

OPERATION OF VA LIFE INSURANCE PROGRAMS

HEARING
BEFORE THE
SUBCOMMITTEE ON
COMPENSATION, PENSION, AND INSURANCE
OF THE
COMMITTEE ON VETERANS' AFFAIRS
HOUSE OF REPRESENTATIVES
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OPERATION OF VA LIFE INSURANCE PROGRAMS

THURSDAY, SEPTEMBER 23, 1993

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON COMPENSATION, PENSION,
AND INSURANCE,
COMMITTEE ON VETERANS' AFFAIRS,
Washington, DC.

The subcommittee met, pursuant to call, at 10:05 a.m., in room 334, Cannon House Office Building, Hon. Jim Slattery (chairman of the subcommittee) presiding.

Present: Representatives Slattery, Bilirakis, and King.

OPENING STATEMENT OF CHAIRMAN SLATTERY

Mr. SLATTERY. Good morning, ladies and gentlemen. The subcommittee will come to order.

We are meeting this morning in hear from the VA and the veterans' service organizations on the operation of the VA's life insurance programs.

The last oversight hearing on these programs was held on July 19, 1989. For many years we have observed the operation of the insurance programs as having been one of the bright spots in the Department of Veterans Affairs. As far as I can tell, the VA continues to do an excellent job in administering or supervising the eight programs which provide life insurance coverage of more than \$506 billion to some 6.3 million veterans and active duty personnel. This view appears to be shared by the veterans groups, and I want to commend each and every VA employee who has played a role in maintaining this high level of performance.

Since our last hearing there have been several legislative changes made, particularly in the servicemens', and veterans', group life insurance programs, and in the veterans mortgage life insurance program. This hearing will give us an opportunity to determine the impact of these changes and to hear from the VA on the current status of these programs. It will also provide the VA and the major veterans' service organizations a forum to discuss any concerns or ideas as to potential modifications that may be beneficial to veterans and their dependents.

Before we proceed with our first witness, I want to recognize my good friend from Florida, Mike Bilirakis for any comments that he might have.

OPENING STATEMENT OF HON. MICHAEL BILIRAKIS

Mr. BILIRAKIS. Thank you, Mr. Chairman.

Mr. Chairman, before I go to my very brief comments which basically paraphrase or follow yours, I would just like to formally recognize that this is the first subcommittee hearing since we read about your announcement that you would be retiring from the House of Representatives. We came in together in 1982, you on one side of the aisle, I on the other. For the most part, we have voted alike, particularly when it came to veterans programs and fiscally conservative issues.

Jim, it has been good working with you. I know we are going to have a number of hearings the rest of this Congress, but I just wanted to say that.

Mr. SLATTERY. Thank you, Mike. We have a lot of work ahead of us on this subcommittee, and I want to get it done before I leave.

Mr. BILIRAKIS. That is good. Thank God for that. I commend you for holding today's hearing. As I understand it, I remember our last insurance oversight hearing was held 4 years ago, but since so many veterans rely on these programs, including myself, by the way, I have one of those old NSLI policies that I have kept in force for more years than I care to even announce.

This hearing is very important to insure that the VA's insurance programs continue to function properly. As we know, the VA administers eight programs which provide life insurance coverage to over six million veterans and active duty personnel.

I was just kind of going over these acronyms for the eight programs. It just blows your mind the way we depend on acronyms up here, new language, if you will, but as you said, and I certainly endorse, the VA's management of its insurance programs has received such high marks from the veterans' service organizations. In the last 4 years, of course, there have been changes, and, like you, I am anxious to see what impact, if any, these changes have had in the programs, and I look forward to hearing from our witnesses. Thank you, sir.

Mr. SLATTERY. Okay, thank you, Mike.

Our first witness is Mr. John Vogel, the Deputy Under Secretary for Benefits, who is accompanied by Mr. Tom Lastowka, the Director of the Philadelphia insurance center.

We appreciate, by the way, the thorough detail you provided in your statement, and it gives us a very good foundation for our informational papers which we share with our Members, so thank you very much for the thorough information that you provided.

Good morning, John, and we are glad you are with us today, and Tom, welcome, we will look forward to your testimony.

Mr. VOGEL. Thank you, Mr. Chairman.

Mr. SLATTERY. By the way, we are also going to recognize Mr. Paul Koons, the Assistant Director of Insurance. Good to have you here, too, Paul. Okay, John.

STATEMENT OF R. JOHN VOGEL, DEPUTY UNDER SECRETARY FOR BENEFITS, DEPARTMENT OF VETERANS AFFAIRS, ACCOMPANIED BY TOM LASTOWKA, DIRECTOR, PHILADELPHIA REGIONAL OFFICE AND INSURANCE CENTER, AND PAUL KOONS, ASSISTANT DIRECTOR FOR INSURANCE

Mr. VOGEL. Thank you, Mr. Chairman. It is a pleasure to be with you today to discuss our life insurance programs. I will submit the

regular statement for the record and ask that I may be permitted to summarize my remarks. We talk about the size and the scope of the VA insurance programs. Those eight programs rank VA as the third largest life insurer in the United States.

