosed annuity differential in the payment of life incomes. Whether steps should be taken to correct these deficiencies by amendment of the present program or whether a new program of coverage might better be instituted as is provided in S. 304, S. 506, and H. R. 1, presently before this committee, is, of course, a policy matter for decision by the Congress and on which the General Accounting Office has no occasion to take a position.

During the last session of Congress the Committee on Veterans' Affairs of the House advised the General Accounting Office of the contemplated study to be made by that committee of a general insurance program to protect members of the Armed Forces and veterans of such forces, and requested that the committee be presented with a general outline of plans which the General Accounting Office believed should be contained in any future insurance program. By letter of July 25, 1950, the Comptroller General expressed the view that any such program should be designed to provide for (1) adequate and uniform protection of dependents of service personnel, (2) appropriate contributions by the participants, (3) minimum consumption of manpower for operation, particularly in time of national emergency, and (4) reasonable and equitable administration of the policy laid down by the Congress to discharge the obligation of the United States to service personnel and their dependents. In this letter, specific areas wherein the National Service Life Insurance Act was considered deficient were noted as follows:

(1) The payment by the Veterans' Administration of a dividend to aviation cadets in those instances and for those periods during which the premiums on their insurance were paid by the Government.

(2) The use of an outmoded annuity table for the calculation of monthly annuity payments resulting in some instances of setting aside approximately 15 percent more than the face amount of the insurance.

(3) The payment from appropriated moneys to the fund of amounts representing loss of interest earnings due to delay in making transfers from the national service life insurance appropriation to the National Service Life Insurance Fund of amounts due from the appropriation by reason of deaths attributable to the extra hazard of military or naval service.

(4) The investment of the fund by the Treasury Department in 3 percent interest-bearing obligations whereas the average interest rate for general obligations of the United States is approximately 2 percent.

(5) The requirement that military personnel purchase normal coverage to entitle them to extra-hazard coverage resulting in a set-up where adequate protection is not provided for dependents in many instances.

(6) The lack of sufficient manpower to operate the program as it is now constituted in the event of a future conflict or emergency.

Subsequent to the submission of this report members of the staff of the General Accounting Office were privileged to meet with the staff of the Veterans' Affairs Committee and other interested parties to consider various programs that had been proposed. These proposals were numerous but generally were divided into three categories: One providing for group insurance for active-service personnel

and mutual insurance for veterans of such service: one providing for the amendment of the present NSLI Act; and one providing for gratuitous life-indemnity payments.

In considering these various proposals the General Accounting Office observed that the proposed amendment of the National Service Life Insurance Act would without question constitute a major and constructive change of existing law. However, even with such amendments the National Service Life Insurance Act would not represent a program containing the basic elements deemed required, it would not insure adequate or uniform protection of dependents of service personnel and would not reduce in any appreciable manner the serious problem of paper work and administration and the resultant consumption of manpower in the Veterans' Administration or in the Department of Defense and other agencies.

It was observed that the bills providing for group insurance during active service and mutual insurance for veterans of such service also would constitute a major improvement over existing law and would seem to be preferable to the amendment of the present National Service Life Insurance Act as otherwise proposed. It was noted that the adoption of such a program would remedy a serious defect in the present program by insuring automatic and uniform coverage of all service personnel and by reducing to a minimum the paper work and administrative details with respect to such personnel while in the service and covered by group insurance. However, it was noted that the mutual program contained therein designed to cover veterans of the service for life, while operated on a self-supporting basis, would keep the Federal Government in a mutual insurance business similar to national service life insurance with its attendant administrative problems and manpower requirements.

It was observed that the bills providing for a gratuitous indemnity to survivors of members of the Armed Forces who die in the active service would eliminate the majority of the defects apparent in the present program and in the programs otherwise proposed. Such a program would provide adequate and uniform protection for dependents of service personnel; would be applicable only during periods of active service; would entail a minimum consumption of manpower for operation; and would substantially eliminate the cost of administrative expenses.

Thereafter extensive hearings were held by a subcommittee of the Committee on Veterans' Affairs and as a result of such hearings the committee reported out unanimously the bill H. R. 9911 which provided for a gratuitous indemnity of \$10,000 to the beneficiaries of all members of the services who die in the active service. This bill passed the House unanimously in the Eighty-first Congress, was reintroduced in this Congress as H. R. 1, and now has been passed again by that body unanimously. In a report dated January 10, 1951, to the chairman, Committee on Veterans' Affairs, on this bill it was pointed out that the enactment thereof would eliminate the majority of the defects apparent in the existing insurance programs and would contain the basic objectives which the Comptroller General felt should be contained in any such program. It was stated further that substantial savings in manpower and in the expenditure of Federal funds would unquestionably be accomplished by the enactment of the bill.

The major operational or manpower savings which would be achieved thereunder would include—

(1) The elimination of the need for establishing military and insurance allotments in the Department of Defense for all future entrants into the Armed Forces;

(2) The probability that a majority of the present members of the Armed Forces will discontinue their insurance allotments thereby making it unnecessary to maintain a vast number of allotment accounts now maintained in the Department of Defense;

(3) The elimination of the transmission from the Department of Defense to the Veterans' Administration of a great number of monthly insurance allotment advices; (4) the elimination of the need for a mountain of paper work in the form of applications, medical examinations and certificates, et cetera.

(5) the elimination of the need for underwriting work in the Veterans' Administration for personnel in the services; and

(6) the elimination of the need for establishing and maintaining individual premium record accounts in the Veterans' Administration for each insurance allotment and policy.

It was stated further that while the General Accounting Office was not in a position to estimate future costs arising through the adoption of a program as contemplated by the bills, and consequently was unable to estimate the extent of the fiscal savings which would accrue to the United States as a result thereof had such a program been in effect during the period from October 8, 1940, to June 30, 1949, the cost to the Government would have been reduced by approximately \$587,000,000. These comments are, of course, equally applicable to the bills S. 304 and S. 506, which are identical to H. R. 1.

The Comptroller General has asked me to inform the committee that he is in accord with the principles which would be attained by the adoption of a program such as is provided by S. 304, S. 506, and H. R. 1. If one of these measures is not enacted there will remain an urgent need for legislation to correct the deficiencies previously referred to as being present in the existing program.

I would like to express my appreciation to the committee for their indulgence, and Mr. Nelson, Mr. Christovitch, and myself will be glad to answer any questions which you may have.

The CHAIRMAN. Are there any questions? If not, we thank you for coming over.

Senator MARTIN. Mr. Chairman, I would like to suggest this: I think the committee ought to have some information on whether or not this bill is fair to the man who remains in the service, and whether or not it covers the defects that we now know exist. It would seem to me that some of these representatives of the veterans' organizations could give us that information.

The CHAIRMAN. I think so, Senator.

Senator MARTIN. It seems to me that is the thing we need above everything else right now.

The CHAIRMAN. We will have the representatives of the various service organizations this afternoon. We seem to be down now to some of the service organizations. Mr. Stevens is the first witness.

Mr. KENNEDY. Mr. Chairman, I am not Mr. Stevens. My name is Miles Kennedy, legislative director of the American Legion. With your permission, Mr. Chairman, and gentlemen of the committee, I

would like to offer as our one and only witness Mr. Charles W. Stevens, who is the assistant rehabilitation director of the American Legion. Mr. Stevens is a veteran of World War I and ever since his separation from the service has been continuously employed on insurance programs and veterans' problems, initially with the Government and for the last 22 years additionally with the American Legion. He is very conversant with the bills before you, and with your permission, I would respectfully ask that he be allowed to testify on behalf of our national organization at this time.

The CHAIRMAN. We will be very glad to hear him.

**STATEMENT OF CHARLES W. STEVENS, ASSISTANT DIRECTOR,
NATIONAL REHABILITATION COMMISSION, THE AMERICAN
LEGION**

Mr. STEVENS. Mr. Chairman, and gentlemen of the committee, the American Legion appreciates this opportunity to present its views on the question of providing automatic national service life insurance coverage for certain persons in the active military or naval service as proposed in S. 84 which was introduced January 8, 1951, by Senator George for himself, and Senators Kerr and O'Connor.

Before proceeding with my brief discussion of this bill, I want to offer for the committee's consideration certain amendments which the American Legion believes warranted following careful study of the measure.

It is noted that placement of the word "who" in line 7, page 1, would possibly permit misinterpretation of intent. It is recommended, therefore, that on page 1, line 7, the word "who" and the comma following be stricken and that on page 1, line 5, the word "who" followed by a comma be inserted between the comma following the word "authority" and before the word "on."

Rather than payment of the insurance proceeds under options proposed in the bill, it is believed an alternative plan of settlement would offer an equitable basis for assuring satisfaction of the interest of each potential beneficiary. Consequently, it is recommended that that part of the second proviso on page 2, lines 7 to 11, be amended so as to read:

That the insurance herein granted shall be payable in 240 equal monthly installments, with interest at 3 percent per annum, to the following beneficiaries and in the order named.

This would entail striking the present language.

In this manner of settlement, \$55.10 monthly would be payable in installments over 20 years. This would appear preferable for payment of this amount for the 20 years, when awarded concurrently with death compensation, would provide a fairly adequate income at a time when most needed. For example, it would enable a widow to meet her responsibilities better over the years while children are in her care through their school years when expenses are greatest.

The privilege of obtaining settlements under options (2), (3), or (4) of section 602 (t) of the National Service Life Insurance Act of 1940 would permit a selection of installment payments whereby the insurance proceeds could be awarded in varying amounts and in periods of from 36 months to the entire lifetime of a first beneficiary.

The selection by the first beneficiary might be such that the interest of other potential beneficiaries could be affected adversely.

This is my analysis of other features of this bill:

The national service life insurance granted would be in the aggregate amount of \$10,000. For persons having United States Government or national service life insurance, automatic coverage would equal the difference in the amount of such insurance and \$10,000.

The automatic coverage would be extended for a limited time only, that is, on and after June 27, 1950, until 120 days after date of approval of the proposed enactment.

It would be granted only in the event of a death in line of duty in the specified period.

Persons so protected must be in active military or naval service, or be reporting for active service under competent orders, when death occurs.

This automatic national service life insurance would be deemed to be in force as of the date of the death in line of duty, without application and without premium payment by the insured.

This insurance would be paid to this limited class of beneficiaries in the following order: Widow or widower, if living, while unremarried; if none, child or children, if living, in equal shares; if none, mother or father, if living, in equal shares.

Provisions of the National Service Life Insurance Act of 1940, as amended, and rules and regulations promulgated thereunder, will apply when not inconsistent with this proposed enactment, as the automatic insurance is granted under that act.

The interest item in the amendment which the American Legion proposes is occasioned by the fact that the \$10,000 would become payable at the death of the insured while this benefit would be awarded in monthly installments over a 20-year period. It is considered a reasonable interest rate and is the one used in calculating other installment payments under the act.

This proposal for automatic insurance coverage for a limited period is similar to a pattern adopted by the Congress during World War I and World War II to afford protection to persons whose deaths in active service in line of duty occurred before they were able to obtain insurance on a premium-paying basis.

Continuance of the automatic protection for 120 days after approval of this enactment would provide a reasonable time during which members of the Armed Forces could arrange to obtain national service life insurance by application.

The American Legion is convinced that the provisions of this proposal are reasonable and just and sincerely hopes that the bill will be enacted into law.

As concerns the Senate bills, S. 304 introduced January 11, 1951, by Senator Hill, and S. 506 introduced January 16, 1951, by Senator Johnson of Colorado, and the bill, H. R. 1, introduced January 3, 1951, in the House of Representatives by Mr. Rankin and reported with amendments by the House Committee on Veterans' Affairs January 17, 1951, which passed the House yesterday, it is incumbent upon me to advise this committee that my appearance as a witness for the American Legion today is solely for the purpose of testifying in support of enactment of S. 84. It is understood that H. R. 1 has not yet been referred to this committee.

S. 84 is in accord with mandates issued in October 1950, by the thirty-second annual national convention of the American Legion and in November 1950, by the national executive committee. The bills, which propose a life indemnity payment for deaths of members of the Armed Forces, are not.

It is our feeling that too much reliance is being placed upon the thought that all the ills of the Government's insurance programs can be solved by enactment of legislation as proposed in S. 304, S. 506, and H. R. 1.

The American Legion believed that there would be the fullest consideration given by Members of the Senate and House of any proposals which might result in radical changes in the protection offered persons in active military or naval service and veterans for nearly 34 years.

The organization asks that this committee give the vital subject of protection of members of the Armed Forces and veterans the most serious consideration.

The American Legion strongly favors and urges immediate enactment of legislation which will grant national service life insurance automatically for the period proposed by S. 84 in the cases of persons dying in active service who carried less than the aggregate amount of insurance they could have obtained had they realized the nature of the military and naval operations in which they were to be engaged.

The American Legion has studied carefully various proposals, made in the past year, relating to insurance protection prospectively for members of the Armed Forces and veterans of such forces.

The American Legion's insurance advisory board, national rehabilitation commission, and national executive committee, in meetings held in Washington and Indianapolis in October and November 1950, thoughtfully considered the subject. The American Legion intends to continue this study. A preliminary series of five area rehabilitation conferences embracing the continental United States is now being held. A national rehabilitation conference, which will be attended by several hundred Legionnaires from all over the country, is to be held in Washington February 26 to March 1, 1951. The insurance advisory board will meet during this conference, continuing its deliberations with a view to making a further report to the full national rehabilitation commission on March 2. The American Legion thinks it is absolutely necessary to obtain the consensus of members skilled in veterans' affairs relating to the proposals.

Presently the announced policy of the American Legion is contained in the following resolution which was approved by the national executive committee meeting at Indianapolis November 17 to 19, 1950:

Support (1) maintenance of the national service and United States Government life-insurance programs; (2) preservation of the contracts granted thereunder and the trust funds established therefor; (3) continuance of right of personnel of the Armed Forces and veterans to obtain national service life insurance; and (4) continuation of administration of these programs by the Veterans' Administration.

Accordingly, we strongly recommend the prompt enactment of S. 84 and further study of S. 304, S. 506, and H. R. 1.

Senator MARTIN. Mr. Chairman.

The CHAIRMAN. Senator Martin.

Senator MARTIN. You are not then in a position to advise the committee as to whether or not this bill, H. R. 1, as proposed, would be fair to the men that are now in the service, and after they would be discharged from the service, whether it would be fair to them?

Mr. STEVENS. Men who have never carried insurance before, Senator Martin, would be automatically granted, upon entrance into active service or under certain other circumstances, a \$10,000 life indemnity, in the aggregate, which would be payable to a specified class of beneficiaries. There would no longer be prospectively, for persons who had no insurance by virtue of earlier service, the right to contract for insurance for which they would pay premiums.

There is some question as to whether the economies will be effected which we believe were planned to arise as the result of the life-indemnity enactment. Certainly there will still be administrative costs. There will be no premium contribution, the entire indemnity will be paid from appropriations made by the Congress.

The American Legion is interested in economy. We have 3,000,000 members of the American Legion and 1,000,000 members of the American Legion Auxiliary, all taxpayers. We want economy in Government, but certainly we hope there will be no economy effected at the expense of veterans, or at the expense of their beneficiaries.

We do know this, that the proposal is intended, as was commented on by earlier witnesses, to effect economies. In the bill which is coming to the committee, H. R. 1, so there would be a $2\frac{1}{4}$ percent interest paid in calculating the monthly installments. Two and a quarter percent is less than is paid on the savings bonds. That is, about 2.9 percent; 3 percent is the amount that is paid now under the NSLI Act. Under the United States Government insurance program the interest was $3\frac{1}{2}$ percent. The American Legion people who have considered this do not think that a 3 percent interest is an unreasonable interest. That $2\frac{1}{4}$ percent interest will reduce the amount of the annuity paid to the beneficiary. It is only paid over 10 years. This is an economy effected at the expense of the serviceman's beneficiary.

We have originally recommended that payment be made over a period of 20 years. We think 20 years is a good span in which to make the payments. Installment payment over 20 years is the national service life insurance payment provision which the American Legion proposes in S. 84. This 20-year payment, covering a longer term, would complement the death compensation which would be payable for the service-connected deaths.

Senator MARTIN. As to these other bills, the Legion, with the exception of S. 84, is not in a position to advise one way or the other as to their enactment?

Mr. STEVENS. We have no mandate to express ourselves on the enactment of the other bills, sir.

Senator MARTIN. How do you feel personally about it, because you have had a great deal of experience in this field?

Mr. STEVENS. Sir, I would like to say my appearance must be as a witness for the American Legion, and I must testify in accord with mandates issued by our governing bodies, the national conventions, and the national executive committee. I am not privileged to express my personal views.

Senator BUTLER. In other words, we will get no real expression from the American Legion until they have their meetings, around May 1?

Mr. STEVENS. I might say, sir, as I mentioned in my statement, the American Legion policy has been enunciated by the national executive committee, which met in Indianapolis November 17 to 19, and that is to continue the programs as they are now provided. The amendment to the War Risk Insurance Act of October 6, 1917, provided for insurance protection for members of the Armed Forces while in service and for conversion subsequent to service, so that veterans could continue their insurance protection during their civilian life. The National Service Life Insurance Act, which was approved on October 8, 1940, made a similar provision, and our mandate, which directs our testimony now, is to support the continuation of the United States Government and national service life insurance programs. We had sincerely hoped the studies in Congress would be extensive, so that we could later inform the Congress of the result of the Legion's explorations of the subject.

Senator MARTIN. I have been very much impressed with your testimony, and particularly to the reference that we are all interested in economy, that the 3,000,000 Legionnaires are taxpayers. Probably some of the 3,000,000 are not Federal taxpayers, but this is the thing, Mr. Chairman, I think we ought to all realize, that whether a man is a taxpayer or is not a taxpayer, he is interested in the solvency of America. We can win this physical war and we can lose our individual liberty.

