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82d Congress, 1st Session | SENATE | Report No. 219

USE OF DIVIDENDS TO PAY PREMIUMS ON NATIONAL SERVICE LIFE INSURANCE

April 17, 1951.—Ordered to be printed

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

REPORT

[To accompany H. R. 321]

The Committee on Finance, to whom was referred the bill (H. R. 321) to provide that on and after January 1, 1952, dividends on national service life insurance shall be applied in payment of premiums unless the insured has requested payment of dividends in cash, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

By virtue of this act, the Committee on Finance accepts the report of the Committee on Ways and Means as follows:

EXPLANATION OF THE BILL

With the declaration of dividends on national service life insurance, many cases have been called to the attention of the committee seeking to have dividends applied to the payment of premiums which would have extended the insurance, thus avoiding a lapse and permitting the beneficiary to receive the face value of the policy upon the death of the insured.

The committee learned during hearings conducted by a subcommittee during the Eighty-first Congress that most commercial insurance companies provide that when a policy lapses, any dividend accumulations or other money due the policyholder will be used in any manner possible to extend the life of the policy and thus provide protection for the beneficiary and policyholder.

The committee is of the opinion that this is a sound policy and believes in the future it should be applicable to national service life insurance.

The bill provides that when any dividend is payable after January 1, 1952, unless the veteran policyholder has advised the Veterans' Administration in writing that the dividend is to be paid in cash, any dividend accumulated and unpaid at the time a premium is due and unpaid shall be used for the payment of premium. Thus, if a policy is about to lapse for nonpayment of premium and dividends are payable, the premiums will be paid for such time as the dividends will permit and the policy lapse only when the dividends are exhausted.

A veteran who continues to pay his premiums and does not draw dividends would have the dividends accumulated in the national service life insurance fund and be entitled to receive interest on such accumulation based on the rate of interest as determined by regulation of the Secretary of the Treasury and the Veterans' Administration. He would also be entitled to withdraw a portion or all of the dividends accumulated at his own election, and revert to a cash payment, if desired.

The committee believes that this legislation is wise, since it will give the policyholder and the beneficiary added protection which they do not now possess. No additional cost will accrue to the Government as a result of this legislation. Neither will it place any additional liability upon the national service life insurance fund.

The report of the Veterans' Administration follows:

VETERANS' ADMINISTRATION,
Washington, D. C., February 20, 1951.

Hon. JOHN E. RANKIN,
Chairman, Committee on Veterans' Affairs,
House of Representatives, Washington, D. C.

DEAR MR. RANKIN: This is in reply to your request for a report on H. R. 321, Eighty-second Congress, a bill to provide that on and after January 1, 1952, dividends on national service life insurance shall be applied in payment of premiums unless the insured has requested payment of dividends in cash.

The purpose of the bill is to amend section 602 (f) of the National Service Life Insurance Act of 1940, as amended, to provide that until and unless the Veterans' Administration has received from an insured a request in writing for payment in cash, any dividend accumulations and unpaid dividends shall be applied in payment of premiums becoming due on insurance subsequent to the date the dividend is payable after January 1, 1952.

Except as to the change in date from January 1, 1951, to January 1, 1952, H. R. 321 is identical with H. R. 8236, Eighty-first Congress, on which the Veterans' Administration submitted a report to your committee under date of May 5, 1950 (Committee Print No. 257), a copy of which is enclosed. The views expressed in the mentioned report on H. R. 8236 are equally applicable to H. R. 321, Eighty-second Congress. As stated in that report, in the opinion of the Veterans' Administration, the enactment of such a proposal would not be in the best interests of the policyholders.

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

Sincerely yours,

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

VETERANS' ADMINISTRATION,
Washington 25, D. C., May 5, 1950.

Hon. JOHN E. RANKIN,
Chairman, Committee on Veterans' Affairs,
House of Representatives, Washington 25, D. C.

DEAR MR. RANKIN: This is in reply to your request for a report on H. R. 8236, Eighty-first Congress, a bill to provide that on and after January 1, 1951, dividends on national service life insurance shall be applied in payment of premiums unless the insured has requested payment of dividends in cash.