Financially, four of the six programs administered by VA have sufficient reserves invested in U.S. treasury securities to insure that all future claims and other program obligations will be met without the need for appropriated funds. These are the U.S. Government Life Insurance, National Service Life Insurance, Veterans Special Life Insurance, and Veterans Reopened Insurance.

The average yield on the trust funds held in these programs still reflects the relatively high rates of interest from investments made in the early and mid-1980s. For example, the average rate of return on the NSLI portfolio as of June of this year was 9.2 percent. The interest income from these funds has enabled us to pay fairly substantial dividends to policyholders and to increase some of the other benefits that the programs provide to policyholders and their beneficiaries. If, however, the current trend in interest rates continues, the rate of return will decline as the older investments are replaced by lower-yielding new investments. This will affect dividends and interest credits.

On the positive side, however, the decline in interest rates has affected the rate that we charge policyholders who borrow from their insurance policies. The current 7 percent variable loan interest rate will drop to 5 percent on October 1.

The Service-Disabled Veterans Insurance and Veterans Mortgage Life Insurance are the two administered programs that, by design, are not self-supporting. Because these programs insure disabled veterans, who have comparatively higher mortality rates, at the same premium rates as nondisabled, healthy individuals, the premium income is not sufficient to cover the costs of the claims that are incurred. Consequently, annual subsidies are required. In fiscal 1992, over \$23 million in appropriated funds were required to support those two programs.

The two supervised programs are Servicemen's Group Life Insurance and Veterans Group Life Insurance. The SGLI program currently provides full-time insurance protection for approximately three million members of the uniformed services, ready reserves, and retired reserves. The total amount of coverage is \$458 billion.

The Servicemen's Group Life Insurance program has been financially self-supporting since 1974, when the last Vietnam War-related extra hazard payments were made. Due to the high interest earnings in the early and mid-1980s, and the continued improvements in the mortality experience of the members of the service, the program had accumulated a surplus so that we were able to provide a premium at a below-cost rate of 8 cents per thousand per month.

As a result of drawing down that reserve, we will be bringing that rate up to 9 cents per thousand per month as of July 1994. That will result in an increase in the monthly premium of about \$2 for an insured who has the full \$200,000 in coverage, the maximum available.

The second program we supervise is VGLI, Veterans Group Life Insurance, which currently provides \$22 billion in insurance cov-

erage to over 334,000 people who have separated from military service. The cost is higher because the death rate is higher by 30 percent over the civilian death rate and over 350 percent higher than the death rate for active duty personnel. Also, the program incurs significantly higher administrative expenses since individual records must be maintained for each account, including premium collection and policy service actions.

Although originally limited to a single five-year term period, Public Law 102-568 allows VGLI to be renewed for an indefinite number of five-year term periods. Given this indefinitely renewable feature, we have had to extend the premium rates to accommodate older insureds and make other small adjustments. The new rates will take effect on the insured's next renewal date.

I will turn now to some of the enhancements and improvements in the delivery of insurance benefits and services implemented since the last oversight hearings, many of which were made possible by legislation strongly supported by this subcommittee.

The most recent changes in the insurance benefit structure went into effect last December 1 as a result of Public Law 102-568, the Veterans Benefits Act of 1992. The four programs affected were SGLI, VGLI, Service-Disabled Veterans Insurance, and Veterans Mortgage Life Insurance.

The biggest change was the increase from \$100,000 to \$200,000 in maximum coverage. We have some concerns about the positive enrollment features of that program which provides that unless veterans apply for the coverage, they are not covered.

Other coverage increases were provided on a negative enrollment basis where you have to opt out. We have already encountered several cases in which beneficiaries have claimed that an application was "in the works," that a member was never advised of the additional insurance coverage option or wasn't given the opportunity to apply. We will continue to review that situation to determine whether a change in the enrollment requirements may be warranted.

Going back to some earlier legislation, as a result of Public Law 100-687 we have been paying interest since 1991 to beneficiaries of the NSLI program, the one that Mr. Bilirakis still carries, as he indicated to us. The USGLI program, Veterans Special Life Insurance, and Veterans Reopened Insurance. Interest is paid on the amount payable to the beneficiary from the date of death of the insured to the date payment is made by the Treasury.

Mr. Chairman, I notice that my time has expired. We are looking forward on the administrative front to a number of program enhancements which were covered in the full statement and also to the construction of a replacement facility to house the regional office and insurance center. The new building will also house a regional office for the national cemetery system, the Office of the District Counsel for the eastern part of Pennsylvania, and one of our benefits delivery centers.

Mr. Chairman, that concludes my summary statement, Mr. Lastowka, Mr. Koons, and I would be pleased to respond to any concerns or answer any questions that you or other members of the committee may have.

[The prepared statement of Mr. Vogel appears on p. 25.]

Mr. SLATTERY. Mr. Vogel, thank you very much.

In your written statement, you express some concerns about the affirmative election requirement that was included in last year's increase in the maximum coverage under the SGLI program. Explain your concerns a little bit more in detail, would you.