If the dollar becomes so devalued that it does not have the value to exchange for goods, we could lose our individual freedom. I think that is a matter that we have all got to keep in mind in the study of all these programs.

Mr. STEVENS. Certainly, sir, the American Legion membership is a selective membership of persons who had domestic and foreign service in the Armed Forces, either in the First or the Second World War, and we have shown our interest in the country, and certainly the organization has shown its continued interest.

Senator MARTIN. No question about that.

The CHAIRMAN. No question about that, Mr. Stevens.

Suppose we recess until 2 o'clock. That would give us plenty of time to see what is going on on the floor and be back. The other witnesses will be back at 2 o'clock this afternoon, and we will resume the hearings.

(Whereupon, at 12 o'clock noon, the committee recessed until 2 p. m. of the same day.)

AFTERNOON SESSION

(The committee reconvened at 2 p. m. upon the expiration of the recess.)

The CHAIRMAN. The committee will please come to order. I am sorry the other members of the committee are not yet on hand, but we will have to proceed now in order to finish our schedule this afternoon. I believe we had Mr. Stevens last. Next on our list of witnesses is Mr. Charles E. Foster of the Disabled American Veterans. Will you come around, sir, and be seated?

Mr. FOSTER. Mr. Chairman, I am the assistant legislative director for the Disabled American Veterans. Our organization has two concerns with the insurance program; first, that it provide adequate protection for men in the service and, second, that it provide adequate protection for men who are disabled while in the service.

I am not going to testify in support of this legislation. I have with me a man who is very well qualified, having had 30 years of experience in service work. I would like now to introduce Mr. Cicero F. Hogan, who is our national director of claims.

The CHAIRMAN. Mr. Hogan, the committee will be very glad to hear you, and I can assure you your testimony will be read, it will be entered in the record.

STATEMENT OF CICERO F. HOGAN, NATIONAL DIRECTOR FOR CLAIMS, ACCOMPANIED BY CHARLES E. FOSTER, ASSISTANT LEGISLATIVE DIRECTOR, AND FRANCIS M. SULLIVAN, NATIONAL LEGISLATIVE DIRECTOR, DISABLED AMERICAN VETERANS

The CHAIRMAN. Let me ask you a few preliminary questions. Have you analyzed this bill as it passed the House?

Mr. HOGAN. Yes, sir.

The CHAIRMAN. Let me ask you if this brief explanation which is found in the committee report is correct. They say this—this is their analysis and it is found on page 2 of the committee report [reading]:

1. On and after June 27, 1950, each person in the Armed Forces is insured against death in the amount of \$10,000 without cost to the person.

Mr. HOGAN. That is correct.

The CHAIRMAN. That is to say, he has this indemnity of \$10,000.

Mr. HOGAN. That is correct.

The CHAIRMAN [reading]:

2. Protection covers period of active service and periods following call or order to active service or final induction and, in most cases, 90 days after separation from service.

I take it that is correct, is it not?

Mr. HOGAN. Correct, sir.

The CHAIRMAN [reading]:

3. If person is disabled in service to such an extent as to make him uninsurable at standard commercial rates, he may obtain nonparticipating national service life insurance after separation from service, and where the disability is total, waiver of premiums may be granted.

I think that is correct.

Mr. HOGAN. Correct, sir.

The CHAIRMAN [reading]:

4. Bars generally future entrants to United States Government life insurance and the national service life insurance programs, after enactment of this act.

Mr. HOGAN. That is for future entrants. In other words, it sells no more insurance.

The CHAIRMAN. It bars generally future entrants.

Mr. HOGAN. Yes, sir.

The CHAIRMAN. I wanted to be certain that is the correct analysis of the bill.

Mr. HOGAN. That is correct.

The CHAIRMAN. It continues:

But any person in the active service having one of these policies may continue it in force or if he has surrendered a permanent plan policy for cash, he may reinstate it to be granted a new policy on the same plan and in the same amount without a showing of good health.

Mr. HOGAN. That is correct.

The CHAIRMAN. Those are the two real exceptions. Future entrants generally are barred. But these are exceptions.

Mr. HOGAN. Yes, sir.

The CHAIRMAN. The analysis proceeds to state:

5 Beneficiaries limited to members of immediate family.
6. Maximum indemnity paid in monthly installments of \$92.90 each over 10-year period.

7. Indemnity is exempt from the claim of creditors and from taxation.

The fourth one was the one that gives me some considerable concern. I wanted to know if this is a correct analysis. Of course, I assume it is, but I wish to know that it is from the other witnesses, so I will not repeat these questions. If this is a correct analysis and we start on that basis I think then we will be better able to understand the testimony that is presented.

I want to ask this. Suppose a person does not leave the service at all. Suppose he remains in the service for 10 or 15 years. What about him?

Mr. HOGAN. My estimation is insurance would cease after 90 days or after the termination of a war, 90 days after the termination of a war. Is that not so?

Mr. FOSTER. No. He still remains in service.

The CHAIRMAN. Yes. He remains in service continuously. Say he goes in now in this fighting and he spends I do not know how many months in the combat area; but he does not leave the service at all. He remains continuously in the service.

Mr. FOSTER. It would remain in force.

Mr. HOGAN. His insurance continues until he leaves the service.

The CHAIRMAN. His insurance continues until he leaves the service, without the payment of anything?

Mr. HOGAN. That is right.

The CHAIRMAN. All right. I hope the representatives of the other organizations, if they take any exception to that, when they come to the stand will please indicate it, because I think it is an important feature here. We will be glad to hear you, Mr. Hogan.

Mr. HOGAN. Mr. Chairman, as Mr. Foster said, my name is Cicero F. Hogan and I am national director of claims for the Disabled American Veterans. In this capacity I head the rehabilitation service of our organization, and direct the activities of our national service officers who are located in all of the regional and district offices of the Veterans' Administration. The Disabled American Veterans, as the members of this committee are aware, is first and foremost a service organization. We are primarily interested in, and are organized to render aid and assistance to America's wartime disabled veterans and their dependents. Through our rehabilitation or service set-up, we counsel and assist the disabled veteran in the preparation and development of any valid claim, and our service is so organized that we are able to and do represent the claimant veteran or his dependents

at the local or regional office level on through the district- and central-office levels, including appellate hearings where required.

We mention all this only to indicate, for the record, that the DAV, because of its specialization in service work and its daily and direct contact with veteran claimants for almost 30 years, is eminently qualified to speak on matters affecting America's wartime disabled. We appreciate the opportunity given us today to testify and express our opinion on several bills amending or changing present veterans' insurance laws.

It is my understanding that the committee has under consideration the bills S. 84, S. 304, S. 506 and H. R. 1. I heard mention today also of S. 654. The latter, H. R. 1, passed the House of Representatives yesterday by a unanimous vote of 390 to 0.

Three of these bills, S. 304, S. 506 and H. R. 1, are quite similar and might be considered as companion bills. S. 84 differs from them in that it would amend the present NSLI act so as to provide automatic coverage for all persons in the military service on or after June 27, 1950, under certain conditions. S. 304, S. 506 and H. R. 1, which will be referred to hereafter as the gratuitous indemnity bills for purposes of brevity, would provide an indemnity without cost to the insured, and protection to the designated beneficiary or beneficiaries of all members of the Armed Forces in service on or after June 27, 1950.

These bills would further provide a form of Government insurance to those veterans separated from the service, under conditions other than dishonorable, and who by virtue of their service are uninsurable at standard rates for ordinary life insurance, according to recognized underwriting requirements of commercial insurance companies. In the event the veteran is suffering from a total service-connected disability, the gratuitous insurance would remain in force.

The Disabled American Veterans has devoted considerable study and research to the proposals contained in the bills pending before this committee, and we have reached the inescapable conclusion that the gratuitous indemnity proposals have manifold benefits to the servicemen, the disabled veteran, and the United States Government. We therefore strongly endorse and recommend to the members of this committee that they favorably consider and report the bill H. R. 1 as passed by the House of Representatives.

It may seem paradoxical that a bill can be beneficial to the serviceman, the disabled veteran, and to the Government at one and the same time. However, an analysis of the gratuitous indemnity proposals shows this to be factual. To further clarify this statement it might be well to enumerate the salient points of the gratuitous indemnity bills.

Advantages to the service man or woman are outstanding:

1. On or after June 27, 1950, any person provisionally accepted or ordered to report for induction and dies as a result of disability incurred while en route to report, would be automatically indemnified in the amount of \$10,000. This means that the Government accepts its responsibility over the lives of those persons being called into service and who are under Government control—even though they have not yet been and may not be accepted for military service.

2. All men in the Armed Forces on or after June 27, 1950, and for 90 days following separation would be, as a matter of law, covered in the amount of \$10,000. Perhaps the most difficult and trying task we service officers had to perform during and after the war was to tell an

elderly couple whose son was killed in action or a young mother whose child was born after the father left for overseas, never to return, that their son or husband failed to take out any insurance. Records indicate one out of nine battle casualties in World War II never carried insurance. We of the DAV hesitate to scold or criticize the 18-year-old lad who "didn't want no insurance"—and it is way too late to berate the older man who died a hero at Guadalcanal or on the Omaha Beach that he should have thought more of his loved ones. On the other hand, we are grateful to those commanding officers who forced their men to sign up for the full amount of insurance though they had no real authority to do so. Some 25 percent of the men now in service are not insured—and that includes a lot of the lads in Korea.

Advantages to the disabled veteran:

The DAV is especially interested in the provisions affecting the disabled veteran. This bill contains a provision permitting the continuance of the insurance where the veteran is found to be totally and permanently disabled. It further permits the granting of insurance to a veteran with a service-connected disability and who is uninsurable at standard rates for ordinary life insurance.

Advantages to the Government:

1. The Armed Forces would save untold thousands of man-hours by not having the responsibility of selling Government insurance to all new recruits.

2. The Armed Forces would save many thousands of man-hours as a result of not having to process allotments of recruits who buy insurance.

3. The Veterans' Administration would save hundreds of millions of dollars annually in the administration of a gratuitous insurance program as contrasted with the present program. It has been estimated by the Comptroller General that had this program been in effect during 1940-49, the administrative cost to the Government would have been reduced by approximately \$587,000,000.

4. The beneficiaries of men killed or who die in the service would all be treated equally. The inequities inherent in the present system can best be explained by referring to the second paragraph on page 4 of the House Report No. 6 which accompanies H. R. 1, Eighty-second Congress.

Mr. Chairman, you have already referred to that report.

A Government official responsible for the administration and proper functioning of the Government insurance program for veterans has stated before congressional committees that in an emergency the present insurance program would be inoperable because of the unavailability of manpower. If for no other reason, this one fact makes it imperative that the Congress adopt a gratuitous form of insurance with its resulting savings in dollars and time. The emergency is here now and has been since June 27, 1950. We are now in a period of mobilization with additional thousands of men being called into the service every day.

It might be asked if the gratuitous proposal does not take from the veteran his right since World War I to participate following separation from service in a Government insurance program which is cheaper than insurance offered by commercial companies. We do

not think so. Under the gratuitous proposal the veteran separated from service with a rating of total service-connected disability, continues to be covered gratuitously. The veteran separated from service and uninsurable according to commercial standards can apply for and be granted a nonparticipating form of Government insurance upon payment of a premium. We do not believe that the responsibility of the United States goes beyond this.

The gratuitous indemnity proposal is in accord with the program of the President according to testimony offered by the Bureau of the Budget before the House Veterans' Affairs Committee. The proposal was supported by the Comptroller General of the United States and by the Armed Forces. It is endorsed by three of the four major veterans' organizations and also by many independent witnesses representing various phases of the insurance industry. We urge the members of this committee to favorably and expeditiously report H. R. 1 as passed by the House of Representatives. Delay in the enactment of this important legislation is daily working an undue hardship on the survivors of many men who have been killed in combat in Korea as well as the survivors of the Pennsylvania and Tennessee National Guardsmen who were killed last summer while in Federal service.

We of the DAV urge that the committee favorably report H. R. 1 at an early date. And again I thank you, Mr. Chairman.

The CHAIRMAN. We thank you very much. Are there any questions of the witness?

The CHAIRMAN. If not, we wish to thank you very much.

Mr. HOGAN. Thank you.

The CHAIRMAN. Our next witness is Mr. Omar B. Ketchum of the Veterans of Foreign Wars. Will you come around, please, Mr. Ketchum, and you may be seated if you wish.

STATEMENT OF OMAR B. KETCHUM, LEGISLATIVE DIRECTOR, VETERANS OF FOREIGN WARS OF THE UNITED STATES

Mr. KETCHUM. Mr. Chairman and members of the committee, my name is Omar B. Ketchum and I am the legislative director for the Veterans of Foreign Wars of the United States. I wish to make a preliminary statement, after which I will present to the committee Mr. Robert L. Ashworth, who is our insurance expert and who will present a prepared statement to the committee.

In presenting Mr. Ashworth, I would like to say that he is a veteran of World War II who was badly wounded in the north African campaign and permanently disabled. He accepted employment with our organization upon his release from Walter Reed Hospital and has applied himself to problems dealing with servicemen and particularly insurance, since 1943.

The CHAIRMAN. We will be very glad to hear Mr. Ashworth.

Mr. KETCHUM. Mr. Chairman, the Veterans of Foreign Wars is in full accord with the action of the House of Representatives in approving the bill identified as H. R. 1 and companion bills now present before this committee which have been introduced by Senators Hill and Johnson. The bills introduced by Senators Hill and Johnson do not have, of course, a few of the amendments that were made to H. R. 1 at the time that bill was reported out of the House Committee on Veterans' Affairs. Other than that they are identical bills.

The Veterans of Foreign Wars have carefully considered this whole problem of insurance from the time of the earliest hearings by the Hardy subcommittee of the House Committee on Expenditures in the Executive Departments. We followed those hearings carefully, and we followed the study of the committee staff of the Subcommittee on Veterans' Affairs, the hearings of a subcommittee of the Committee on Veterans' Affairs; and the Veterans of Foreign Wars came to the conclusion that the gratuitous-indemnity proposal is a sound approach to the problem of protecting active-service personnel. Many reasons have been cited before this committee already as to what this new form of insurance would accomplish in the way of saving administrative costs and manpower.

We urge this committee to carefully consider the two bills introduced by Senators Johnson and Hill and H. R. 1, which eventually will come to this committee. I do not know whether it has been referred or not, as the House action was just taken yesterday afternoon.

The CHAIRMAN. It will probably come over this afternoon.

Mr. KETCHUM. Mr. Chairman, just a word about the bill which was sponsored by you and two other members of the Senate and identified as S. 84. We have no objection to the bill, and we are in complete accord with the purpose of the bill. Yet, at the same time, the same provision largely in your bill is also incorporated as a retroactive feature in H. R. 1. We would like to point out, therefore, to the committee that we think it would be much better to deal with the full problem in H. R. 1 and the companion bills before the committee rather than adopt S. 84, which we would call piecemeal legislation dealing with the over-all problem. But we want to assure you we are in accord with the purpose and objective of S. 84. However, we would rather see the matters handled in H. R. 1 generally than in piecemeal legislation.

Senator BUTLER. Would it be necessary to amend H. R. 1 so as to incorporate the substance of S. 84?

Mr. KETCHUM. Well, I think the principal purpose of S. 84, Mr. Senator, is really in the retroactive features of H. R. 1 along with some other amendments to national-service life insurance. Of course, I think we can all agree, if we are going to adopt a gratuitous-indemnity approach, then only those amendments that are essential and necessary should be made to national-service life insurance, and that is why we suggested rather than considering S. 84 that you consider the over-all problem which is contained in H. R. 1.

The CHAIRMAN. Mr. Ketchum, this matter has been under consideration by the veterans' organizations for quite a while; has it not?

Mr. KETCHUM. For a long, long period of time, Senator. I might say as background to our own consideration, at our last national convention, which was held in August 1950, the question of insurance come up. At that time a study just began in the House of Representatives. Our national encampment decided wisely to submit the problem to a special committee of our national rehabilitation service and too, authorized that committee to go along with these studies to carefully determine what the policy of the organization should be. A special committee was appointed from our rehabilitation service which Mr. Ashworth will describe to you later in detail. The committee was headed by a man whom I think is one of the most competent

men in the United States with respect to veterans' insurance, Col. George E. Ijams, who for 27 years was one of the top assistants to the Administrator of Veterans' Affairs.

The CHAIRMAN. We all know him.

Mr. KETCHUM. He was chairman of that special committee. I think we can assure you, Mr. Chairman, that we have given the most careful consideration to this problem and to this particular proposition, and that we come before you today with no reservation in our support of the gratuitous-indemnity principle.

There is only one item in connection with that bill which Mr. Ashworth will present where we think maybe something should be done. It is a question he will go into, and I will mention it now briefly, because he will go into it in more detail.

There is a question as to whether the increased age that the serviceman will incur by reason of his service when it becomes necessary for him to purchase commercial life insurance, as to whether that is a penalty that will be inflicted on him by reason of his service.

May we state the problem in this way: Under the new law which is proposed, a man now goes into the service. He receives gratuitous-indemnity coverage, and he does not pay any premiums and perhaps he is not insured otherwise. Let us say he goes in at age 18 and remains for a period of 3 or 4 years, and then he comes out and, within a period of 90 days, of course that insurance ends. Now, it is up to him to purchase commercial insurance if he is insurable. He has increased his age, we will say, 2, 3, 4, 5 years—whatever length of his service will be, and naturally the rate of commercial insurance will be higher at that increased age than at the time he went into service.

There is a question of some inequity involved which Mr. Ashworth intends to cover more fully. The answer may be that, since he has received that gratuitous indemnity during his service, there may be no inequity, even though he has to pay for the commercial insurance at a slightly higher rate because of his increased age. That may be the answer; still, there is the possibility of an inequity as the result of that increased age during the period of service.,

With those remarks, I will be available for questions. I would like now to present Robert L. Ashworth.