The purpose of the bill is to amend section 602 (f) of the National Service Life Insurance Act of 1940, as amended, to provide that until and unless the Veterans' Administration has received from an insured a request in writing for payment in cash, any dividend accumulations and unpaid dividends shall be applied in payment of premiums becoming due on insurance subsequent to the date the dividend is payable after January 1, 1951.

To amend section 602 (f) as proposed would substitute an automatic application of the dividend as a premium payment for an optional one, since under the present law the contract provides that dividends may not be used for the payment of premiums except upon the written request of the insured. In the case of dividends on term insurance the contract requires that dividends be paid in cash only. The effect of the proposed law would be to impose a condition on the insured's right to receive his dividends in cash, a condition which does not exist in outstanding policies. Therefore, the provisions of the bill are contrary to the provisions of existing insurance contracts and would present a justiciable question which would require judicial determination.

Dividends are the return to the insured of his proportionate share of the assets which the result of experience shows is not required to cover the risk. Upon a determination that a dividend is payable, the insurer is no longer entitled to retain the amount due and must discharge the obligation to pay. The only exception is when the insured specifically requests the insurer to dispose of the funds in some other manner. In other words, automatic payment to the insured is the rule and application of a dividend to the payment of premiums is the exception.

While the bill does permit the insured to receive dividends in cash if he so desires, it should be borne in mind that the basis of the structure of Government life insurance is that the application for and retention of the insurance coverage is entirely voluntary. It is believed that the enactment of the bill could place the Government in the position of having maintained in force, by use of a veteran's money, insurance which that veteran did not want.

It should be noted that if the automatic application of dividends to payment of premiums is held not to be binding upon the insured, a demand could be made for payment of the dividend in cash after it had been applied to the payment of premiums and even after the period during which such premiums had been earned. This could result in what in effect would be a double payment of the dividend, especially as to persons who hold policies requiring that the dividend be paid in cash.

While no estimate of cost can be made, it is obvious that the accounting processes would be unnecessarily complicated by the automatic application of dividend credits to premium payments.

In the opinion of the Veterans' Administration, the enactment of this bill would not be in the best interests of the policyholders.

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

Sincerely yours,

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

CHANGES IN EXISTING LAW

In compliance with subsection 4 of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill are shown as follows: (new matter is printed in italics; existing law in which no change is proposed is shown in roman):

SECTION 602 (f) OF PUBLIC LAW 801 OF SEVENTY-SIXTH CONGRESS, AS AMENDED (NATIONAL SERVICE LIFE INSURANCE ACT)

(f) Such insurance may be issued on the following plans: Five-year level premium term, ordinary life, twenty-payment life, thirty-payment life, twenty-year endowment, endowment at age sixty, and endowment at age sixty-five. Level premium term insurance may be converted as of the date when any premium becomes or has become due, or exchanged as of the date of the original policy, upon payment of the difference in reserve, at any time while such insurance is in force and within the term period to any of the foregoing permanent plans of insurance, except that conversion to an endowment plan may not be made while the insured is totally disabled. All level premium term policies, except as provided below, shall cease and terminate at the expiration of the term period: *Provided,* That at the expiration of the term period any national service life insurance policy which was issued on a five-year level premium term plan before January 1, 1948, and which has not been exchanged or converted to a permanent plan of insurance, may be renewed as level premium term insurance for an additional period of five years at the premium rate for the then attained age without medical examination, provided, the required premiums are tendered prior to the expiration of the first term period: *Provided further*, That in any case in which the insured is shown by evidence satisfactory to the Administrator to be totally disabled at the expiration of the level premium term period of his insurance under conditions which would entitle him to continued insurance protection but for such expiration, such insurance, if subject to renewal under this provision, shall be automatically renewed for an additional period of five years at the premium rate for the then attained age, unless the insured has elected insurance on some other available plan. Provisions for cash, loan, paid-up, and extended values, dividends from gains and savings refund of unearned premiums, and such other provisions as may be found to be reasonable and practicable may be provided for in the policy of insurance from time to time by regulations promulgated by the Administrator: *Provided further, That until and unless the Veterans' Administration has received from the insured a request in writing for payment in cash, any dividend accumulations and unpaid dividends shall be applied in payment of premiums becoming due on insurance subsequent to the date the dividend is payable after January 1, 1952.*

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