Mr. VOGEL. Mr. Chairman, every previous increase in SGLI coverage, until the maximum was raised from \$100,000 to \$200,000, was automatic. The only way a member could not have that coverage would be to decline the coverage. In this case, they had to affirmatively make an application for the additional coverage above \$100,000. Fifty-four percent of the members did elect the increased coverage.

Mr. SLATTERY. Fifty-four percent, you say?

Mr. VOGEL. Fifty-four percent are covered for the maximum amount, and there are other gradations in \$10,000 increments, too. It doesn't have to go from \$100,000 to \$200,000, it could be 150,000 or some other amount. Some members didn't have the opportunity to apply. We have had some difficult cases involving deaths of members who weren't covered, but would have been automatically covered under the old, negative enrollment approach. December 1, 1992, we have had several members who didn't apply and then lost their lives; their beneficiaries were covered only for the base amount of \$100,000, but not the additional that they would have been covered for if it would have been automatic. Positive enrollment also places an administrative burden on the military services and their members to do the paperwork.

Mr. SLATTERY. What is the status of that right now? Does it appear that the enrollment number is increasing or is it stagnant there at approximately 50 some percent of those eligible electing to obtain the additional coverage? What is the indication? Has it leveled off or is it increasing?

Mr. VOGEL. It is increasing slightly. I think we have seen the first surge of interest. As the word gets out better and the family members become aware of the increased coverage, we expect to see some additional applications for the higher amount.

Mr. SLATTERY. What kind of problem would it be, John, if we changed this so it would require the service personnel to elect not to get the additional coverage? I mean, obviously that would probably significantly increase the number of people participating, don't you think?

Mr. VOGEL. I think we would have an increase in the amount participating, sir. The increase of \$2 per month, for the difference between \$100,000 and \$200,000 in coverage probably wouldn't cause very many to say that is too much money, and I am going to get out of the program or not take it.

Mr. SLATTERY. Is it \$2 a month for that additional \$100,000 or is it \$8 a month?

Mr. VOGEL. I am sorry, sir, \$8.

Mr. SLATTERY. Would you recommend us changing that to require an affirmative act on the part of the service personnel not to get it as opposed to—

Mr. VOGEL. We would be very pleased to work with you on a way to draft the legislation to allow a negative enrollment to provide

the additional coverage for the insureds and their beneficiaries in the event of death.

Mr. SLATTERY. Would that be administratively easier for you to deal with than the positive arrangement that we have, affirmative arrangement that we have now?

Mr. VOGEL. It would be much easier for the government.

Mr. SLATTERY. Pardon me?

Mr. VOGEL. It would, in fact, be easier administratively.

Mr. SLATTERY. It would be?

Mr. VOGEL. Yes, sir.

Mr. LASTOWKA. Yes, it would, it would be much easier, sir.

Mr. SLATTERY. Would the military view it as easier also?

Mr. LASTOWKA. I believe they would, sir. I can't speak for the military, but I believe they would. That is the way it has been in the past.

Mr. SLATTERY. I note that the Vice President's reinventing government package contains a proposal that was also included in the President's budget submission which would provide for the payment of the administrative cost of the VA insurance programs to be paid from the surplus funds in the NSLI trust funds. It is my understanding that this proposal is thought by some to be unconstitutional. I am just curious what is the view of your general counsel about the constitutionality of the proposal that the Vice President and the President have made in this area?

Mr. VOGEL. The view of the VA General Counsel is that it is likely that the action may be barred on constitutional grounds. However, an opinion received by the General Accounting Office equivocates on that, so the proposal has been made. Mr. Lastowka, do you have anything to add to that?

Mr. LASTOWKA. Yes, I would say that over the course of the years there have been differing opinions. Even in the strongest opinion of the VA General Counsel, they have said that ultimately it probably would be a question judged by the courts, and that it is a very close call as to whether it is constitutional or not.

Mr. SLATTERY. Of course the veterans groups don't like the idea at all, right?

Mr. LASTOWKA. I have seen different opinions expressed by different service organizations on that same question, sir.

Mr. SLATTERY. You indicate that funding of an additional \$6.2 million for additional features was requested for the construction of the new insurance center. In order for us to be better prepared to argue for support of this request, give us some additional background on this project and explain why it is necessary for the VA to be funding this additional cost for a GSA building. Can you give us more information on that?

Mr. LASTOWKA. Yes, sir. As Mr. Vogel indicated, the funding for that building will not only cover the regional office and insurance center, it will cover the District Counsel and it will cover the National Cemetery Office. It will also cover the funding for the Benefits Delivery Center. Many of the items that we want to introduce into the building exceed the capacity of the present building, which was built as an Atwater Kent radio factory.

We want to bring in additional telephone lines, additional electrical lines that would make the ADP secure. Approximately half

of the \$6 million has to do with upgrades to electrical service, upgrades to communication lines to support the Benefits Delivery Center.

The other major part of that is for a raised floor which we believe, under the VA's modernization program, will significantly save the agency money in terms of allowing flexibility in the future. We believe that that will be a feature of future VA offices; that will be considered intelligent buildings rather than the standard office buildings of today.