The CHAIRMAN. The committee will be glad to hear him.

STATEMENT OF ROBERT L. ASHWORTH, INSURANCE CLAIMS CONSULTANT, NATIONAL REHABILITATION SERVICE, VETERANS OF FOREIGN WARS OF THE UNITED STATES

Mr. ASHWORTH. Mr. Chairman and members of the committee, as this is the first time that I have appeared before this committee, I would like to say that I am speaking on behalf of the national rehabilitation service of the Veterans of Foreign Wars of the United States and in accordance with national encampment policy. We appreciate the opportunity afforded us to testify today on this important and pressing subject.

In a sense it may be said that the Veterans of Foreign Wars has been abreast of the subject of life and disability insurance for the Armed Forces since the first program was initiated in October 1917. More recently, subsequent to World War II, we have kept under scrutiny the reports of studies made by various groups and by the Con-

gress, including the Hook report, the Hoover task-force report, and the report of the Honorable Porter Hardy, Jr., chairman of the subcommittee of the House Committee on Expenditures in the Executive Departments. As the result of these studies and reports, it seemed to us all too apparent that the Congress would be called upon to devise some new system of insurance protection for the members of our Armed Forces.

With this in view, the Veterans of Foreign Wars at our last national encampment, held in Chicago, August 1950, authorized the appointment of a special insurance committee to go into this subject thoroughly and to recommend Veterans of Foreign Wars policy in accordance therewith. The committee was promptly appointed, with Col. George E. Ijams, director of our national rehabilitation service, as chairman. Colonel Ijams was a member of the War Department's first detail set up in World War I to carry the war-risk insurance program to the troops in the field in this country and those already overseas. This carried him to the trenches in 1917, where he handled the insurance of many members of the famous First Division, and others. Upon leaving the service, Colonel Ijams became associated with the Veterans' Administration and for approximately 27 years served first as Assistant Director and Director of the Veterans' Bureau, and later as Assistant Administrator of Veterans' Affairs. During considerable of this time, the insurance program administered by the Veterans' Administration in one phase or another was under his jurisdiction.

A second member of this special insurance committee is Mr. J. Robert Conroy. Mr. Conroy served throughout World War I with the Twenty-sixth Division. He became personally acquainted with war-risk insurance in 1917, while serving in France. Mr. Conroy is an attorney at law and a member of the bar of the District of Columbia. He has devoted much of his time to the study of life insurance in its various aspects.

The third member of the Veterans of Foreign Wars' special insurance committee is your witness, who happens to be a veteran of World War II and who first became acquainted with national service life insurance when assigned to the Fifth Engineers in January 1941. In brief, each member of this committee is a former GI. Each can speak from the personal experience of having been insured, and experience with the multitude of ramifications and details that surrounds the underwriting and adjudication of United States Government life and national service life insurance.

It was upon the basis of this joint experience, including advice from other reliable sources and reference to the various available reports on the subject, that our national rehabilitation service felt the urgent need of a new approach to the problem of adequate insurance or indemnification protection to the members of the Armed Forces, a so-called fourth insurance program. There are various reasons why we feel that a new program is urgent. The most important of these is the well-established fact that the national service life insurance program was entirely too cumbersome in time of war. The administrative and other costs are shown to have been excessive; and at the same time, by reason of technicalities, insurance principles, and other factors, such a program has failed to provide complete uniform coverage. The classic example, the one cited several times before the

House, was that of servicemen A, B, and C. A found it convenient to carry a \$10,000 national service life insurance policy; B carried \$5,000, and C carried none. The three were killed by the same shell. A's beneficiary became entitled to benefits under the \$10,000 policy, and B's beneficiary on the \$5,000 policy. In each case the benefits were paid out of public tax funds. C had no insurance, and his dependents received nothing.

In approaching a fourth program, it has been our view that certain fundamentals should be taken into consideration. These are:

1. To provide protection for the dependents of those who lost their lives in response to the call to arms.

2. To protect those who lost their insurability while in service and cannot buy insurance on the open market at a normal rate of premium.

3. To protect the present policyholders of United States Government life and national service life insurance who wish to retain their contracts; and

4. To assist those who have been deprived of a lower insurable age by reason of their time spent in service.

The problem would be easier if we were discussing an original program on this subject. One of the main obstacles in the way of a new program, at this time, is the difficulty in blending existing programs with a new one, so that the equities shall be well balanced from the three major standpoints, the service person, his dependents, and the Government; and that, insofar as practicable, none shall feel they have been overlooked or short-changed.

Having reached this point, I should like to state that our special insurance committee has carefully studied the provisions of S. 84, S. 304, S. 506, and the amended version of H. R. 1, passed by the House yesterday without a dissenting vote—390 to 0.

While the provisions of S. 84 have retroactive gratuitous features, it is felt that the provisions of S. 304 or S. 506 more clearly cover the entire problem confronting us at the present time. Therefore, S. 84 would be piecemeal legislation and would not serve as the answer to the program that we have in mind for protection of the future entrants into the Armed Forces.

The provisions of S. 304 and S. 506 now under consideration by this committee appear to be similar. The Veterans of Foreign Wars consistently supported H. R. 1, as amended and as passed by the House January 24, 1951. H. R. 1 was a companion to these two Senate bills. The Veterans of Foreign Wars can wholeheartedly support either S. 304 or S. 506 with the amendments contained in H. R. 1 as passed by the House yesterday.

However, the consideration given H. R. 1 by the Committee on Veterans' Affairs does not include our fourth point, which to our way of thinking is extremely important. Among the strongest objections to a new insurance program is the fact that the orthodox system of insuring members of the Armed Forces eventually would taper off to where the Government no longer would be in the life-insurance business. In the views of some, this is letting the veteran down. It is our view that the present system should be gradually curtailed, but not too abruptly. We feel this way—the more the Government must spend to maintain subsidized life-insurance programs,

the less there will be available for fundamental benefits, such as compensation, pension, hospitalization.

Instead of leaving the able-bodied ex-service person to rely entirely upon his own resources in obtaining life insurance on the open market during the period immediately following discharge from service, in the fourth point, we recommended a salient provision under which the Government would assist the veteran in availing himself of ordinary commercial insurance.

This feature was included in our testimony before the subcommittee of the Committee on Veterans' Affairs. Although it is realized that probably the proposed formula was complicated and was not readily understood, the intent was to devise some sort of formula whereby the serviceman could be compensated for the loss of his lower insurable age by reason of his time spent in service.

In other words, a person enlisting at the of 18 who spends 5 years in the Armed Forces, has been penalized approximately \$2.15 per thousand per year on purchasing an ordinary life contract upon his discharge. Projecting this over the life expectancy of the person at age 23, using the United States Total Population Mortality Table, this service person would have suffered a financial loss of approximately \$96.75 per thousand, or \$483.75 on \$5,000 or, if you please, \$967.50 on a \$10,000 policy.

You may readily glean from this example that there is a factor to be considered on the loss of insurable age.

The purpose of this recommendation is to make available to the veteran a nominal sum with which to go out on the open market and obtain commercial life insurance. The cost to the Government would be comparatively small while the availability of a sum to the individual would be an incentive or encouragement for him to protect himself by acquiring a reasonable amount of life insurance.

In conclusion we again thank you, Mr. Chairman and the members of your committee, for extending to us the courtesy of hearing our testimony today. We feel sure that either S. 304 or S. 506, including the amendments as indicated previously, together with our recommendation, will meet with the approval of all concerned.

The CHAIRMAN. Any questions by the committee members?

Senator BUTLER. Mr. Chairman.

The CHAIRMAN. Senator Butler.

Senator BUTLER. I wonder if Mr. Ashworth could tell us in a few words exactly what he proposes under his point 4. Mr. Ashworth, how would you make your allowance?

Mr. ASHWORTH. Through some sort of formula. In our testimony before the Committee on Veterans' Affairs we attempted to have a formula laid out whereby it would give credit for the length of service with the monetary payment being handled by the Veterans' Administration.

Senator BUTLER. Your point is, in other words, that the insurance that the veteran would be getting in commercial channels was going to cost him more than it would have had he taken this insurance out at the age he went into the service. Is that it?

Mr. ASHWORTH. That is right.

Senator BUTLER. And you want to compensate him for that?

Mr. ASHWORTH. That is right.

Senator BUTLER. What I want to know is just how you are going to compensate him.

Mr. ASHWORTH. Well, to cite an example, let us take the GI bill. You have a situation where the Government will guarantee up to a certain maximum on the purchase of a house. This formula is of the same idea. The Government now under the GI bill grants up to \$160 on the interest factor alone. This could be worked on some set formula whereby the servicemen would enter into a contract and this amount of money would be guaranteed to the insurance company to take care of the difference in premium.

Mr. KETCHUM. Senator, I will agree that the point we have raised is a complicated one.

Senator BUTLER. Would it not require a lot of manpower?

Mr. KETCHUM. Well, I do not think so, if a simple formula could be found but there could be, of course, utilization of manpower. I said in my preliminary statement that the answer to the question we have raised there may be that owing to the fact that this serviceman had had the gratuitous, free coverage during the period of years that he was in service, perhaps he should not feel, maybe, that he is being penalized because of the increased age at which he takes out the commercial insurance.

Now, if we could only persuade these men under this program to take out a nominal amount of commercial insurance at the time they enter the service, say, ordinary life insurance, then they would be covered after they come out from under the indemnity insurance.

The CHAIRMAN. They could protect their age premium in that way.

Mr. KETCHUM. That is right.

The CHAIRMAN. And since they have a gratuitous indemnity it would be pretty difficult to say we are going to pay that other man who wants insurance. Now, what about the fellow who does not want insurance?

Mr. KETCHUM. Well, there, too, you have a problem.

The CHAIRMAN. Yes. That has arisen under the GI bill.

Mr. KETCHUM. That is correct, Senator, and we ourselves have made the point of the man that does not want to take advantage.

The CHAIRMAN. It looks like the better way is to say there is a gratuitous indemnity there, and if he is out of the Army within a reasonable number of years, a relatively short period, he will have lost something, it is true, if he then wants insurance. But he has had the protection while he was in.

Mr. KETCHUM. That is right.

The CHAIRMAN. So, I think you had better not press that point.

Mr. KETCHUM. I was just going to say that if it appears to the committee and Congress as being devious and complicated and difficult of administration, certainly we are not going to make an issue of it. We thought, however, that since some people are raising that question, that we should present it to you.

The CHAIRMAN. That is right, and you have presented it.

Mr. KETCHUM. By doing that you will have all the pros and cons.

Senator BUTLER. The details of administration you speak of are in the House hearings, Mr. Ashworth, are they not?

Mr. ASHWORTH. That is right. There is one other factor on the indemnification I would like to bring out, and that is the fact that during the period of active service the serviceman is not required to

pay any premium. If he is insurance-minded, he may purchase insurance and use the premiums that he did not have to pay to purchase insurance on the outside.

Mr. KETCHUM. Yes; to protect himself.

Mr. ASHWORTH. That is, to protect himself over and above the indemnity.

The CHAIRMAN. Yes. Under this bill he is not protected beyond the indemnity, is he?

Mr. ASHWORTH. Not after 90 days after discharge.

Mr. KETCHUM. Unless he becomes uninsurable.

The CHAIRMAN. Yes, he is protected if he becomes uninsurable and if he wants to reinstate, and even if he had only the ordinary World War I term insurance he is not placed in a worse position.

Mr. KETCHUM. That is correct as to all of those who previously held policies under USGLI or NSLI even though they had lapsed policies; they would still have the privilege of making new application.

The CHAIRMAN. Any other questions by members of the committee?

We thank you very much. Our next witness will be Mr. Wilson. Mr. Wilson, will you come forward, and you may be seated if you wish.

STATEMENT OF RUFUS H. WILSON, ASSISTANT SERVICE DIRECTOR OF AMVETS

Mr. WILSON. Mr. Chairman, our national commander was to have been here today but a death occurred in his family and he has asked me to appear in his stead.

The CHAIRMAN. We will be glad to hear you, sir.

Mr. WILSON. My name is Rufus H. Wilson, and I am the assistant service director of AMVETS.

AMVETS appreciates the opportunity of appearing before this committee today in order that we might present our views on Senate bill 84, Senate bill 304, and Senate bill 506, as well as the House of Representatives companion bill, H. R. 1. It is a matter of paramount importance, we believe, for the Congress to make a definite determination as to what our policy on insurance protection is going to be for our future servicemen and for our future veterans. Naturally, AMVETS are very much concerned with the over-all aspects of the entire Government insurance programs as they pertain to veterans and we are very glad to see this committee hold these hearings.

At its last national convention in Cleveland in September 1950 the question of insurance for our servicemen and future veterans was extensively investigated by AMVETS. Our national service committee unanimously recommended to the delegates of the convention that the proposals outlined in what is now S. 304 be enacted into legislation without delay. As a result of the recommendations of our service committee, the delegates unanimously passed a resolution in which proposals very similar to those outlined in S. 304 and S. 506 were adopted. Thus we appear here today in endorsement of that proposed legislation.

Lest we be misunderstood, AMVETS wish to make it clear that we do not oppose S. 84; however, we feel that this bill does not nearly fill the need and is merely stop-gap legislation and is a single remedy to a

situation that will occur again and again as future national emergencies become existent.

In proposing any such marked departure from the Government life insurance program, we feel it necessary that we give reasons as to why we are in endorsement. This committee is aware of the fact that the Hook Commission, which was set up to study means of more efficiently running the Defense Establishment, made a proposal that \$10,000 gratuitous insurance be given every serviceman on the date he entered service. It was stated by the Hook Commission that such a program would eliminate much of the confusion necessarily incident to the administering of a giant insurance program. It was also stated by the Hook Commission that such an approach would be extremely less costly than the present Government insurance programs. In addition to the Hook Commission, the House Committee on Expenditures in the Executive Departments conducted an extensive research survey into the Government insurance program and one of the recommendations they made was that the \$10,000 indemnity approach be pursued.

Just last summer, the House Veterans Affairs Committee, which had been studying this problem for a considerable length of time, passed a resolution setting up machinery whereby the staff of that committee might explore extensively into the entire Government program during the congressional recess. As a result of that exploration to which all interested bodies were invited to express their views, a bill was introduced into the House, substantially the same as what is now S. 304 and S. 506, now pending before this committee. Extensive hearings were held before the House Veterans Affairs Committee and when the matter finally came to a vote before that group, the opinion of the body was unanimous that the gratuitous proposal was a sound and justifiable approach to the servicemen's and future veterans' insurance problems. Subsequent to House Veterans Affairs Committee approval, the House unanimously passed a bill almost identical to H. R. 1 and S. 304 and S. 506. It therefore appears to this organization that this matter has received quite extensive consideration and it has been the consensus of opinion of governmental agencies charged with the responsibility of investigating the Government insurance program that the present approach which we advocate is the one most likely to succeed.

It has been repeatedly brought out in testimony before the agencies mentioned that a continuation of national service life insurance would result in a chaotic condition in the event of a future war or a future national emergency. Mr. Harold W. Breining, the Assistant Administrator for Insurance of the VA, has testified before the House Veterans' Affairs Committee and before the Porter Hardy Subcommittee on Expenditures in the Executive Departments in the House of Representatives, that it was his opinion that the NSLI program would be impossible to administer during time of national emergency. We think it self-evident that in such time of emergency when our entire economy must be mobilized that it would be practically impossible to obtain the necessary manpower to carry on the present program. Quite to the contrary, it would take a minimum of manpower to administer the proposal we advocate. The gratuitous approach to this insurance problem would be very simple to administer and for that reason alone, if no other existed, we believe that S. 304 or S. 506 should become law.

There are many other reasons why the present NSLI program is not adequate for future needs. There is no universal coverage under that law for all servicemen. The administrative cost of the provisions of national service life insurance is so excessive that, in our opinion, if allowed to continue, it will in the final analysis result in adverse action on the present Government compensation and pension veteran programs.

In addition to the over-all problems posed by a continuation of NSLI, there is, of course, another matter which must receive the serious consideration of the Congress. This Nation is now embarking on a total mobilization program. We plan on an Army of approximately 3½ million men. We plan a universal military training program to last for a considerable length of time. These two events can only again and again bring more people into the veteran class. We think it is time for the Congress to determine what its obligations to its servicemen in the field of insurance are. We think Congress must make a determination as to whether or not it owes an inexpensive type insurance to veterans of the Armed Forces simply because they have worn the uniform of their country in time of war or peace. We in AMVETS think not. It is our feeling that the basic purpose of any Government insurance program for servicemen is to insure them against the extra hazards of war, due to the fact that commercial policies cannot be obtained at normal premium-paying rates while men are in the uniform of their country. We think that upon the expiration of a term of service by an individual that the Government owes only an obligation to him to insure him in the event he has lost his insurability as a result of service-connected disability. At the present time we have about 20,000,000 veterans in our Nation. These men with their families compose approximately one-third of the total population of the United States.

It is impossible to suppose that the Congress must continually make special concessions to them by virtue of their sole common denominator of being ex-servicemen. The 20,000,000 figure quoted is only a preliminary figure because if mobilization continues, if UMT is enacted and extended, the 20,000,000 could easily swell to 40,000,000, and if the present program is allowed to continue, the Nation is going to be in an unenviable position of having contracts with a considerable portion of the population of the entire country which cannot be broken. In that event, even though administrative costs may have skyrocketed more, even though the program becomes impossible to administer, it would not be possible for the Congress to unilaterally break the existing contractual rights which would be present. We think this is a serious matter; and we think the only way it can be corrected is by the adoption into workable legislation of S. 304, S. 506, or H. R. 1.

It has been argued that veterans of World War I and II will lose their rights to future insurance if these proposals are accepted by the Congress. A perusal of the bill will show this not to be the fact. No rights accruing to servicemen or veterans by virtue of their prior contracts will be affected. All rights of reinstatement will continue to be intact and all rights to new insurance for World War II veterans will be available for 90 days after discharge. We sincerely feel that if the present program is allowed to continue it will, in the final analysis, adversely affect the pension and compensation programs.