Mr. SLATTERY. What will be the total cost of the construction of the building, do you know?

Mr. LASTOWKA. Right now GSA has an appropriation, I believe it is \$54 million, sir, and the additional \$6 million would bring it to approximately \$60 million. Most of the cost will be borne by GSA.

Mr. SLATTERY. How much is the VA going to be charged on that as far as rent, do you know?

Mr. LASTOWKA. No, I don't have that figure, sir.

Mr. VOGEL. We will endeavor to provide that. It is essentially market rate at the time the building is completed plus whatever surcharges GSA puts on for the management of the building. We will try to give you our best estimate about what that is.

[The information follows:]

The new building will be occupied by the Regional Office and Insurance Center, District Counsel, Inspector General's office, National Cemetery Area Office, and the GSA Field Office. Also collocated in the building is the Benefits Delivery Center (BDC) which provides on-line operational support to the Insurance Centers in Philadelphia and St. Paul, as well as providing the 58 regional offices with access to insurance records. In addition, the BDC provides ADP support to 24 regional offices on the East Coast, the Veterans Health Administration and the National Cemetery System.

Concerning the cost of the new building, VA's request for \$6 million is to fund certain items in the new building. These items are primarily in the area of data processing/telecommunications that are special requirements of VA, and are needed to support the national insurance programs and the claims processing systems for the regional offices in the eastern part of the country. They include circuits for computer terminals at workstations, an increase in the capacity of the uninterruptable power supply system, and dual telecommunications demarcation points for split telecommunications routing within the building, which will allow for continuous service to customers, even during emergency situations.

GSA has not yet determined the actual SLUC (Standard Level User Charges) rate for the new building. However, they have advised us that they expect it will be approximately \$23 per square foot for the office space.

Mr. SLATTERY. One last question. We received numerous calls and letters from Members' offices on the newest wrinkle in the insurance dividends hoax that we deal with that has been, as you know, circulated for years. I am just curious, can you tell us how you are now dealing with this problem and give us an idea of the scale of what you are hearing on it?

Mr. KOONS. Yes, sir. The new wrinkle you referred to is the fact that rather than being directed to World War II and Korean veterans, the hoax has now spread to those who served during Vietnam and the post-Vietnam period, including some Desert Storm and Desert Shield troops. They are being advised that they are entitled to a dividend. We are averaging approximately 8,000 applications per week, which come in all sorts of forms of homemade applications.

Mr. SLATTERY. Eight thousand a week?

Mr. KOONS. Yes, sir. It was up to 20,000 a week at the peak. The way we are handling these now, since they deal primarily with individuals who are covered under the Servicemen's Group Life Insurance program, is to send them to Newark, to Prudential's headquarters. They are responding to them.

To keep the cost as low as possible, we use a postcard to advise them that it is a hoax. We try to get out the information as quickly as possible so they don't spread it to their friends and neighbors and so forth. We estimate that it has cost us, since February when we started sending them up to the office of Servicemen's Group Life Insurance, about \$120,000 just in postage and handling of those items.

Mr. SLATTERY. Do you have any idea where this originates? This has been going on for years, it seems like, and I am just curious.

Mr. KOONS. There is a grain of truth I guess in hoaxes like this, and there was, in fact, a dividend paid in the early 1950s. There was a lot of publicity associated with that in the press. Unfortunately, similar news releases resurfaced in the mid-1960s announcing a new dividend or benefit that was available to veterans, and organizations started to publish it, and to tell veterans to write to us.

Of course, we had paid out all the money from that earlier dividend, but unfortunately, the news of a dividend "for the asking" continues to circulate. Rarely do we find anybody who spreads it with ill intentions. It is generally people thinking that they are doing veterans a service by providing this information.

Mr. SLATTERY. You know, this is updated every year obviously, and I am just curious, you know, who in the world is out there generating this? Is somebody making some money out of this deal somehow?

Mr. KOONS. There have only been three indications, and they were very recent, where individuals offered for a fee to provide information and an application. The fees ranged anywhere from I believe \$2 to \$17. The individuals set up a post office box and they offered to provide the information for a fee. Those were turned over right away to our Inspector General, who worked with the postal inspectors to terminate those post office boxes as quickly as possible. These are the only instances where money was involved.

Mr. SLATTERY. Terminate them. I would hope there would be some kind of legal action brought against the people that were opening up these post office boxes or whatever they were doing. Have we gotten our hands on anybody that is responsible for this?

Mr. KOONS. We do know of three organizations. I do not know the status of the postal authorities' investigation at this point, though, sir.

Mr. VOGEL. Beyond that, Mr. Chairman, from time to time when we find fraudulent or other questionable practices about our programs, we usually refer them to the State insurance commissioners who are very vigorous and responsive.

Mr. SLATTERY. I would like a report from you, John, if you can just tell me exactly what organizations have been identified as being involved in the perpetration of this hoax, and I would like

to know exactly what has been done by either the Federal Government or State insurance commissioners.