When this Nation becomes aware of the enormous amount of money spent between 1940 and 1950 for the administration of NSLI, we feel that public opinion will be aroused to such an extent that it could have no effect but an adverse one to veterans' benefits. That fact alone, too, warrants the serious consideration of this group of S. 304 and H. R. 1.

AMVETS wish to assure you that our organization will never deviate from its established policy of advocating the best this Nation has to offer for its servicemen. We shall also never deviate from our policy of urging benefits for those who are bereaved as the result of military service of loved ones. But we think the time has come when we must speak out and state to the people of this Nation that we are not interested in being a special-interest group, to the extent which advocacy of continuation of NSLI would make us, giving us the right to wreck the economy of our Nation. By virtue of such a position we cannot justifiably advocate the continuation of programs which might adversely affect our posterity.

AMVETS sincerely urge the Senate Finance Committee to give approval to the proposal enhanced in S. 304, S. 506, and H. R. 1, as passed yesterday by the House of Representatives. We are convinced that it is a good bill. It provides a universal coverage for all servicemen. It is infinitely more simple to administer than the present Government insurance program, which cannot be properly administered in time of emergency. The present program is a costly item being tacked on to the cost of veterans' benefits which we believe will eventually affect the compensation and pension programs. This new approach does not affect the present rights accrued under United States Government life insurance or NSLI policies. All men disabled by reason of service to their country will be able to go into the national service program in the event they are unable to obtain commercial insurance coverage at normal premium-paying rates upon their discharge. All men are protected for a reasonable length of time after the expiration of service, in order that they may enter into commercial contracts if they so desire.

Our endorsement of this bill is the result of long study. It is the result of our belief that the Hook Commission, the House of Representatives Committee on Expenditures in the Executive Departments, and the House Veterans' Affairs Committee were right in advocating the indemnity proposal. It is our considered opinion that these governmental agencies and the three veterans' organizations—Veterans of Foreign Wars, Disabled American Veterans, and AMVETS—who support this bill, cannot be far wrong in advocating such a proposal. We therefore respectfully urge that this Senate Finance Committee see fit to report out a bill embodying all of the ideas advanced here today. We are convinced that a service will be done to our Nation if this is accomplished and we are also convinced that the obligations we owe to our servicemen and future veterans will be carried out.

Thank you very much for allowing the opportunity of appearing before you.

The CHAIRMAN. Are there any questions by members of the committee? Thank you very much for your appearance, sir. We appreciate your coming here. Our next witness is Major General Walsh. Will you come up in front here, General Walsh, and proceed?

STATEMENT OF MAJ. GEN. ELLARD A. WALSH, RETIRED, PRESIDENT, ACCOMPANIED BY VERNON B. VADEN, HEADQUARTERS STAFF, NATIONAL GUARD ASSOCIATION OF THE UNITED STATES

General WALSH. Mr. Chairman, I am accompanied by Mr. Vernon B. Vaden, of our headquarters staff, and we have a very brief statement to make. I represent the National Guard Association of the United States.

The CHAIRMAN. We will be very glad to hear you, sir.

General WALSH. Mr. Chairman and gentlemen of the committee, I am indeed grateful of the opportunity to appear before your committee on a matter of such vital importance to the National Guard as S. 84, S. 304, and S. 506.

I understand that S. 84 is a bill to provide automatic national service life insurance coverage for any person in the active military or naval service, or reporting for such active service, on and after June 27, 1950, until 120 days after date of enactment of the act. This bill, if enacted into law, will have the effect of providing for the beneficiaries of those servicemen who, through circumstances beyond their control, were unable to have applied for and been granted national service life insurance before their untimely death.

The unfortunate experience of the National Guard Twenty-eighth Division in losing so many of their fine young men in the rail disaster of last fall reveals the necessity of this legislation and we urge its passage at the earliest practicable date.

In my examination of S. 304 and S. 506 I find the two bills to be identical. This legislation recognizes the hazardous occupation of the soldier and citizen soldier and provides a gratuitous indemnity to his survivors in the event of his death while on active duty. The legislation is most acceptable to the National Guard and the National Guard Association recommends its enactment into law.

You will note, Mr. Chairman and gentlemen, that we have made no reference to H. R. 1. We were, of course, aware of the bill and its principles and of the retroactive feature but since the bill was not before this committee at that time we have made no mention of it and confined our position merely to the Senate file.

The CHAIRMAN. Yes, we understand that. We appreciate your appearance, sir. Are there any questions, Senator Butler?

Senator BUTLER. No.

The CHAIRMAN. Thank you very much.

General WALSH. Thank you.

The CHAIRMAN. Our next witness is Vice Adm. H. G. Hamlet.

STATEMENT OF VICE ADM. H. G. HAMLET, UNITED STATES COAST GUARD, RETIRED, PRESIDENT, ACCOMPANIED BY CAPT. F. O. WILLENBUCHER, UNITED STATES NAVY, RETIRED, LEGAL COUNSEL AND VICE PRESIDENT; AND COMMANDER HAROLD B. CORWIN, UNITED STATES NAVY, RETIRED, ASSISTANT LEGAL COUNSEL, RETIRED OFFICERS ASSOCIATION, INC.

Admiral HAMLET. Mr. Chairman, I have taken the liberty of bringing along with me the two officers who were most responsible for the study made in this report.

The CHAIRMAN. That is all right, sir. You may proceed, and these gentlemen may remain with you. You might identify them for the record.

Admiral HAMLET. They are Capt F. O. Willenbucher, United States Navy, retired, legal counsel for the Retired Officers Association and vice president, and Commander Harold B. Corwin, United States Navy, retired, assistant legal counsel.

The CHAIRMAN. Proceed, sir.

Admiral HAMLET. I am Vice Adm. Harry G. Hamlet, United States Coast Guard, retired, president of the Retired Officers Association, composed of over 19,000 members, all of whom are retired or active commissioned officers and warrant officers, Regular and Reserve, male and female, of the Army, Navy, Air Force, Marine Corps, Coast Guard, Coast and Geodetic Survey, and Public Health Service.

Mr. Chairman and members of the committee, the Retired Officers Association is deeply interested in any proposed legislation to improve insurance benefits provided by our Government for members of the armed services of this country. The general interest and concern with the matter is to improve the attainment of a high degree of national defense. Improved insurance benefits of a more equitable nature affect national defense in the enhanced morale of service personnel and their families. Specific interest of the Retired Officers Association in legislation concerning Government insurance lies in the fact that its members are subject to recall to active duty in national emergency or war. The Retired Officers Association had for some time pursued the general subject of Government insurance, pensions, and other service benefits administered by the Veterans' Administration. It was therefore pleased with the recommendation of the Hook Commission which studied and made recommendations concerning pay and allied matters. Among the recommendations which were made by the Hook Commission was that a direct gratuity be provided in lieu of national service life insurance. This recommendation was not included in the Career Compensation Act. Our association was therefore pleased when the problem of Government life insurance laws and their administration was made the subject of investigation and study by a special committee, commonly known as the Hardy Committee.

The association followed with great interest the hearings before this subcommittee of the Committee on Expenditures in the Executive Departments of the House of Representatives held in May of 1950, and the report made by the full committee, H. R. No. 2761 of July 31, 1950. Our association has studied and considered the above-mentioned printed hearings and committee report, together with the

findings and recommendations made in the report. It was therefore pleased to note the introduction in August of bills in the Congress containing proposals to provide automatic gratuitous indemnity to survivors of members of the Armed Forces who die in action, and the other corollary provisions of the bills affecting present holders of Government and national service life insurance policies.

The Retired Officers Association heartily advocates and supports the general principles of an automatic gratuitous indemnity to survivors of all servicemen who die on active duty. The above-mentioned hearings indicated that in many respects the existing national service life insurance provided for servicemen was not satisfactory for various reasons. Among these reasons are (1) the failure to provide uniform and equal protection in the form of income for dependents of deceased service personnel; (2) the many inequities which have resulted for causes and reasons often beyond the control of the servicemen or the administering agencies; and (3) the inevitable deterioration in morale in the services themselves resulting from such inequities is highly detrimental to efficient national defense or to the conduct of war.

Further reasons for classifying the existing service insurance laws as unsatisfactory are the apparently excessive cost and the complicated administration, and the unavailability of manpower to administer such laws in time of emergency. It is needless to attempt to search for all of the causes of these unsatisfactory conditions, whether they resulted from the attitude of the serviceman himself, his indifference, his personal disbelief in insurance or lack of desire to have its cost deducted from his pay, or whether it resulted from administrative failure in certain areas or localities or services. The fact that the result was not satisfactory is the main point.

Our association believes the bill H. R. 1, as introduced in the Eighty-second Congress and as reported out with amendments on January 17, to be a distinct improvement over the now existing laws providing insurance for servicemen. It embodies provisions giving uniform coverage from the time of induction to a reasonable time after separation from the service and continuance in force during a period of total permanent disability after separation, an opportunity to continue or renew such indemnity if otherwise uninsurable, and revised provisions particularly applicable to retired officers who are returned to active duty, against impairment of any benefits extended under present Government or national service life insurance with possible benefits under the gratuitous indemnity provisions.

It seems obvious that such an insurance program as is proposed in the bill would be more workable and equitable than the present method of offering and providing insurance for servicemen and there is strong evidence that it would be less costly to them and to the general taxpayer. It is firmly believed that the new principles of gratuitous indemnity will improve the morale of both the Regular Forces and the large numbers now being taken and about to be taken into the various civilian components of the Armed Forces. A major administrative problem will be solved and the services of important numbers of people in the military services will be saved for more important phases of training for defense.

It is the opinion of the Retired Officers Association that the bill H. R. 1 as reported with amendments on January 17, 1951, is a more

complete and satisfactory form for a serviceman's indemnity act than the bills S. 304 or S. 506. Our association therefore recommends such prompt action on this matter as will permit of sound consideration of the new insurance principles involved. It is sure that this committee is equally aware of the importance of finding a final solution to the problem at as early a date as possible. In view of this situation it is our opinion that early enactment of a serviceman's indemnity act in its entirety would obviate the necessity of considering or enacting the bill S. 84 which apparently is designed merely as a stopgap for persons in active service until a more comprehensive and complete program can be agreed upon.

In conclusion I wish to thank the committee for affording this opportunity to the Retired Officers Association to submit its views on this important subject.

The CHAIRMAN. We thank you very much, Admiral. Are there any questions, Senator Butler?

Senator BUTLER. No.

The CHAIRMAN. If there are no questions, we thank you and we appreciate your appearance, sir.

Admiral HAMLET. It is a pleasure to come, sir, thank you.

The CHAIRMAN. Mr. Ralph R. Lounsbury is our next witness. Will you come up, sir, and be seated if you wish. Is anyone appearing with you?

Mr. LOUNSBURY. No, sir.

The CHAIRMAN. All right, proceed.

STATEMENT OF RALPH R. LOUNSBURY, CHAIRMAN OF THE JOINT NATIONAL SERVICE LIFE INSURANCE COMMITTEE OF THE AMERICAN LIFE CONVENTION OF CHICAGO, AND THE LIFE INSURANCE ASSOCIATION OF AMERICA OF NEW YORK, ASSOCIATIONS OF LEGAL RESERVE LIFE INSURANCE COMPANIES

Mr. LOUNSBURY. Mr. Chairman, my name is Ralph R. Lounsbury. I am president of the Bankers National Life Insurance Co., Montclair, N. J., but I appear here as chairman of the Joint National Service Life Insurance Committee of the American Life Convention of Chicago, and the Life Insurance Association of America of New York, associations of legal reserve life insurance companies.

The American Life Convention and the Life Insurance Association of America have a combined membership of 226 life insurance companies representing approximately 96 percent of the legal reserve life insurance in force in the United States. The Joint Committee on National Service Life Insurance of these organizations was appointed for the purpose of studying the criticisms of national service life insurance and the remedial legislation that has been proposed. The membership of the committee is comprised of company officials, some of whom are actuaries.

The life insurance companies are eager to cooperate with your committee in your consideration of the proposals before you. We stand ready to furnish you with any assistance that is within our power to provide. And we deeply appreciate the opportunity given us to appear before you in connection with this very important subject.

We wish to make it abundantly clear that the life insurance companies fully recognize the need for a Government program which will provide a measure of protection to the dependents of servicemen while on active duty in the Armed Forces of our country in time of war, or who lose their normal insurability while in such service. The life insurance companies commonly issue complete coverage on servicemen during peacetime and even in wartime are in a position to offer insurance on a part of the risk, that is, the normal hazards as distinguished from the abnormal hazards of service in time of war. When the prospects of abnormal hazards of war become too great the private companies cannot issue new insurance to include these hazards without charging premium rates which are so high that few servicemen could afford to buy the protection. It is obvious that when the Government undertakes to insure these hazardous risks at rates based on normal hazards, the excess mortality cost is borne by the taxpayers, as we believe it should be. To the extent that the Government insures the normal hazards Government furnishes coverage which is readily available from private insurers. We recognize however that during the period of active service while the Nation is at war or in a national emergency, it is not practical to limit the Government coverage to death resulting from only the abnormal hazards.

The conclusions of our committee which I am about to present to your committee have had the approval of the governing bodies of both organizations. In commenting on the proposals under consideration, we would like to call attention to our firm conviction that to the extent practicable the Government should not duplicate facilities or compete with private insurers in those areas of coverage which can be serviced by private insurance companies.

On S. 84: The life insurance companies have not taken a position with respect to this bill, but the national service life insurance committee of the two life insurance company associations has reviewed it and believes that the principle of providing automatic coverage for men in active service or reporting for such active service on or after June 27, 1950, and during a reasonable period after the enactment of the bill, is sound and would assure that no serviceman would be deprived of coverage because of failure to make timely application. It is assumed that the automatic coverage provided by the bill would expire 120 days after the date of enactment of the act and that death thereafter would not be covered, unless the serviceman had applied for national service life insurance and had otherwise met the requirements of the National Service Life Insurance Act. In this connection the words, "while in such service" appearing in line 7 of the bill might be subject to a broader interpretation than is intended so as to grant protection even beyond the period specified in the bill.

There is some question in our minds as to whether the bill contemplates that the period of automatic coverage will terminate if and when the serviceman actually applies for national service life insurance, or whether in the event of such an application the resulting national service life insurance would be effective immediately, or whether it would become effective when the automatic protection expires. Since it appears that the automatic protection will be granted without premium charge, the simplest solution would be to issue any

national service life insurance applied for with an effective date to coincide with the expiration of 120 days after the date of enactment of the act.

S. 304 and S. 506, providing for gratuitous indemnity: The idea of granting a uniform gratuitous indemnity to those in active service has provoked much discussion among insurance people. Some arguments in favor of such a proposal are quite persuasive. It is generally believed that the elimination of premium payments would result in a substantial reduction in administrative costs. The simplicity of the proposal has prompted many to contend that the administrative costs would be limited to the expense of drawing checks on the Treasury.

Others point out, however, that even under the gratuitous indemnity proposal there would still be administrative costs both in the responsible administrative agency and in the Armed Forces. For example, keeping a record of original beneficiary designations and subsequent changes, determination of eligibility when claims are incurred and other correspondence would not be eliminated. On the other hand, the keeping of records by the Armed Forces would be substantially reduced. But even in this area it should be recognized that there would be some paper work and certainly manpower hours would be consumed in explaining the terms and provisions of the indemnity and helping servicemen to file beneficiary designations. Taking everything into consideration, the gratuitous indemnity proposal would satisfy any demand for uniform benefits about which we shall comment latter, and would probably produce substantial reductions in administrative costs that would be some offset to the increased total benefits that a uniform indemnity would create.

If I may interpolate here for a moment, I heard Mr. Breining quoted a good many times on this subject of being unable to carry national service life insurance through another emergency. I suspect, through many conversations I have had with him, that he is being a little misquoted and misinterpreted, and I suggest you may consult with Mr. Breining as to what he meant by the statements quoted.

The CHAIRMAN. Thank you.

Mr. LOUNSBURY. Those who have misgivings in reference to the gratuitous indemnity proposals point out that it would not be contractual and hence over a period of years might lack stability. Any tendency toward frequent changes in benefits might tend to create inequities among those who die at different periods under the indemnity proposal and additional inequities between those under the indemnity proposal and those already having contractual benefits of USGLI and NSLI. It is also contended that the plan would superimpose another system of Government benefits on top of social security, survivors' compensation, USGLI, and NSLI, and new inconsistencies might be introduced. Survivor compensation payments, which are also gratuitous, are not continued if the widow remarries, are only paid to children under age 21 and to father or mother, only if they are dependent. These limitations are more restrictive than is contemplated under the proposed gratuitous indemnity proposal, which provides that the gratuity payments will be made to beneficiaries designated within a class. For example, under S. 304 and S. 506, parents and brothers and sisters may be designated to re-

ceive payments even though not dependents. A remarried widow, or a child over age 21, would be entitled to receive death gratuity payments, but would be disqualified to receive survivorship compensation benefits. There is also concern in some quarters that the adoption of the gratuitous indemnity would not preclude the addition, at some future date, of still another insurance system, thus further complicating the over-all system of benefits.

There is not complete agreement on the question of uniform benefits, although in time of war when a large percentage of the death benefits are paid out of general revenues, many observers find it difficult to defend the present system which leaves the amount of the benefit in the event of death dependent upon a previous decision of the serviceman himself. Those who oppose the involuntary method inherent in the gratuitous indemnity approach point out that other gratuities paid by the Government on account of death in active service are not uniform, that every serviceman does not need the maximum life insurance coverage available, and that the original aim of national service life insurance was not to provide an indemnity in every case, but rather to offer the serviceman an opportunity to protect his dependents and his insurability while in the service to an extent determined by himself, up to a maximum of \$10,000.

The opponents of the gratuitous indemnity proposal fear that once established it would be difficult to carry out the proposed termination of gratuitous benefits at the end of a war when mass demobilization is in process. Even if the intention to terminate gratuitous benefits were adhered to, there might be a strong temptation to amend the law to provide that every veteran has the right to take a policy under the National Service Life Insurance Act whether his insurability had been impaired by his service or not. The pending bills provide that a holder of a United States Government life insurance or national service life insurance policy may obtain the gratuitous indemnity coverage by dropping his policy and later reinstating it following release from active service. This right conceivably might arouse protests from insurable servicemen who never held a USLGI or NSLI policy and hence were denied the right to take out a Government policy when they retired from active service. This inconsistency in treatment might be urged as a basis for liberalizing the law so as to permit all servicemen to take out a Government policy upon release from service. If this should happen, the Government will fail to discontinue the load of administrative costs attendant upon the wholesale right of veterans to continue Government insurance. The end result of tampering with the termination provision can only be surmised. The members of your committee are in a better position to judge these possibilities than we are.

Senate bills 304 and 506 have also been examined by our committee from the technical standpoint and we offer the following observations:

(a) Section 5 of each bill sets forth the right of a serviceman insured under national service life insurance or United States Government life insurance to surrender his policy and after separation from active service apply for reinstatement thereof. This privilege is restricted, however, to policies issued under a permanent plan. Many servicemen may not wish to abandon their national service life insurance term policies if they are not assured that they may reinstate them following separation from active service. To preserve the privileges

granted under section 5 they could nevertheless convert their term policies to permanent-plan policies. Since they could obtain the benefit of section 5 through this indirect method, it would seem advisable to expand section 5 so as to permit the reinstatement of a lapsed term policy following separation from active service.

H. R. 1 which was reported with amendments on January 17, 1951, by the Committee on Veterans' Affairs of the House includes a provision which permits reinstatement of a national service life insurance or United States Government life term policy, the term of which expires while the serviceman is in active service, but evidence of insurability must be furnished. We doubt whether this amendment squarely meets the question we have raised since the reinstatement privilege is conditioned upon the furnishing of evidence of good health satisfactory to the administrator, and seems limited to the situation where the term policy expires during active service. A veteran who dropped his term insurance and later became uninsurable would be deprived of reinstating his term policy. In such an event, he would only have the right to have nonparticipating Government insurance issued to him. This might mean the loss of disability waiver of premium benefits for both service-connected and nonconnected total and permanent disability. His rights would be restricted to those contained in H. R. 1. Upon release from service in noninsurable condition, the veteran would only be entitled to nonparticipating Government insurance with disability coverage only for service-connected disability. These inconsistencies in treatment between permanent and term policyholders emphasize the difficulties attending an integration of existing systems with the proposed gratuitous indemnity.

(b) A serviceman who surrendered a permanent-plan policy of national service life insurance or United States Government life insurance can upon application in writing within 90 days after separation from active service (1) be granted a new policy on the same plan or (2) have the original policy reinstated without medical examination upon payment of the required reserve and the premium for the current month. To make clear the terms on which these transactions would be carried out, it should be specified that in the case of (1) the new policy granted would be at a premium rate for the attained age, whereas in the case of (2) the original policy reinstated would be at a premium rate for the age at issue of the original policy.

(c) Section 10 provides that a serviceman who upon release from active service is found to be suffering from a disability or disabilities for which compensation would be payable if 10 percent or more in degree, which renders such person uninsurable at standard rates for ordinary life insurance according to the underwriting practices of nongovernmental insurers, shall be granted nonparticipating insurance provided application is made within 1 year from the date of release from active service. H. R. 1 as amended contains the same right except there is no requirement that the application be made within 1 year from the date of release from active service. The 1-year requirement in S. 304 and S. 506 may create hardship, for example, where due to mental disability application is not filed within the required period.

On the other hand the unlimited provision of H. R. 1 as amended would open the door to applications for such nonparticipating insurance for years after release from active service. Since the life insurance companies firmly believe that the privilege granted in section 10 should apply only when the serviceman is unable to obtain standard insurance from private companies, we feel that there should be some time limit on the right to exercise the privilege. The test should be whether at the time of release from service the serviceman can obtain a standard policy from a private company. H. R. 1 as now worded would seem to grant Government life insurance whenever a service-connected disability and noninsurability is established, even though following release from service the veteran obtained or was able to obtain standard insurance from a private company.

Recommendation with respect to rights upon discharge from service: While the insurance companies are of more than one mind on some aspects of the proposed legislation, there is complete unanimity on one point in connection with Government life insurance or gratuitous indemnity. We firmly believe that the Government should not provide life insurance coverage for a discharged serviceman whose physical insurability has not been impaired while in service.

Senator CONNALLY. Is that because you represent the insurance companies and do not want that competition?

Mr. LOUNSBURY. Well, Senator, I really think that the Government ought not be in competition with private business where private business is able to furnish service on a good basis, competitive basis.

Senator CONNALLY. All right. I thought that was your answer.

Mr. LOUNSBURY. Private insurance companies are in a position to meet all of the insurance requirements of these men. Government insurance for these veterans can only be justified as a device for granting a subsidy in the cost of his life insurance. We offer no opinion as to the desirability of granting financial recognition to veterans. But we submit that it is abundantly clear that the granting of such recognition should not involve the establishment of a huge Government life insurance business, with the excessive administrative costs being paid out of public funds.

The studies that have been made with respect to national service life insurance prove beyond question that the present right to take out Government insurance upon discharge from service has produced many problems and has benefited only a small percentage of the veterans. The tremendous reduction in national service life insurance in force following World War II suggests that most veterans feel, as we do, that their insurance needs can be better served by private companies. The persons now covered by NSLI include an estimated million and a half men now in service, and the veterans who are uninsurable as well as those who chose voluntarily to continue national service life insurance protection. With respect to this latter group, no small measure of the result can be attributed to the efforts of the life insurance agents throughout the country who did everything they could to encourage veterans to continue their national service life insurance coverage. Without this voluntary service on the part of the

agents the insurance in force today would undoubtedly be substantially less.

Notwithstanding the generous subsidies involved in the national service life-insurance system, the vast majority of veterans have discontinued their national life insurance. And it seems obvious to us that if the cost of administration of a Government mutual life insurance system were borne by the policyholders a veteran would be ill-advised to choose Government coverage in preference to private life insurance with its greatly superior service. A Government insurance system offering insurance to insurable veterans duplicates and competes with private life insurance. From the standpoint of the Government, it multiplies and projects into the future the high administrative costs which have been so amply established by the recent studies. It defeats the primary objective of reducing the administrative expenses now being borne by the taxpayer, without benefitting any large proportion of the veterans who have been discharged from service.

We recognize with respect to these veterans who have become impaired physically while in service and have thereby lost their normal insurability, that it is the duty of the Government to permit them to apply for and obtain insurance without penalty for the impairment incurred. Any excess mortality arising in this group should be paid for out of general revenues. But with respect to the other veterans, we strongly urge that under any plan adopted the Government function cease when they leave service. The adoption of such a recommendation would be a long step toward simplifying one of the most difficult problems now before your committee, the maintenance of equity between existing national service life-insurance policyholders and future policyholders. If insurable veterans, upon discharge from service, buy private insurance instead of taking out Government insurance, the problem of equity will be limited almost entirely to the rights of men who are in active service.

Any objective study of the USGLI and NSLI systems will demonstrate that many of the present difficulties have resulted from the Government covering insurable risks after discharge. The time has come when this unnecessary Government activity should be discontinued. This recommendation applies regardless of whether national service life insurance is continued or whether the gratuity indemnity proposal pending before your committee is adopted.

As presented, S. 304, S. 506, and H. R. 1 provide for a discontinuance of the gratuity shortly after the cessation of active service and contain no provision giving the veteran the right to replace the gratuity with Government life insurance unless he is uninsurable or had such insurance previously. This makes the bills conform to the principle which we endorse as indicated herein. We emphasize the principle of no continuation of the gratuity, or insurance in lieu thereof, after service terminates for those who leave the service with their insurability unimpaired by such service because an amendment may be offered to add such a privilege. The life insurance companies wish to be on record as opposing any such amendment.

The CHAIRMAN. Are there any questions by members of the committee? If not, we thank you very much, sir.

Mr. LOUNSBURY. Thank you, gentlemen.

The CHAIRMAN. Mr. Gordon McKinney, come forward, please, and you may be seated if you wish.

STATEMENT OF GORDON MCKINNEY, ACTUARY OF THE NATIONAL ASSOCIATION OF LIFE UNDERWRITERS

The CHAIRMAN. Mr. McKinney, you are appearing in behalf of the National Association of Life Underwriters?

Mr. MCKINNEY. I am, sir.

The CHAIRMAN. You may proceed.

Mr. MCKINNEY. My name is Gordon McKinney and I am actuary of the National Association of Life Underwriters. I have been very vitally interested in this subject for some time. As a matter of fact, I was the only witness outside of the Government agencies called to appear before the Government Operations Committee last year.

As I stated, I am appearing on behalf of the National Association of Life Underwriters, a Nation-wide professional association of life insurance field men, with more than 54,000 members.

Our association would like to express its appreciation to your committee for the promptness with which you are holding hearings on this bill and also to thank you for the privilege of appearing.

As life-insurance agents, general agents, and managers, our members have been very closely associated with national service life insurance. In 1945 we cooperated with the Veterans' Administration and held more than 400 seminars throughout the United States to familiarize our members with the rights of returning veterans. Since then our members have been responsible for reinstating and converting billions of dollars of NSLI and, in addition, have assisted widows and dependents of servicemen, who defended us with their lives, in obtaining their benefits under NSLI. We feel our members are well qualified to comment on NSLI in action.

Proper approach: One of the greatest temptations which faces any group when commenting on proposed or existing legislation is the temptation to advocate their own selfish interest. From our members' viewpoint it is hard to determine whether NSLI has been good or bad. True, they have reinstated and converted tremendous amounts of NSLI at the sacrifice of a sale and for no remuneration. On the other hand, this service has created untold good will, developed many permanent clients, and has led to many preferred leads and prospects.

We would assure you that this testimony will be based on established facts. We realize that our democratic way of life is facing an all-out struggle for survival. The surest way for the free world to lose that challenge is for various countries or for groups within one country to press solely for their own advantage. On a subject so vital to our servicemen and veterans the only proper approach is, What is the Government's obligation to our servicemen and veterans and how best can that obligation be met in the interest of those servicemen, veterans, and the country as a whole?

Before considering the above bills it would seem wise to present, as a background, a summary of existing survivor benefits for servicemen. We would refer you to material developed by the Bureau of the Budget (see House Committee Print No. 299, pp. 20-26). A copy of this material is attached hereto. Under the heading "Exist-

ing programs providing economic protection to survivors of servicemen," it summarizes the benefits under military death gratuities, veterans' compensation benefits, NSLI, and old-age and survivors insurance. The commuted value of these benefits at the date of death of the servicemen is shown below.

	<i>Commuted value at date of death of servicemen</i>
For widow age 28, no children.....	\$40,150-\$46,300
For widow age 28, 1 child, age 5.....	56,540- 62,000
For widow age 28, 3 children, ages 1, 5, and 7.....	73,850- 80,000
For dependent mother age 60.....	26,450- 32,000
For dependent father age 65, and mother age 60.....	36,550- 42,700

These figures are significant. They are indicative of the benefits now available to survivors of servicemen.

Facts about NSLI: The problem facing your committee is a simple one to express, Should NSLI be replaced by a gratuitous indemnity program? In this connection, we would like to summarize some of the pertinent facts developed before various committees of the House last year.

1. NSLI was in effect a gratuitous program. Notwithstanding the fact that NSLI charged premiums, paid dividends, and generally copied the approach of commercial-insurance companies, its results were more gratuitous than insurance protection. In the years 1940 to 1945, 418,776 of the 470,433 total death claims—i. e., 89 percent of the death claims—were held traceable to extra hazard and were paid for by the Government, not the NSLI fund. In spite of this, NSLI did not provide uniform coverage. Ten percent of the casualties were not covered and their dependents received no benefits. Only 56 percent of those owning NSLI had the full \$10,000 of protection.

2. NSLI was discriminatory. World War II proved that officers could afford NSLI and that many enlisted men could not. A sampling of four casualty lists showed 22 percent of the GI's and 7 percent of the officers without NSLI. The officers in practically all cases had \$10,000 and the GI's had an average of \$5,900. That is, NSLI by being dependent on willingness and ability to pay, in fact discriminated against the GI's even though all war claims were paid as a gift from the Treasury.

3. NSLI and veterans. Only 1 in 6 veterans retained their NSLI in 1949. The startling development, however, was that, in the words of Mr. Breining, of the Veterans' Administration, only those in the more affluent class retained their NSLI. In other words, the executive and professional group kept NSLI while those in the lower-income brackets, who needed this cheap protection, retained a woefully small amount. In effect, therefore, the tremendous cost to the taxpayer of extending NSLI has benefited the better-income groups and not a cross section of the veterans as a whole.

4. Aviation cadets. The aviation cadet story is an interesting sidelight. Congress, feeling that aviation training was a dangerous occupation, passed a special act granting all aviation cadets \$10,000 NSLI, the premium to be paid by the Government. However, if a cadet died in training, his claim was quite properly held to be due to an extra hazard cause and was paid for by the Government. In turn,

when the NSLI dividends fell due, the dividends were held payable to the cadets. In brief, the Government paid the premiums, the Government paid the claims, and the cadets received the dividends. It is interesting to note that if the cadets had been granted a gratuitous indemnity of \$10,000, the Government could have saved 40 percent of its cost.

5. Administrative expenses. Based on work completed by the Bureau of the Budget, an estimate of the administrative expenses involved in NSLI was obtained for the first time since the law was enacted. This estimate indicated more than \$80,000,000 of expenses in various Government agencies for fiscal year 1950. This estimate did not include all governmental costs. Some of the expenses excluded were the costs of the Army and Navy. These were placed at around \$4,000,000, involving 11,000 personnel. If I might correct the Congressman's statement this morning to the committee, I believe that he said 7,000 or 8,000 servicemen were involved in 1945—actually, going back over the hearings before the Government Operations Subcommittee, that figure was for the Armed Forces and not for the Navy, and in the Navy's testimony, they said their personnel would correspond proportionately to the Army. Applying that approach, Mr. John Q. Public indicated that the 11,000 servicemen involved in 1945 thought that \$25,000,000 was going into the war effort while actually it was going into national service life insurance. The 11,000 personnel in the services were involved in the national service life insurance, the equal of a division of troops. Considering the whole picture, we concur with the statement of the Government Operations Subcommittee which indicated that the administrative expenses in fiscal 1950 were at least double the \$45,000,000 figure appearing in the Federal budget.

6. Manpower and administrative difficulties. Personally, we agree with Mr. Breining's statement when, on May 27, 1950, he emphasized the tremendous administrative problems faced by the Veterans' Administration. Over a 5-year period, the Veterans' Administration found itself handling over \$121,000,000,000 of NSLI. This volume of business was more than four times the size of the largest life insurance company at that time. This workload was piled on the Veterans' Administration during a period when there was a shortage of manpower (particularly qualified manpower), supplies, space, and many other essentials. NALU's compliments go to Mr. Breining and the Veterans' Administration for the enormous job they handled. The surprising fact is that they did as well as they did. In view of these circumstances, however, we must take Mr. Breining's statement seriously. He stated that from an administrative—i. e., manpower, supplies, etc.—viewpoint, NSLI could not meet another emergency.

And on that point, Senators, if I might digress, the last witness raised some question as to whether Mr. Breining meant that statement or not. I just happen to have with me some extracts of hearings on May 25, 1950, and if you would like them filed, I would be glad to submit them. They speak for themselves.

The CHAIRMAN. Yes, you may file it for the record.

Mr. MCKINNEY. Thank you.

(The extracts referred to are as follows:)

EXTRACTS FROM HEARINGS BEFORE THE COMMITTEE ON EXPENDITURES, SUBCOMMITTEE ON GOVERNMENT OPERATIONS, THURSDAY, MAY 25, 1950

Mr. HARDY. Mr. Breining, we are proceeding toward the close of these hearings. I wonder if you have any specific suggestions concerning any legislative changes which may be needed to bring about real efficiency either with respect to this program or with respect to any future program.

Mr. BREINING. I would not be in a position to make any observations on that because I have not discussed it with the Administrator, first, and second, it is the Administrator's policy to not make recommendations to the Congress in connection with legislation.

Mr. HARDY. I take it from that then that he is pretty well satisfied and you are pretty well satisfied with the authority you already have under the act and you do not think that any changes are needed?

Mr. BREINING. I do not think, if the present system of insurance is to be continued, that there needs to be any changes.

Mr. HARDY. Of course you are aware, Mr. Breining, that as the chief administrative officer in the Government of the national service life insurance program you are in a better position to see the deficiencies in legislation than any other person. I think you recognize that?

Mr. BREINING. I thought so before I came before the committee.

Mr. HARDY. I am asking you for an expression on specific deficiencies which you have observed in legislation.

Mr. BREINING. Personally?

Mr. HARDY. That is right.

Mr. BREINING. Mr. Chairman, if I understand you correctly, I would have to have a little time to rather explore the subject. But to think out loud right now, necessarily I have thought a great deal of this. I have thought of alternate systems. I recognize that whether it is a billion dollars or whether it is \$800,000,000 that it is going to cost in the next 10 years, or \$600,000,000 or \$400,000,000, it is a lot of money. In any event, without regard to the accuracy of the Administrator's figures that have been submitted, it is a costly program administratively. I think there is no question about that.

In time of emergency I think the manpower to operate an insurance system, projecting in the future, would probably not be available. I am thinking of an insurance system of this character. I base that on the difficulties that we had in connection with the operation of the insurance program during the last war. Many of our difficulties, even up to today, were due to lack of personnel, space, and equipment.