I need to know exactly whether we have the authority at the Federal level to do something about this. Isn't this mail fraud? What is going on here and do we need some kind of legislation to address this? I mean if we do, tell us about it, and let's—tell me whether the State insurance commissioners have done anything. I would like to know what States these post office boxes were established in. I would like to know exactly what has been done to prosecute these people, and I would like to know exactly whether we have the legal authority at the Federal level to do anything about it. Will you all get back with us on that?

Mr. VOGEL. We certainly will, Mr. Chairman.

[The information follows:]

We transferred the responsibility for responding to the hoaxes to the Office of Servicemen's Group Life Insurance in February because 95 percent of the inquiries come from persons who asked for "SGLI refunds." The cost of responding to these inquiries is borne by the Servicemen's Group Life Insurance program. September of this year marked the first time in over a year that we began receiving decreasing numbers of hoax inquiries.

Although this rumor is, in almost all cases, spread by well-meaning individuals, we have identified a total of five instances where an individual or group is attempting to profit from this hoax. These cases are currently under investigation by VA's Inspector General, who is working with the Postal Inspector since mail fraud may be indicated. Because the investigation is currently moving forward, no details have been released, other than to say that the amounts in each case have been between \$2 and \$12. To this point, this has been a victimless crime, in that no examples of actual fraud have been found. It is not clear whether the individuals or groups involved were aware that the applications were for a non-existent dividend.

Mr. SLATTERY. Mr. Bilirakis has been very patient waiting here.

Mr. BILIRAKIS. Not at all, sir. In fact, I asked Sue Forrest if John Brizzi and she got together in setting up these questions because they are exactly alike, almost word for word, but continuing on with this hoax business, what kind of money is it costing the VA to deal with that and to respond? That is money that is coming out of other benefits beneficiaries' pockets, in effect, isn't that true?

Mr. KOONS. Right now, sir, it is coming out of the Servicemen's Group Life Insurance program, which is covered by the premiums paid by the members.

Mr. BILIRAKIS. Well, it is coming out of conceivably dividends or additional insurance as a result of dividends, right?

Mr. KOONS. It is increasing the cost of the SGLI program. They do not get dividends in that particular program, but of course it has an impact on the administrative cost and we try to keep the cost as low as possible, so it does affect eventually their premium rates in terms of the cost of running the program.

Mr. BILIRAKIS. Not being into make work, the chairman has asked for a number of things from you in that connection which are very, very important I feel, too, but would the cost attributed to that be possibly added to that? I don't want you to make work there, but you must have some sort of ideas.

Mr. KOONS. We would be glad to also give you that in the report, sir.

[The information follows:]

The costs of answering requests for the dividend hoax from active servicemembers and veterans since February 1993 total over \$120,000. The costs are borne by the Servicemen's Group Life Insurance program.

Mr. BILIRAKIS. Mr. Chairman, excuse me, I have asked that in addition to the other information on the hoax. Maybe they would let us know what it is costing the VA to handle that.

Mr. SLATTERY. Absolutely. I understood that you have said that you already incurred costs in the neighborhood of \$120,000 in postage to notify the veterans that have made inquiry?

Mr. KOONS. That is just since February, sir, yes.

Mr. BILIRAKIS. And then administrative costs added to that. That is staggering, it really is. Something ought to be done about that.

I have written down here who does the hoax, and is there a violation of law, and of course these are questions that the chairman has asked. Again, if it is going to take some sort of legislation on our part that can be advertised out there to keep this from happening, but I suppose if these are all do-gooders who really mean well by doing it, that makes it a little more difficult, doesn't it?

Mr. KOONS. Yes, sir.

Mr. BILIRAKIS. The Vice President's plan, the shifting of administration costs for certain VA insurance programs to the veterans dividends. Right now administrative costs that are ascertainable regarding a particular insurance program basically do come out of dividends in effect, do they not? The dividend is basically the net that is left over after the program is administered, is that basically it?

Mr. VOGEL. The Servicemen's Group Life Insurance program's administrative expenses are borne by the premiums paid by the insureds. The National Service Life Insurance program's operating expenses are paid for out of general operating expense, which are paid from appropriated funds. This proposal provides that we take trust funds that would otherwise go to the insureds as part of their annual dividends to defray that cost to the United States.

Mr. BILIRAKIS. So some of the aid programs, the administrative costs come out of the dividends and some come out of just general operating costs and some do not, is that basically correct?

Mr. VOGEL. The operating expenses of SGLI and VGLI come out of the reserve; there are no dividends in those programs, they are term programs. Virtually all expenses of the other programs are borne by the Government whether they are dividend-earning programs or term programs.

Mr. BILIRAKIS. Borne by the Government, meaning the VA budget?

Mr. VOGEL. That is right, sir.

Mr. BILIRAKIS. Well, do you have any opinion about that, John? Do you have any opinion about whether it ought to be done maybe the way the Vice President is suggesting?

Mr. VOGEL. The proposal is going to be made. It is interesting to get opinions from two legal officers of the United States Government that have different views on the same issue. It would appear, and this is John Vogel the nonlawyer talking, it appears to me to have contractual problems.