Mr. HARDY. Now you are talking about lack of personnel.

Mr. BREINING. I am thinking now in terms of emergency. During the period of emergency when manpower was of the essence almost to the successful prosecution of any effort I do not think that the present type of system could be operated any more satisfactorily than it was during the last emergency, and I doubt if as satisfactorily because probably the next emergency that we get into, and God forbid it, it will require greater mobilization of manpower.

Therefore, you get around to the proposition of, should there be a free insurance system, assuming that we conclude that contributory system such as we have now is not practical during a period of emergency? Whether you call it insurance—and unfortunately insurance is a word that is much misused—pensions, all compensation, anything in the nature of a gratuity partakes of the substance of a pension.

We have presently on our statute books a provision for the payment to dependents of persons dying in the Armed Forces in line of duty which you could denominate insurance if you wanted to broaden the word but which I think is really a gratuity, and it has been so held by the courts although I am not thinking of it in legal terms.

Now, if you have an administrative system which provides for adjudication of the rights of a beneficiary to a gratuity, from the United States in the event of the death of a person upon whom they are dependent, why have another system to pay another gratuity? If the pensions are inadequate, then your pensions should be altered. If you believe there should be some extra settlement at the time of death, similar to what is generally known in the insurance business as a clean-up policy, then you might through your system of pensions make a payment of a certain sum immediately upon death: maybe for the ensuing 5 months larger

payments than you would ordinarily make in the ordinary pension system and thereafter revert to the regular pension payments.

Mr. HARDY. You are thinking in terms of a system which might be employed in the event of another war?

Mr. BREINING. Yes, sir; that is what I am thinking in terms of.

Mr. HARDY. You are thinking that in the event we have another war we would not be able to use the present NSLI legislation?

Mr. BREINING. I think from a manpower standpoint it would not be satisfactory. (Mr. Breining explained the difficulty of obtaining manpower in World War II.) I cannot see a better situation in the next war.

Mr. HARDY. You think it is likely to be worse?

Mr. BREINING. It is likely to be worse and I do not think we ought to repeat the experience that we had in this last war.

Mr. BURNSIDE. In the light of this statement you have just made, and I think it is a very good picture of what is liable to happen, would it not have been much better for all parties concerned, and certainly much better for this one-ninth that was not covered, if we had had automatic insurance coverage for every person in the service and taken the fund out for the coverage for everyone and then we would not have had this one-ninth of people (without insurance), the worst risks, the ones you have had the most trouble with, their families, and so forth. Would it not have been better to have had uniform coverage for everyone?

Mr. BREINING. I think if you are going to give a gratuity it is wasteful administratively to have several systems. I think if you are going to have a gratuity, let us give it as a pension or compensation or whatever you want to call it. Let us have one qualification for it. Let us have one adjudication for it and not have the situation, assuming that we did have free insurance during the last war, where you would have a system set up for the adjudication of pension claims, another set-up for the adjudication of \$10,000 free insurance, and then you would have another one where you give 6 months' pay to the person. You have really three, what I would call, gratuities.

It would seem to me that the thing administratively to do is to determine what you want as a matter of policy, what you want to give, and parcel them all in one and have just one administrative set-up to dispense that gratuity.

Mr. BURNSIDE. Could we not have the same insurance system that we had and cover everyone?

Mr. BREINING. I do not think so because the present one is contributory.

Mr. BURNSIDE. Could we not have everyone contribute and set it up the same way?

Mr. BREINING. I doubt it. I doubt whether even the Congress could compel a man to enter into such a contract as we have now. They could certainly reduce the man's pay by \$6 or \$8 and say, "We are going to give you \$10,000 insurance."

Mr. HARDY. We might increase his pay enough to take care of it.

Mr. BREINING. I do not think it should be paid as a consideration on the part of the man for the contract. If it is going to be given, it ought to be given.

Mr. BOLTON. It could be worked that way, actually give them the insurance.

Mr. BREINING. There is no question about it. I would not call it insurance. I would not have this thing. I would just simply ask, what does Congress want to do for these beneficiaries? What does Congress want to do for the man himself if he is disabled? And give it to them in one package. I would have one administrative organization.

Mr. BOLTON. Would that be your recommendation in case we had to do it?

Mr. BREINING. That would be my personal opinion.

Mr. HARDY. It would be a whole lot less costly than trying to pursue it through this other machinery anyway?

Mr. BREINING. Yes; it would save the cost of the various administrative set-ups.

Mr. HARDY. Aside from your manpower problem?

Mr. BREINING. Yes.

Mr. DORSEY. Is there not another advantage, Mr. Breining? Under the present law each policy holder has a contract and not even the Congress or anyone else can violate that contract; it is guaranteed. However, if it were on a gratuitous basis, the Congress could from time to time revise what they would give either upward or downward under certain circumstances, and the decision of the Administrator could be final. Is that correct?

Mr. BREINING. I think from a legal standpoint, to which I think the counsel was addressing himself, undoubtedly if it were in the form of a gratuity Congress

could do anything it wished with it. Congress would then maintain complete control at all times over the situation, and from a legal standpoint I think it would be absolutely sound.

As a matter of fact, in the so-called economy bill of 1933 that very thing was done, and although the repeal of war-risk insurance was challenged in the courts, and the Supreme Court in the Lynch-Wilmer decision did set aside the legislation, there was no challenge, no question that Congress as far as the gratuity is concerned can give it or withdraw it.

Mr. HARDY. You made some mention awhile ago about this discussion of yours being related to a future emergency in which we might find ourselves. Do you feel that we need a peacetime insurance program for men in the military? Commercial companies write policies without any war-risk clauses.

Mr. BREINING. I really think this is a matter of policy. It is whether or not the Congress wants to have an insurance program or whether they want to give a gratuity.

Mr. HARDY. Do you see any real need for it? I am not trying to get a policy expression from you on it. My question is this: If the commercial insurance companies provide policies without war-risk clauses, what could be the essential justification for a governmental insurance program?

Mr. BREINING. I think that personally it is much more effective if Congress would give any gratuities directly rather than through any secondary instrumentality so that Congress could maintain complete control of them and avoid any contractual relationship.

Mr. HARDY. Except with respect to persons who may have lost insurability because of war service, is it not true that the only other factor that has any considerable merit would be the factor of reduced premium?

Mr. BREINING. Of course the real reduction in premium there would simply represent itself in the administrative cost that the Government would be bearing.

Mr. HARDY. That is exactly my point. If the Government bears administrative cost, it would reflect itself in reduced cost to the insured. Is that about not the only factor?

Mr. BREINING. That is about the only factor I can see.

Mr. BOLTON. Do you think the Government should continue maintaining the administrative cost in peacetime?

Mr. BREINING. As to policies outstanding I think that is a contractual obligation of the Government which it cannot avoid. Now as to any future policies, of course Congress can lay down any equitable principles which it so desires.

Mr. BOLTON. I notice most of the information directed to the payment you are making to these veterans mentions a dividend. Now has there ever been any statement made to these veterans how these dividends were accumulated? I mean it in this way: Apparently these dividends resulted from a subsidy by the Government.

Mr. BREINING. I would not say that those dividends in any way represent a subsidy although I might have persons take other views.

Mr. BOLTON. They were not dividends in the normal sense of dividends of life-insurance companies.

Mr. BREINING. I think they were exactly dividends in the normal sense in that they were surplus.

Mr. BOLTON. Do you mean to tell me that you regard these dividends in the same sense in which commercial life-insurance companies regard their dividends? In other words, do you think they come from the same source?

Mr. BREINING. Yes, exactly.

Mr. BOLTON. Now the commercial life-insurance companies of course maintain their own administrative costs; is that correct?

Mr. BREINING. That is true.

Mr. BOLTON. They meet all obligations with reference to their insurance policies in case of death; is that correct?

Mr. BREINING. That is true.

Mr. BOLTON. The Government guarantees a return of 3 percent on the investment?

Mr. BREINING. Yes.

Mr. BOLTON. Notwithstanding all these Government benefits—I put them benefits—and add to that the payment of the administrative costs, you regard these dividends in the same sense as dividends by an ordinary life-insurance company?

Mr. BREINING. Yes, but I think you have to consider that the Government does bear the administrative expenses. I think it is unfair to the insurance companies to compare our dividends with theirs for that reason.

Mr. BOLTON. That is exactly the point I am making.

Mr. BREINING. They are both dividends but I do not think it is fair to the insurance companies to compare this insurance with their insurance.

Mr. BOLTON. That is just the very point I am making.

Mr. BREINING. Because of the fact that the Government does pay administrative costs. They are still dividends but they are not comparable to that extent.

Mr. BOLTON. That is just the point. For instance, back in my territory at least there seems to be a feeling that the insurance companies are overcharging because the policyholders are not receiving the same returns that the insured do under Government insurance. Now you are calling these dividends and the impression back home is that they are dividends. Now do you think it is fair to the commercial insurance companies to allow that impression to exist?

Mr. BREINING. The Veterans' Administration has never given any information out that would foster such an idea.

Mr. BOLTON. Do you not think it is fair in justice to the commercial life-insurance companies to give a brief résumé to these policyholders where this money comes from and how you obtained these dividends?

Mr. BREINING. I think that to give such a résumé is unnecessary and if we gave it in language that we would have to give it in to protect ourselves, I doubt if they would understand it.

Mr. BOLTON. The only thing I wanted to point out is that certainly from the standpoint of efficiency, as brought out here in our study, it would show to my mind that the old-line companies necessarily operate more efficiently than the Government could possibly operate. Because of the fact that these dividends seem to be so large in comparison with dividends from the old-line companies, the reverse impression is getting back to the policyholders.

Mr. BREINING. I think it is an unfair impression to create in the public mind that the companies do operate so much more efficiently than the Veterans' Administration. I think we are operating efficiently.

Mr. BOLTON. Just as efficiently?

Mr. BREINING. I think so under the circumstances.

Mr. BOLTON. You disagree with the Hoover Commission?

Mr. BREINING. I certainly do. I do not think the Hoover Commission is factually sound and certain of its observations regarding relative efficiency.

Mr. BOLTON. If I recall, it takes only 1 man to 1,800 policies to handle 1,800 policies, whereas the Government takes 1 man for every 300 or 400.

Mr. BREINING. They took our force on that and they excluded, as far as I can figure on that, all their agency persons and branch office personnel, and also they did not take into account the fact that we receive six remittances against about two that they receive a year, or the other operations. I think, generally speaking, that the insurance companies operate efficiently and effectively and I have a high regard for those companies but I think that to compare the Veterans' Administration during the time when we were still in a period of emergency and project that into the present time when we have gotten out of that emergency to a very great extent, I think is unfair to the Veterans' Administration.

Mr. HARDY. I think I might make this observation which I believe would be founded on as good a basis as that which was presented to this committee in support of the belief that there should be greater centralization of this Government, that in here and in our system of government is an efficiency or lack of efficiency by comparison with commercial operation. Competition itself forces efficiency in commercial operation which is totally missing from any governmental agency. You do not compete with anybody. So that regardless of the caliber of people that we have, our system does not lend itself to automatic improvement in efficiency, and the extent of efficiency which we achieve is based on the initiative of the people that we have in there who put forth intensive efforts. I think we have done considerably in some agencies of the Government but, God knows, we have a lot to do yet to get on the basis of efficiency which we ought to have. I say that without, at least at present, pointing a finger at any individual.

Mr. BREINING. Mr. Chairman, I did not intend to relate any stigmatizing of the Government life-insurance program to this committee. I did intend to relate it to the widespread dissemination of certain information which at best is stale and it is being published currently in newspapers about this 4 to 1, and all of that. In any event, if it were true in 1948, which I do not think is fair or accurate, we have come so far since then that it is not now true.

(Editorial comment: Earlier testimony indicated that in 1949 one person handled 452 policies as compared with 386 in 1948).

Mr. HARDY. That you have made a lot of improvement I cannot question, but I am forced to the observation that based on the testimony which we received this morning in questioning you, Mr. Breining, in your inability to pro-

vide any figures and your professed ignorance of any breakdown of cost, that such a situation would rarely exist in a commercial organization operated for profit. I think that most of the companies know where their costs are.

Now you may have extenuating circumstances, but the fact that actually you do not know what your costs are, you do not have them for your own benefit in bringing about improvements, in itself is indicative of a situation which is conducive to inefficiency.

Mr. DORSEY. If you had an accounting system you could find out those costs. Is it not the usual practice in business that when an executive wants to know what an item costs the accounting department comes up with?

Mr. BREINING. I would not say that. I do not know of any insurance company that maintains what I would call a cost accounting system.

Mr. BOLTON. They know their over-all costs?

Mr. BREINING. Yes.

Mr. BOLTON. You do not; do you?

Mr. BREINING. No, simply because of the type of our organization. If the insurance organization were by itself, certainly we could give the same costs as private insurance could.

Mr. BOLTON. You do not know what it costs. You have no way of comparing your costs with the cost of commercial life insurance.

Mr. BREINING. No.

Mr. BOLTON. How can you say you are more efficient?

Mr. BREINING. I did not say we were more efficient.

Mr. BOLTON. I do not want to put myself in the position of criticizing anyone in your department. I think you are doing as well as you can under the circumstances, hemmed in by regulations.

Mr. HARDY. I do not believe that.

Mr. BOLTON. Well, I will retract that myself. I mean I am not here to criticize your department or what any individual is doing, or place any stigma on any individual or group of individuals. Personally, I think the Congress is probably more responsible for the situation than anybody else. I think they are more to be criticized than anybody else for the situation that you have to contend with, any legislation certainly should be introduced and passed to take care of many of these conditions.

However, from my personal opinion, I might reserve that for the moment.

Mr. MCKINNEY. 7. *Gratuitous indemnity would have cost less.*—A summary of the facts developed with respect to NSLI would be incomplete without a reference to its cost. Based on various testimony developed by such reputable Government agencies as the Bureau of the Budget and the General Accounting Office, it is apparent that a law, similar to S. 304 and S. 506, in effect from 1940 to 1949, instead of the NSLI Act, would have protected all servicemen uniformly and would have saved the Government many millions of dollars.

NALU'S VIEWS ON S. 304 AND S. 506

In brief, NALU is very cognizant of the defects of the present law, its lack of uniform coverage, its discrimination against GI's, its wastage of manpower and the difficulties which it encounters in time of an emergency. We cannot avoid the current world situation. Without world war III being declared, we are already in another national emergency. NSLI cannot meet another emergency. We would feel much happier if NSLI was already amended to the gratuitous approach.

We note that a number of committees have studied NSLI since 1945. The first was the Penzole committee, headed Colonel Penzole of the Marine Corps. The second was the Hook Commission, which was a civilian group. The Hoover Commission touched on NSLI. Last year the subject was covered, in a month hearing, by the Committee on Expenditures and a 7-day hearing by the Committee on Veterans' Affairs. In each case, the basic recommendation was that NSLI should

be replaced by a gratuitous indemnity which finding was again confirmed by the Committee on Veterans' Affairs and by the House of Representatives by their approval of H. R. 1. It is further noted that President Truman gave his endorsement in his budget message this year.

NALU concurs with the findings of the above groups. We have followed all these hearings and studies with great care. It is our conviction that the gratuitous approach is the only one which will remove the present objections to NSLI and at the same time conserve the Nation's manpower and fiscal cost.

Thus brings us to a consideration of various aspects of S. 304 and S. 506. In this connection, it is recognized that these bills correspond to H. R. 1 and assume that the technical amendments incorporated in H. R. 1 will be added to these bills. We will therefore deal with the more general problems.

1. *Disabled veterans.*—Any bill must treat disabled veterans fairly. S. 304 and S. 506 do this. They would provide such veterans with non-participating NSLI at the current rate of premiums. The premiums will be credited to the Treasury. The Treasury will pay all claims. It will be recognized that, in view of the fact that veterans eligible for this insurance will be substandard risks, the cost of claims to the Government will exceed the premiums collected. This is as it should be. It is also right and proper that the premiums required from such veterans will be slightly less than the cost of such insurance from commercial companies.

2. *Healthy veterans.*—One of the objections we have heard to the gratuitous bill is that it would not permit healthy veterans to retain a Government-subsidized insurance program on leaving the service. Two World Wars have proven that the average healthy veteran is not impressed by the offer of even a highly subsidized program. As stated, only one in six veterans retained their NSLI policies in 1949.

Not more than 1 in 12 or 15 took advantage of the attractive permanent plans offered by converting their NSLI term contracts. This result is even more noteworthy when you remember the campaigns so ably conducted by the Veterans' Administration and the fact that NALU instructed their members and the life-insurance companies instructed their agents that it was their job to encourage and help veterans reinstate and convert their NSLI policies. It seems important to restate that this result was obtained on a highly subsidized scheme, which provided \$10,000 of protection at a cost much lower than veterans could buy protection from commercial companies. In this connection, we would refer to Mr. Breining's statement, "Those who retained NSLI were generally in the more affluent group." Such veterans were those who could afford to buy their own protection and not the men who need the protection the most.

If NSLI is continued for healthy veterans—in view of the above—it seems obvious that such policies should be made to stand on their own feet. In other words, it would seem undemocratic to ask the general taxpayer to continue to subsidize the administrative expenses, the mortality, and the interest on such policies. As such, the new plan would have no competitive advantage over commercial insurance. Insurance agents would no longer feel duty-bound to explain the savings of buying NSLI to their clients. The veteran would no longer buy NSLI due to his personal financial advantage.

There might be some justification for the Government to give the present generous subsidies to a veterans' NSLI program if the program benefited all veterans. As indicated, this is not the case. In view of this, we feel such a subsidy or such an extended insurance program is undemocratic and not justified.

If I might digress off the record, please—

The CHAIRMAN. Off the record.

(Discussion off the record.)