Mr. BILIRAKIS. But aside from the constitutional questions and the legal opinions and that sort of thing, from the standpoint of a veteran, you mentioned, Mr. Lastowka, some of the veterans' organizations are very unhappy about this proposal; leading me to believe that some are happy with it?

Mr. LASTOWKA. Sir, some have endorsed it in submissions.

Mr. BILIRAKIS. Some have endorsed it?

Mr. LASTOWKA. Yes, sir.

Mr. BILIRAKIS. Wow. Who are they? Off the top of your head. You don't have to give me them all.

Mr. LASTOWKA. I have seen it endorsed in the alternate budget that has been submitted by some service organizations.

Mr. BILIRAKIS. The alternate budget?

Mr. VOGEL. The independent budget, that is a collaborative effort of a number of the major veterans' service organizations.

Mr. BILIRAKIS. But by endorsing that independent budget, we know that they are also endorsing this particular provision?

Mr. VOGEL. We find that provision in their proposed budget.

Mr. BILIRAKIS. In their proposed budget? All right. I guess the thing about it is if something like this is good, then fine; if something like this is bad, as it continues to advance through the process and picks up steam, it is probably going to be too late to try to stop it unless there are true constitutional questions and it is stopped by a court of law. So I guess, the message being to the veterans' organizations, hey, if you think this is a good idea, all right, if you think it is a bad idea, you better get involved now and get it stopped early on, and that is the message, I think, to the veterans' service organizations.

On page three of your statement, John, you indicate the unfunded liability of \$388 million for the Service-Disabled Veterans Insurance program. Is this cause for concern or do you foresee any future problems with the SDVI program, referring to the unfunded liability?

Mr. KOONS. Sir, we know that the program, as Mr. Vogel indicated in his statement, was designed not to cover all of its costs because we know we are insuring disabled individuals.

Mr. BILIRAKIS. It is designed that way?

Mr. KOONS. Yes, sir. It represents the amount that the Government will have to pay over the life of all the insureds.

Mr. BILIRAKIS. But somewhere along the line we are going to have to reach out someplace else, aren't we?

Mr. KOONS. Every year appropriated funds go into this program. It runs on what we call a pay-as-you-go basis. For example, this year, an additional \$19 million will be appropriated to supplement the premium income.

Mr. BILIRAKIS. What if that is not forthcoming because of fiscal problems up here?

Mr. KOONS. It would be a problem in meeting our obligations in paying the claims, yes, sir. The \$388 million represents the present value of all those future appropriated funds we will need.

Mr. BILIRAKIS. Are we looking at the possibility of maybe changing that in some way so it can be more self-supporting rather than having unfunded dollars?

Mr. KOONS. We have not, sir. The premium rates are right in the contract, so we are pretty much locked into those at this point. There would be no way really to change the premiums for the existing policies.

Mr. BILIRAKIS. Just one last question, I think that I would have, then. Again, hitchhiking on the chairman's questions on the SGLI, the first \$100,000 is automatic unless they opt not to take it. What kind of a percentage do we find basically opting not to take that initial amount?

Mr. VOGEL. About 46 percent.

Mr. BILIRAKIS. Not to take the initial?

Mr. VOGEL. Not to take the maximum of \$200,000.

Mr. BILIRAKIS. No, not the maximum, the \$100,000.

Mr. LASTOWKA. Generally less than 1 percent do not take the initial \$100,000.

Mr. BILIRAKIS. So how does that work? That is something that wasn't in existence when I got out. How does that work? When a person gets discharged, or just before they are discharged, they are given some sort of a form?

Mr. VOGEL. When they enter active service, they say you are going to be covered for \$100,000 of life insurance, and it is going to cost you eight cents per month per thousand, but if you don't want it, fill this form out.

Mr. BILIRAKIS. So they have it during all the time they are in the service and it just continues on afterwards?

Mr. VOGEL. After the service, they are eligible to enroll in a term insurance program called Veterans Group Life Insurance, which is a post-separation program.

Mr. BILIRAKIS. So SGLI does not continue on after they are out of the service?

Mr. VOGEL. No. It just converts over upon their separation. They have to affirmatively get into that program. They have automatic coverage for the first 120 days after separation until they can get their affairs in order.

Mr. BILIRAKIS. Thank you. Just to finish up, again, getting back to that hoax business. I know there are other much more important issues out there that we are all concerned with, but if you want us to try to even help you in that regard, you are going to have to give us the input that the chairman has asked for. Thank you. Thank you, Mr. Chairman.

Mr. SLATTERY. Thank you, Mr. Bilirakis.

Let me just make an observation and sort of a challenge at the same time for the VA, all the folks working over there. I think I can say this on behalf of not only the subcommittee that I have the honor of chairing at this time, but also for other members of the committee on both sides of the political aisle, and that is when you all are experiencing problems or you see things that need to be done differently in the Department of Veterans Affairs, like this hoax problem, if we don't have laws on the books that enable the Federal Government to really get out there and smack somebody for setting up a post office box in South Succotash, Kansas, or wherever it may be to try to perpetrate this hoax on people, and it is costing you a lot of money, for goodness sakes, I challenge you all to not just sit on that information.