Mr. McKINNEY. 3. *Rights of veterans called back into service.*— This brings us to the problem of the veteran who now owns NSLI and who is called back into the services or of servicemen who already own NSLI. It is NALU's view, as it is the view of all persons either for or against the gratuitous program, that the rights of such men must be fully protected. S. 304 and S. 506 do this.

When a veteran is called back into the services, he will have two options. He can retain his NSLI, in which case the \$10,000 gratuity provided by the proposed bill will be reduced by the amount of NSLI owned. In such cases, the veteran would retain all his rights under NSLI but would, of course, forfeit some or all of the gratuitous protection while in the service.

The other alternative would be for the serviceman or veteran to take the cash surrender value of their NSLI policy and thus make himself entitled to the full \$10,000 gratuity. If this option is chosen, such former NSLI policyholders on leaving the services may reinstate their NSLI by taking a new policy at their attained age or by refunding the cash value received plus any increase in the reserve required and continue the former policy at its original age of issue with no increase in the premiums. In both cases, the veteran or the serviceman now owning NSLI would retain all rights thereunder.

In this connection, we have heard it stated that, if a veteran or serviceman surrenders his NSLI and picks it up at his attained age on leaving the services, the increase in the premium would be prohibitive. In our opinion, such statements are not based on fact.

Servicemen are presently being called into service for 21 months, the current recommendation is to increase this period to 27 months. The following schedule assumes that servicemen will remain in service 3 years and shows the resultant increase in premiums.

Increase in NSLI premium per \$1,000 corresponding to a 3-year increase in age

Type of plan	Present age 20	Present age 30	Present age 40
5-year term.....	\$0 11	\$1 35	\$1. 83
Ordinary life.....	95	1 54	2 81
20-payment life.....	1 07	1 54	2 36
20-year endowment.....	12	36	.95

For example, in age 20 the increase in the 5-year term principal for a \$10,000 policy because of the fact he moved from 20-23 would be \$1.10 per year.

The CHAIRMAN. On a thousand?

Mr. MCKINNEY. On \$10,000.

The CHAIRMAN. On the whole \$10,000.

Mr. MCKINNEY. That is right, it only moves up 11 cents a thousand. Now, let us go to the highest figure, the one that comes in at 40 and increases to 43. The premium increases for the ordinary life plan \$2.84 or on \$10,000, \$28.40. We do not feel that that is prohibitive.

Now, in connection with the Veterans of Foreign Wars, if I might digress with a suggestion, you know, it would be wonderful, really wonderful to our life insurance agents if the Government gave servicemen a grant to cover their age increase when they came out. Our men could take advantage of it. Well, frankly, we do not want it and we think it would be bad—bad for the serviceman and it would be bad for our own agents. It would be a temptation which we do not want any part of. In addition, we think it would add to the administration problem.

COMPARATIVE COST OF NSLI AND GRATUITOUS INDEMNITY

The Comptroller General has estimated that had the gratuitous approach been in effect from 1940 to 1949 the cost to the Government would have been reduced by approximately \$587,000,000. You have heard it stated repeatedly that it is cheaper to give this protection to servicemen than to charge them for it. This statement—on the surface—seems contradictory and might be briefly explained.

1. Administrative expenses: As a first example let us consider the administration involved under NSLI. During the last 10-year period the Veterans' Administration had to set up 26,000,000 individual files. Each file involved a monthly accounting of premiums to say nothing of the individual correspondence files. And in the premium accounting records there would have to be recorded every month in which a premium was paid. If the gratuity indemnity approach had been in effect it would have been unnecessary to keep these premium files, for there would be no premiums to pay. The correspondence files would have been nil. The Armed Forces, when a man came in, would say, "Who is your beneficiary?" and it would be put in the file and there wouldn't be any more. Any changes in beneficiary could be recorded in the Armed Forces and there would be any file in VA. In other words, the only time when it would be necessary to set up a file in the VA would be when a claim occurred. In all there would have been approximately 438,000 such claims. The monthly accounting of premium receipts would have been eliminated. The obvious savings in manpower and expense involved in eliminating 26,000,000 records is apparent.

2. Comparison during war: What would happen in a war period? From 1940 to 1945 89 percent of all claims paid by the NSLI fund were held to be extra hazard claims and were paid for by the Government. In effect, therefore, the expense of maintaining the individual files referred to in the above paragraph was for the purpose of paying only 11 percent of the claims which arose during World War II. Twenty-six million individual records are a lot of records to keep

to pay approximately 50,000 claims. There is no doubt that the \$587,000,000 savings would proportionately represent a considerable understatement of the savings which would be involved during the war period.

3. Comparison in peace: In our opinion the savings would extend into the peace period as well. In 1948, 10,281 NSLI policies terminated by death. Of these only 8,882 were non-extra-hazard deaths. Under S. 304 there would have been no policies on the lives of healthy veterans. In 1949 two-thirds of all policies in force were on the lives of veterans. In other words the claims which the Government would have paid—in addition to the extra-hazard claims they would pay in any case—would have been approximately 3,000. Ten thousand dollars time 3,000 claims amount to \$30,000,000. The administrative expenses in 1949 alone were at least \$90,000,000 (the expense for 1948 are not at hand). When the interest and other subsidies are added it becomes apparent that even in peacetime it is cheaper for the Government to give than to charge for this protection.

NALU'S VIEWS ON S. 84

We have purposely avoided commenting on S. 84 up to this point as every point covered in this bill is included in and, in our opinion, provided for on as good or better a basis in S. 304 and S. 506.

S. 84 would automatically extend \$10,000 of NSLI to all men dying in the services in line of duty since June 27, 1950. This would cover the Ohio train wreck cases and the uninsured deaths in Korea. However, by the terms of the bill, 120 days after the bill becomes law, the same situation will commence all over again.

More important, however, S. 84 represents piecemeal legislation which would only be justified if NSLI was retained as the permanent solution. The Veterans' Affairs Committee in December 1950 considered various possible amendments to the NSLI Act in order to make it work. They discarded that approach. They discovered that the items not corrected were more important than those corrected. An amended NSLI would in no way guarantee uniform coverage for all servicemen. Ten percent of servicemen still will be unprotected. As indicated, the aviation cadet and administrative cost problems would by no means be solved. Most important, the amendments do not overcome the manpower and administrative problems in both peace and war. Mr. Briening's statement would apply equally before or after such amendments. From a manpower and administrative viewpoint, NSLI cannot meet another emergency.

Conclusion: In conclusion, no other group, day in and day out, spend their entire efforts encouraging people to save their money and become self-reliant as consistently as the life insurance agents of America. Naturally, we, therefore, are as keenly interested as any other group in preserving the American way of life. We pride ourselves that our Government meets its obligations. We believe our country has been built to its high position based on our free enterprise system and the fact that Government has only trespassed on business where private initiative could not meet the challenge.

In the case of USGLI and NSLI, the Government entered the field of private enterprise solely because commercial insurance companies could not endanger the savings of their millions of policyholders for whom they act as trustees. These Government programs met an existing need—the need to give servicemen protection against the unforecastable hazards of war and the need to guarantee veterans the right to retain their insurable interests at the termination of hostilities.

Unfortunately, these programs have proved very costly to the country. In spite of the fact that they were more gratuitous than insurance programs, they failed to provide protection for all servicemen. In particular, they failed to provide uniform coverage for even those taking advantage of the protection. When this is coupled with the manpower involved in such a program in both peace and war, when it is associated with the inevitable administrative costs, it is not surprising that your committee is considering how the NSLI Act should be amended.

What is the answer? NALU's long-term opinion has been that NSLI should be replaced by a gratuitous indemnity. This opinion goes back to 1940, when the present law was enacted. Our recent studies have only tended to crystalize this opinion.

If the Government is giving a gratuity—the gratuity should be given to all on an equal basis. S. 304 and S. 506 do this. The Government should also protect the serviceman against his loss of insurability on the termination of service. This is provided for in S. 304 and S. 506. It has been proven, based on the experience of two world wars, that veterans are not inclined, as a group, to take advantage of even a highly subsidized extended insurance scheme and that those who do take advantage are in the more affluent group. Under these circumstances, it seems undemocratic to provide a permanent insurance program for the few who avail themselves of it. This low participation by veterans would seem to indicate their preference for insurance from commercial companies.

The gratuitous indemnity approach also gets the Government out of the life insurance business. It limits the Government's problems to their proper field. The elimination of premium payments should be well received by servicemen. If you have sons who are servicemen, you can appreciate their financial problems. It is our duty to help them solve those problems and, at the same time, reduce the taxpayer's burden.

Illustrations of monetary benefits available to survivors of servicemen deceased from service-connected causes

Benefit program	Agency administering	Conditions of benefit	Illustrative case examples ¹				
			Widow age 28, no children	Widow age 28, 1 child age 5	Widow age 28, 3 children ages 1, 5, and 7	Dependent mother age 60	Dependent father age 65 and, mother age 60
A RATES OF BENEFITS PROVIDED							
1 Military death gratuity.	Department of Defense	Lump-sum cash benefit, payable only 1 per death	\$450 to \$6,600 cash...	\$150 to \$6,600 cash...	\$450 to \$6,600 cash...	\$450 to \$6,600 cash...	\$450 to \$6,600 cash
2 Veterans' compensation benefits	VA	Monthly payments:					
(a) Widow		Lifetime income of \$75 a month (terminates on remarriage) starting on application	\$75 a month until death at age 76.	\$75 a month until death at age 76.	\$75 a month until death at age 76	(2).....	(2).
(b) Children		Income until age 18, \$30 a month for first child and \$25 a month for each additional child ³	None.....	\$30 a month for 13 years	\$80 a month for 11 years, \$55 a month for 2 years more, \$30 a month for 4 years more, then stops	(2).....	(2)
(c) Parents ⁴		Lifetime income, if dependent, of \$35 a month for 1 parent or \$60 for 2	(2).....	(2).....	(2).....	\$35 a month until death at age 81	\$60 a month for 12 years, and \$35 a month for an additional 12 years.
3. National service life insurance	VA	Insurance up to \$10,000 face value with various settlement options ⁵	\$39 a month until death of widow.	\$39 a month until death of widow	\$39 a month until death of widow	\$68 10 a month until death	\$68 10 a month until death of mother after 21 years
4 Old-age and survivors insurance ⁶	FSA	Monthly payments depending on average wages and years of coverage, etc					
(a) Widow		Income while there are children under 18; then stops, life-time income begins again at age 65 (terminates on remarriage).	\$46.50 a month starts at age 65 and continues until death	\$46 50 a month for 13 years, then stops, resumes again at age 65 and continues until death.	\$46 50 a month for 17 years, then stops, resumes again at age 65 and continues until death	(2).....	(2).

(b) Children	Income until reaches 18; maximum of \$150 for all children and widow.	None	\$46.50 a month for 13 years.	\$103.50 a month for 11 years, \$77.50 a month for 2 years more; \$46.50 a month for 4 years more, then stops.	(2)	(2)
(c) Parents	Income at age 65, but only if insured had no widow or children and if parents were receiving at least ½ their support from deceased.	(2)	(2)	(2)	\$46.50 a month starts at age 65 and continues until death.	\$46.50 a month starts at age 65 and continues until death; then at death of first parent declines to \$46.50 a month and continues for additional 12 years until death of survivor.
Total benefits		\$450 to \$6,600 cash plus \$114 a month until age 65, then increased to \$160.50 for rest of life (\$75 a month would terminate on remarriage).	\$450 to \$6,600 cash plus \$237 a month for first 13 years; then declines to \$114 a month until widow reaches age 65, and increases again to \$160.50 a month for rest of life (\$121.50 a month would terminate upon remarriage first 13 years and after 65, \$75 a month in interim years).	\$450 to \$6,600 cash plus \$344 a month for first 11 years; then declines to \$293 a month for 2 years more, and to \$237 a month for the next 4 years, and finally to \$114 a month until widow reaches age 65; then increases to \$160.50 a month for rest of life (\$121.50 a month would terminate upon remarriage first 17 years and after 65; \$75 a month in interim years).	\$450 to \$6,600 cash plus \$103.10 a month until age 65, then increases to \$149.60 for rest of life (monthly payments all terminate on remarriage).	\$450 to \$6,600 cash plus \$174.60 a month for first 5 years; then increases to \$221.10 a month until first death, and finally declines to \$149.60 a month until death of survivor.

See footnotes at end of table, p. 98.

Illustrations of monetary benefits available to survivors of servicemen deceased from service-connected causes—Continued

Benefit program	Agency administering	Conditions of benefit	Illustrative case examples ¹				
			Widow age 28, no children	Widow age 28, 1 child age 5	Widow age 28, 3 children ages 1, 5, and 7	Dependent mother age 60	Dependent father age 65 and mother age 60
R. PRESENT VALUE OF BENEFITS PROVIDED ^{1 7}							
1. Military death gratuity.			\$450 to \$6,600.....	\$450 to \$6,600.....	\$450 to \$6,600.....	\$450 to \$6,600.....	\$450 to \$6,600.
2. Veterans' compensation benefits.			\$24,500.....	\$28,500.....	\$35,700.....	\$6,500.....	\$10,200.
3. National service life insurance.			\$12,800.....	\$12,800.....	\$12,800.....	\$13,300.....	\$13,300.
4. Old-age and survivors insurance.			\$2,400.....	\$14,700.....	\$24,900.....	\$6,200.....	\$12,600.
Total present value.			\$40,150 to \$46,300....	\$56,450 to \$62,600....	\$73,850 to \$80,000....	\$26,450 to \$32,600....	\$36,550 to \$42,700.

¹ Examples assume mortality according to 1937 Standard Annuity Mortality Table, but do not discount for remarriage of widows (since it is assumed that the need for benefit is reduced or eliminated by remarriage) nor for deaths (which occur at very low rate) among children

² Indicates column is not applicable

³ May be paid until age 21 if attending school; also paid beyond 18 if unable to support self because of permanent mental or physical disability while minor Children's benefits are paid even if mother remarries.

⁴ Benefits may be paid to dependent parents whether or not there are a widow or children receiving VA compensation benefits Benefits are subject to income limitations (usually \$80 a month for the 1 parent and \$135 for 2),

⁵ Illustrations assume maximum policy (\$10,000) with settlement option selected calling for lifetime income starting immediately, with 120 installments certain (in case of death of first beneficiary before payment of 120 installments, balance is paid to second beneficiary or to estate)

⁶ Illustrations assume serviceman had worked in covered employment for 6 years, out of the 8, since he became 21, with average monthly wage of \$240.

⁷ These figures represent the current lump sum or present value of the future benefits discounted at 2½ percent interest. In other words, these are the total amounts which it would cost at the death of serviceman to buy the future incomes for his family shown in part A of the table, under the assumptions used.

Finally, NALU wishes to offer your committee its wholehearted assistance in helping you draft revisions to the present law. In making this offer, we would emphasize that in view of present world conditions, time is of the essence. Every day that NSLI is continued, between 2,500 and 3,000 more men are inducted into the Army and each new man inducted into the Army adds to the administrative burden which we will all have to meet when we get rid of this program. It pyramids the cost. We would urge the early enactment of this legislation into law.

The CHAIRMAN. Are there any questions?

Senator CONNALLY. Can you explain in about five words, or a dozen, maybe, why it is that the old-line insurance companies favor the gratuitous plan?

Mr. MCKINNEY. I could not speak for the old-line companies. As I would like to make clear, Mr. Lounsbury represented the life insurance companies, and I represent the life insurance agents. We agents favor the gratuitous plan, and I will say bluntly why. We have worked with it, lived with it, and we know its good points and its bad points.

We feel that the only proper way to handle this situation is by the uniform protection of the serviceman and granting that protection to the serviceman in a way which will be fair and a way which will also help the Nation's economy by saving them \$587,000,000, as estimated by the reputable agency of the Comptroller General.

Senator CONNALLY. Do you feel this plan would remove any competition you would have to face; that is, they would all get it and you would not bother with it? Is that right?

Mr. MCKINNEY. Actually, that is a good question. In other words, what you are saying—

Senator CONNALLY. Well, I hope you are not reflecting on the other questions I asked. [Laughter.]

Mr. MCKINNEY. The point is well taken—though I was not. I presume your question was, Do we get a selfish advantage by the fact when these men come out of service they will not have any insurance so thereby they will be prime prospects for our man?

Frankly, that would be true, they would be prime prospects. But do not forget that national service life insurance—and I would like to be fair and honest about this—national service life insurance has created insurance-consciousness among men coming out of the service, and while our men reinstated a lot of insurance and got no money for doing it, every time one of our men came to your son and told him he should pick up his life insurance, your son thought he had an agent who was a very good fellow, and he referred him to his friends, and gave my man a very wonderful introduction, and I am sure he sold as much and more on account of the good will that was created in that way.

We have Mr. Garrabrant, he is in the room, he is one of national trustees and he can confirm this very dramatically, if you wish.

Senator CONNALLY. No, I do not care about being dramatic, it is just the facts that I want, that is all.

The CHAIRMAN. Any questions, Senator Butler?

Senator BUTLER. I wonder if you propose any amendments.

Mr. MCKINNEY. We do not propose any amendments. We would strongly urge that H. R. 1—unless you can find some technical diffi-

culties involved in there—we strongly urge the immediate enactment of H. R. 1, which is equivalent to S. 304 and S. 506, into law at the earliest possible convenient time.

The CHAIRMAN. If there are no further questions, we thank you very much.

Mr. McKINNEY. Thank you.

The CHAIRMAN. There will be entered into the record a letter from the junior Senator from New York, Mr. Lehman, suggesting certain amendments to the bill, together with a letter from Mr. Breining to Senator Lehman.

(The letters referred to follow:)

UNITED STATES SENATE,
January 25, 1951.

HON. WAITER F. GEORGE,
Chairman, Senate Finance Committee,
United States Senate,
Washington, D. C.