We shouldn't have to have a hearing to learn about this. Somebody in the VA that is dealing with this every day that is aware of this ought to be picking up the phone and calling me, okay, or they ought to be calling Mr. Bilirakis or somebody on this commit-

tee and letting us know about the problems that you all are dealing with. So I extend that invitation to every employee of the VA, every employee. And I really challenge you all to be proactive in terms of communicating with us and to every employee who doesn't feel like their superiors in the Administration are taking the ball and running with it, I urge them to contact us directly as citizens, as taxpayers, because we all have a responsibility and a role to play in making this government of ours work better.

And so I appreciate you all being here today, but I really want you to go back with that attitude that we are all paddling the same boat, and those of you who are over there working every day in a very diligent manner dealing with these problems need to feel the freedom and indeed the responsibility to come forward with ideas that we need to hear about what we can and should be doing to make this whole thing work better for our veterans and for the taxpayers, okay?

Mr. BILIRAKIS. Would the chairman yield for just a quick moment, sir?

Mr. SLATTERY. Yes.

Mr. BILIRAKIS. John, with the introduction of the automated attendant to route routine calls and insurance inquiries to a part-time unit during peak hours, and as I understand that handles about 3,500 calls a day and apparently that is working. Could the same technology be utilized in other areas?

Mr. VOGEL. Beyond insurance?

Mr. BILIRAKIS. Beyond insurance.

Mr. VOGEL. Yes, sir. We are, in fact, using that.

Mr. BILIRAKIS. You are using it in other areas?

Mr. VOGEL. One of the things that you will see in a future budget submission is a better way to handle regular inquiries, general benefit inquiries in our veterans' services divisions with enhanced technology and the utilization of alternative forms of work scheduling. But we do loan servicing off the clock; we do callbacks on benefits during nontraditional business hours; and we find that in fact it works, with better service to our beneficiaries.

Mr. BILIRAKIS. Sure, it sounds like such a good idea and it seems to be working, has a history, and I am glad to see that you are contemplating using it in other areas because obviously one of the major complaints we get is the holding on the telephone, being held on the line for such a long period of time. Thank you.

Mr. VOGEL. You are welcome, sir.

Mr. SLATTERY. Mr. Vogel, Mr. Lastowka, and Mr. Koons, thank you very much. Appreciate your being here today and appreciate your dedicated service over there, too, all the time. Thank you very much.

Mr. SLATTERY. On the next panel we have Mr. Cliff Dupree, the Associate Legislative Director of the Paralyzed Veterans of America; Mr. Larry Rhea, Deputy Director of Legislative Affairs, Non Commissioned Officers Association; and Mr. Bob Manhan, Assistant Director of the National Legislative Service for the Veterans of Foreign Wars.

Gentlemen, we welcome you all and recognize you for your testimony. Mr. Dupree.

STATEMENTS OF CLIFTON E. DUPREE, ASSOCIATE LEGISLATIVE DIRECTOR, PARALYZED VETERANS OF AMERICA; LARRY D. RHEA, DEPUTY DIRECTOR OF LEGISLATIVE AFFAIRS, NON COMMISSIONED OFFICERS ASSOCIATION; BOB MANHAN, ASSISTANT DIRECTOR, NATIONAL LEGISLATIVE SERVICE, VETERANS OF FOREIGN WARS

STATEMENT OF CLIFTON E. DUPREE

Mr. DUPREE. Good morning, sir.

Mr. Chairman and members of the subcommittee, on behalf of the members of the Paralyzed Veterans of America, I want to thank you for this opportunity to testify today on the operation of the Department of Veterans Affairs insurance programs. For many of PVA's members, VA life insurance and mortgage protection represents the single source of insurance coverage available to individuals otherwise ineligible for commercial coverage due to severe and total disabilities. Consequently, PVA and other veterans' service organizations advocated for increases in the maximum face value of VA life insurance policies available to eligible veterans.

As we have contended in the past, the need for providing such additional insurance protection was most apparent in the Service-Disabled Veterans Insurance, SDVI, program that offered life insurance to veterans with service-connected disabilities. Many of these veterans due to the disabilities for which they were service-connected were unable to supplement their basic \$10,000 SDVI policies with commercial life insurance due to the cost prohibitive premium rates.

Therefore, Mr. Chairman, I would like to thank you and the members of this subcommittee for all of your efforts and help in passing Public Law 102-568, Veterans Benefits Act of 1992, Title I, Dependency and Indemnity Compensation Reform Act of 1992. Along with reforming DIC for our widows and surviving children, this law made major changes to the VA life insurance programs.

Mr. Chairman, PVA believes that VA's management of both the administered and supervised insurance programs continues to represent one of the highlights of the Veterans Benefits Administration. While providing more than \$214 billion in life insurance protection, these programs make significant contributions toward providing adequate insurance protection for all veterans, their families, and dependents.