DEAR SENATOR GEORGE: I am writing to express my interest in the various bills (S. 84, S. 304, S. 506, and H. R. 1) which provide a new concept and approach to insurance for members of our Armed Forces. Generally speaking, I am in agreement with the idea that we should provide indemnities for our servicemen. As was found in World War II and more recently in the Korean War, there were instances where servicemen who had not availed themselves of the provisions of national service life insurance died as a result of the extra hazards of war. Without question, this worked a tragic hardship on their beneficiaries. The new and more simple concept of providing a \$10,000 indemnity for each member of the Armed Forces as he enters on active duty would overcome this major objection to the NSLI program.

There is, however, one point in the new plan to which I must take exception. That point is the lack of provision in the above-named bills of the right of veterans, after discharge from the service, to apply for some form of a life insurance policy sponsored or guaranteed by the Government. This denies a privilege formerly granted to veterans.

It is pertinent to point out that during World War II the bulk of beneficiaries of NSLI policyholders were not paid out of the NSLI funds but were paid from funds appropriated by the Congress for that purpose. Up to June 30, 1950, some 548,400 death claims have been paid by the Veterans' Administration since the establishment of the national service life insurance program. Of these 548,400 awards, 453,500 for a total of \$3,384,135,000 were paid by congressional appropriations; 94,900 with a face value of \$668,093,000 were paid from the NSLI fund. If the indemnities contemplated by the proposed bills are paid from funds appropriated by the Congress, the indemnity program will be more expensive to the Federal Government than was national service life insurance if the death rates are on approximately the same level. The increase in expense in the indemnity plan over NSLI would be brought about by the fact that non-extra-hazard claims would, under the new plan, be paid from the indemnity funds, whereas these claims during and after World War II were paid from the NSLI fund. The Government does not gain any advantage from the indemnity plan in this respect. The veteran, however, loses an advantage under the bills as presently written.

In order to point out the inequity which I feel exists in this proposed plan, I should like to give one example of a hypothetical case. Under the NSLI program, a serviceman could obtain a \$10,000 term policy during his active service for a monthly premium which ranges from \$6 to \$7, depending on his age. At the time of his release from active duty he had the privilege of continuing this term policy or of converting to any one of several permanent plans. He could do this without taking physical examinations and moreover the premiums on these plans were considerably lower than those of similar plans obtained from a private insurance company. The following chart indicates the relative premiums for comparable NSLI and private insurance company policies.

Gross annual premiums per \$1,000 at age 25 (including waiver of premium benefit)

	Ordinary life	20-payment life	20-year endowment
NSLI (participating).....	\$16 22	\$25 10	\$41 20
Travelers (nonparticipating).....	17 15	28 59	47 75
Aetna (non-participating).....	17 15	29 08	47 48
Connecticut General (nonparticipating).....	17 15	28 86	47 43
Equitable of New York (participating).....	22 23	34 36	52 16
Provident Mutual (participating).....	22 23	34 36	51 80
Northwestern Mutual (participating).....	21 05	34 11	50 41

Under the new indemnity plan, it is true that the serviceman would not have to apply for insurance upon his entry on active duty and would be automatically insured in the amount of \$10,000. He would make no premium payments. There is some advantage in the fact that he would have 90 days after discharge from active duty during which he would be fully covered. However, if he does not have a service-connected disability he does not have an opportunity to apply for any form of Government-sponsored life insurance. Assuming that he had no commercial life insurance prior to entry on active duty, and I think it can be safely said that a majority of the 18- to 20-year-olds going into active duty will not have such insurance, he will find that his level of premium payments based on his age are considerably higher than they would have been when he entered active duty. If the present emergency continues for 10 years the payments at that time would certainly be greater.

Moreover, I can conceive of instances where the veteran cannot qualify for a service-connected disability and yet finds himself unable to obtain a commercial life insurance policy. There are, I believe, a considerable number of veterans of World War II in this category.

As an argument for discontinuance of NSLI, it is said that veterans of World War II were not generally "insurance minded" and that many did not avail themselves of their opportunity to continue national service life insurance in civilian life. While that may be true, it is again not an argument to deny such an opportunity to future veterans who may wish to avail themselves of such an opportunity.

It is maintained that because of the unwieldy nature and expense of the NSLI program it should be discontinued. But the bills presently being considered do not actually discontinue such a program. They provide that the program shall be continued for those veterans who cannot get commercial policies after their release from active duty. Depending upon the span of life of our disabled veterans and upon the length of the present emergency, the national service life insurance program may have to be continued for the next 50 or 60 years. I submit that if such a program must be continued, it would not be disproportionately more expensive to extend NSLI policies to those "new" veterans who may wish to make an application upon their release from active duty. Furthermore, if we must maintain the administrative machinery to take care of disabled veterans, why not utilize this machinery for the others who are not disabled?

As I have pointed out, what I propose would not add materially to the difficulties of the Government, since the NSLI program must be continued for the next 50 or 60 years in any event in order to take care of the disabled veterans. It should not be overly expensive since the claims would be paid from the insurance funds, rather than from an appropriation.

In support of the above-quoted figures, I should like to submit for the record a letter addressed to me by Mr. Harold W. Breining, Assistant Administrator for Insurance of the Veterans' Administration.

Sincerely yours,

HERBERT H. LEHMAN.

VETERANS' ADMINISTRATION,
Washington 25, D. C., January 24, 1951.

HON. HERBERT H. LEHMAN,
United States Senate, Washington 25, D. C.

DEAR SENATOR LEHMAN: This is in reply to a telephone request from your office for certain information on national service life insurance. For the sake of clarity, I am repeating each of the questions, followed by the appropriate reply.

1. Describe the procedure used in determining from which fund a particular death is paid.

In accordance with the National Service Life Insurance Act of 1940, as amended, the United States Government bears the cost of—

(a) Death and disability claims on persons who did not carry insurance in the national service life insurance fund, but who were covered retroactively under the so-called gratuitous provisions of the act, i. e., subsections 602 (d) (2), 602 (d) (3), and 602 (d) (5).

(b) Death and disability claims where veterans are insured directly in the national service life insurance appropriation and remit their premiums for the insurance directly to the appropriation, i. e., under the provisions of section 602 (c) (2) and section 602 (v) (1) of the act.

(c) Death claims allowed under certain circumstances where no claim would be paid in accordance with the conditions set forth for the national service life insurance fund, i. e., under sections 602 (c) (3), 602 (m) (2), and 602 (p).

(d) Death and disability claims on persons insured in the fund where the claim is determined by the administrator's committee on extra hazards to be traceable to the extra hazards of military or naval service.

The first three categories represent payments on account of persons not actually insured in the national service life insurance fund; the last category represents payments on account of persons who are insured in the fund. Every claim arising from insurance in the fund is reviewed by a special committee appointed by the Administrator of Veterans' Affairs and a determination as to the liability of the Government for the claim on account of extra hazard is based on the facts in each case. It is, of course, impossible to lay down rules and criteria of "extra hazard" that may be applicable in all cases. Generally speaking, an extra hazard of service is defined as hazard to life or health, not ordinarily arising in civilian life, which is a logical consequence of the military service. Thus, committee regulations require that the death or disability result from the performance of duty, and not be merely in line of duty (as militarily interpreted), or service-connected.

2. Give in round figures the number of claims paid from the national service life insurance fund and the number paid from the appropriation.

Death claim awards were made on about 548,400 policies through June 30, 1950. These were paid from the appropriation or the fund as indicated below, the categories for the appropriation being the same as those delineated as (a), (b), (c), and (d), respectively in paragraph 1 above.

	Number of policies	Face amount of insurance
Paid by the appropriation:		
(a).....	28,400	\$122,692,000
(b).....	100	414,000
(c).....	900	6,554,000
(d).....	424,100	3,254,475,000
Total paid by the appropriation.....	453,500	3,384,135,000
Paid by the fund (non-extra-hazard claims):		
Number of policies.....	94,900	
Face amount of insurance.....		668,093,000

3. How do premiums of national service life insurance permanent plan policies compare with similar policies of private insurance companies?

The table below shows comparative gross annual premiums charged per \$1,000 at age at issue 25 for the three principal permanent plans by the national service life-insurance fund and six representative commercial-insurance companies, three

of which are on a nonparticipating basis, and the other three of which are on a participating basis. In comparing these figures it must be borne in mind that dividends are payable when earned on the national service life insurance policies and on the other three participating policies so that the net cost, which is the real criterion for comparison, can only be determined by subtracting any dividends paid from the premium outlay.

Gross annual premiums per \$1,000 at age 25 (including waiver of premium benefit)

	Ordinary life	20-payment life	20-year endowment
NSLI (participating)	\$16 22	\$25 10	\$41 20
Travelers (nonparticipating)	17 15	28 59	47 75
Aetna (nonparticipating)	17 15	29 08	47 48
Connecticut General (nonparticipating)	17 15	28 86	47 43
Equitable of New York (participating)	23 10	35 49	72 16
Provident Mutual (participating)	22 23	34 36	51 80
Northwestern Mutual (participating)	21 05	34 11	50 41

4. How many policies were issued under national service life insurance, how many are now in effect on in-service, and how many are now in effect on persons in civilian life?

There were 20,625,952 policies issued and processed under the national service life insurance fund through November 30, 1950. As of the same date there were 5,845,020 policies still in force. Of the 5,845,020 national service life insurance policies in force as of November 30, 1950, approximately 1,533,000 were in-service cases and the balance were on civilians.

Very truly yours,

HAROLD W. BREINING,

Assistant Administrator for Insurance.

The CHAIRMAN. Is there anything further?

Senator CONNALLY. I would like to ask Mr. Breining—is he here?

Mr. BREINING. Yes.

Senator CONNALLY. Would you care, Mr. Breining, to express any opinions now or give us any views on this bill as compared with the present system?

FURTHER STATEMENT OF HAROLD W. BREINING, ASSISTANT ADMINISTRATOR FOR INSURANCE, VETERANS' ADMINISTRATION—Resumed

Mr. BREINING. I think that there are some desirable features in gratuitous insurance. However, I think that it has been over-simplified here, in my opinion. I feel that there are many complications that will come up.

I have thought of the subject myself many times and I have tried to work out an acceptable substitute, and I never had one in my own mind. I think it creates many problems in itself because of the existing system being in effect. I do not think that the administrative savings would be nearly as great as has been quoted here.

For instance, just on that proposition of the savings, the figure has been quoted of \$90,000,000 by a witness here today. He said, if I recall, and believe he was reading it, that if you have 3,000 claims for \$10,000 apiece then it would only be natural to—well, it sounds fine, I know—the Government would save \$60,000,000. However, the big portion of that \$90,000,000 does not go to handling current claims. We have got millions of policies on the books from yesteryears and they have to be carried, and that is where that money goes. And in

the Armed Forces there are almost 2,000,000 now on Government life insurance, and they will be faced with this proposition: "What shall I do? Shall I drop my national service life insurance and take this gratuitous proposition, or shall I attempt to continue it?"

Well, the natural thing for him to do would be to drop the national service life insurance. It sounds like you are giving something for nothing.

While speaking of this \$10,000, I want to point out that the \$10,000 under the gratuitous plan is quite different from the \$10,000 under national service life insurance. The actual value of the \$10,000 considering the $2\frac{1}{4}$ percent over a period of 10 years, is much less. 25 percent less in many cases than the \$10,000 given at 3 percent as a life income.

We had the limited payment plan under the First World War. We substituted the life income plan in the Second World War because at the end of the period in which the limited payments were made the parents who were in our group of the major beneficiaries came in and made the plea, "Here we were to be paid over 20 years and now we have had our benefits cut of when they ought to be increased" So, you get that proposition of paying them only for a limited time.

There would undoubtedly be savings in this bill. There would be some administrative saving that I have said would ultimately reach about 75 percent savings. My staff disagrees with me, they do not think it would save over 50 percent, that the adjudication of claims, for instance, would be more complicated rather than simplified. There have been statements about savings in files, doing away with files. But some provision would have to be made for beneficiaries and those beneficiaries would have to be filed and carefully filed and there would be changes in beneficiaries.

Also, the proposition of explaining to these men their rights under this new bill, what they may be losing or what they may be gaining under it—unless that was done and unless it was completed, then undoubtedly when the man got out of the service he would say, "Well, I wasn't completely informed. If I had known this, I would have done something different."

SENATOR CONNALLY. The gratuitous plan ends when the service ends, does it not?

MR. BREINING. Yes, sir, but mind you, a couple of million of these men, or well over a million anyway, because we have over 2,000,000 in the Armed Forces now insured, probably would have sacrificed their national service life insurance by swapping it for the gratuitous plan who probably when they got out would want to take it up again, and then you get the legal proposition—excuse me.

SENATOR CONNALLY. The point I wanted to make is that if he had the gratuitous plan and his service ended and he was all right, he would have nothing at all.

MR. BREINING. Well, sir, under H. R. 1 which passed the House yesterday, and as I understand it, if he had surrendered converted insurance, he would have the right, within 90 days, to reinstate that insurance by paying the cash required or revive that insurance by a new application. However, if he had term insurance he would have to show he was in good health.

SENATOR CONNALLY. That is what I mean.

Mr. BREINING. If he was an impaired risk then he could not take it up unless his impairment was due to a service-connected disability, in which event he would have the opportunity of applying for new insurance and taking it out.

If I may just pursue something I mentioned before, you can easily gloss over the complications this bill presents, and they are very important. Take a man that has converted insurance, for instance. He has designated his mother as beneficiary. Now, he has certain extended insurance rights but they would not carry him long enough to entitle him to a cash surrender value. Suppose his insurance was turned in at 10 months, for instance, his policy would be in effect for 10 months and he would decide after it had lapsed for nonpayment of premium to drop that policy and take up this gratuitous coverage, and suppose in this gratuitous coverage he named his wife, and then he died or was killed during the period of extended insurance.

We would have to pay the insurance in that case, under my construction, to his mother rather than to his wife because there would be no gratuitous coverage inasmuch the extended insurance would have been in force during that time and since under the act any coverage under national service life insurance up to the amount of \$10,000 excludes the gratuitous coverage.

Well, you might say, "That is a thing to bring up now, we could certainly have you work out an amendment to cover that." Yes, we probably could, but that is just one instance to show you the possible complications, and there are a lot more legal complexities that will present themselves afterwards when these complications arise that with our limited time and limited foresight we cannot foresee.

At least, I think the problem requires a very, very deep study. I think if you read all my testimony, I outlined the difficulties we had during World War II, and I think—and I am referring to what the witnesses previously have said about national life insurance not being capable of meeting another emergency—I think you will find if you read it as a whole that I said that if we did not have the personnel available and I doubted whether there would be sufficient personnel available, then in such event we could not carry on satisfactorily. Now, we could probably carry on as well as we did in World War II, which in my opinion was not satisfactory, although ultimately I think everyone that was entitled to payment did get paid.

Senator CONNALLY. You think this bill ought to be very carefully investigated and examined?

Mr. BREINING. Yes, sir; I think it should be very carefully thought out. If there is a way of providing gratuitous insurance in a practical way which will eliminate these difficulties, and I have only given you one or two as examples, and there are many, many more I could cite from my own standpoint—it would be fine. But there are so many collateral factors that have to be considered.

Now, for instance, one of the things you have here, and to me it is of tremendous importance and it was emphasized here one of the reasons why this bill was written was to protect the interests of the taxpayers as well as of the veterans. Well, we have, as was brought out here, a very generous pension plan which in substance is no different from this indemnity now suggested. It is a gratuity from the Government—and you can call it an insurance, you can call it pension, compensation, or what not, it is all the same thing.

Under our present compensation plan we only recognize as dependents the widow, minor children, and dependent fathers and mothers. In presenting their arguments in favor of this bill the general statement was that this bill would give a gratuity to nondependent fathers and mothers and it would give it to brothers and sisters. That is, they would have two systems founded upon the same basis, an indemnity from the Government, where they would say on the one hand, "Well, we are only going to pay it to the widow or minor children or parents who are dependent," and on the other hand they would try to have this other structure that they are building, and it is on the same foundation as the gratuity, but saying, "Oh, no, when we pay out this \$10,000 we have quite a different obligation. We have an obligation to the brother who is not dependent or to the parent who is not dependent to pay them \$10,000 to indemnify them for this loss; but we have, on the other hand, no obligation to pay them a pension for the loss of the same man"; and to me there is an obvious incongruity right there.

Now, when they say that the present system is discriminatory, at least the benefits that are paid go to the beneficiary whom the man himself regarded as at least morally entitled to some recognition from him. The persons who are not paid under the present plan are those whom the man did not think enough of in his own mind to pay this small premium monthly to protect them. Now, if the man does not think enough of that person to protect him that way and since, after all, the dependents only get any rights that they have through the man and through the man's service and again if the man does not think enough of them to pay a small monthly premium to protect them, is there an obligation on the taxpayer to protect these persons? Some of those payments might go to persons that the man does not know—and there are other situations as to beneficiaries that may arise.

I have just touched the high spots. I think this is something that requires a great deal of thought. As a matter of fact, when the national service life insurance was proposed in 1940, and when the President himself was considering it, a plan of gratuitous insurance was proposed by me and discarded after grave consideration by him.

The CHAIRMAN. Thank you very much, Mr. Breining.

Mr. BREINING. May I say one more thing in conclusion. The Veterans' Administration has a policy of not expressing itself regarding any legislation by presenting arguments or by projecting any ideas of what might happen, and so forth. So I would like it understood that what I have said here is to be considered as purely my own opinion and does not reflect or represent any opinions or views of the Administrator.

The CHAIRMAN. We understand. It is your personal judgment all out it.

Now, if there is nothing further on this bill, the committee will recess until tomorrow at 10 o'clock, at which time it will consider the Philippine burial bills now pending before the committee. We would like to have the committee members on hand at 10 o'clock, and I think we then may be able to conclude the hearings by 12 o'clock.

(Whereupon, at 4:20 p. m., the committee adjourned until 10 a. m. of the next day, Friday, January 26, 1951.)