Vice President Al Gore's efforts to create a more effective government through the report of the National Performance Review has recommended changes to the VA's insurance program which potentially would have recovered veterans insurance administrative costs from premiums and dividends. These administrative costs are currently borne by the Department of Veterans Affairs and the law established by Congress.

PVA is concerned with this recommendation to recover veterans insurance administrative costs. We regard this potential shift in cost from the VA to the veteran as an undermining of a program founded on the sacrifices of American veterans over the years. The proposal in effect produces a reduction of benefit to which veterans and their survivors are entitled. According to VA, this proposal to

recover insurance administrative costs for premiums and dividends would amount to \$135 million in lost benefits to veterans.

In closing, Mr. Chairman, we would ask members of this committee to reject this purportedly minor revision in VA insurance programs. Based on past experiences, we know that such minor changes become the forerunner of a future avalanche of change.

I will be glad to answer any questions you may have.

[The prepared statement of Mr. Dupree appears on p. 45.]

Mr. SLATTERY. Mr. Rhea.

STATEMENT OF LARRY D. RHEA

Mr. RHEA. Thank you, Mr. Chairman, and good morning. The Non Commissioned Officers Association appreciates very much the invitation to testify at this oversight hearing. It is a welcomed opportunity for NCOA for several reasons. First, it gives the association an opportunity to express our gratitude for the attention given over the years by the Congress to the insurance needs of veterans and armed forces members. It is also an opportunity to state the association's appreciation for the recently enacted improvements to several insurance programs. It is also an occasion to express to the subcommittee publicly our thanks to the Department of Veterans Affairs for what we consider to be a magnificent job to effectively manage and administer various insurance programs, and additionally it provides an avenue for us to discuss some of our thoughts and concerns relative to the insurance programs and needs of military members and veterans.

As reflected in our prepared statement, NCOA is not aware of any particular problems in the administration or management of any of the eight VA supervised or administered programs. In our view, and as evidenced by annual VA reports, all eight programs are financially sound and are administered and supervised very effectively. Therefore, in the balance of my opening comments, I will confine my remarks to areas of concern and recommendations which we have.

In March 1992, GAO recommended that the administrative costs of USGLI, NSLI and VSLI be paid from excess funds in these programs. As has already been indicated, the President's National Performance Review has also targeted these programs. The NCOA has previously opposed such a change, and we do so again here today.

In the association's view, if the GAO and NPR recommendations were enacted it would constitute a serious breach of faith with the World War I, World War II, and Korea War era veterans insured under these programs. The net effect of the GAO and NPR recommendations is the imposition of a burden upwards of \$135 million on veterans who have already sacrificed at three critical junctures in our Nation's history. In the association's view, it is not a reinvention of government to require more sacrifice from these veterans in the twilight years of their lives.

NCOA also requests that the subcommittee consider two insurance needs of veterans, retirees and members of the National Guard and Reserve. Although it is not a life insurance program, NCOA wants to discuss the issue of dental insurance.

As you are aware, veterans lose dental care upon their severance from active duty except for the one year following their separation

or for service-connected conditions. Retirees, for all practical purposes, likewise lose dental care. Surveys of National Guard and Reserve members reveal that more than 60 percent of these members do not have dental coverage, and the magnitude of that problem was vividly brought to life during the Persian Gulf War.

Therefore, the association requests that the subcommittee explore the feasibility of a dental insurance program for veterans, retirees and Guard and Reserve members along the lines of the Delta dental plan currently in effect for dependents of active service members, but unlike the Delta dental plan, the association envisions that such a program could be structured so as to be completely self-sustaining.

The association believes that developing an attractive, low cost, self-sustaining program is possible simply as a factor of the large population base of potential eligible participants. Therefore, the association believes that a dialogue on this issue should be undertaken.

Secondly, the recently enacted Dependents Indemnity Compensation Reform Act brought great equity to the survivor compensation program. NCOA fully supported these changes and we thank the committee for making those changes.

Nevertheless, an unfortunate consequence of those changes was the reduction in benefits for prospective beneficiaries who served in military pay grades above E-8. Since many of the disabled veterans made financial planning decisions on the basis that their survivors would likely be eligible for the higher benefits of the old DIC programs, their financial planning decisions and assumptions have been rendered less than anticipated.

Increasing the limits of VGLI and allowing optional lifetime program participation serves as an offset for potential DIC loss for recently separated individuals. Unfortunately, the recent VGLI change did not help those who were discharged prior to the change in the DIC law. Accordingly, NCOA recommends that the Congress authorize a VGLI open enrollment period for disabled veterans whose survivors would potentially suffer a loss in future benefits under the DIC program.

In closing, let me restate the association's appreciation for today's hearing, and given the hazards and risks associated with day-to-day life in the military, the requirement for continued attention to this important area will not diminish in the years ahead.

We are grateful for what you have done and for consideration of our comments and recommendations. Thank you, Mr. Chairman.

[The prepared statement of Mr. Rhea appears on p. 49.]

Mr. SLATTERY. Thank you, Mr. Rhea.

Now we will hear from Bob Manhan.

STATEMENT OF BOB MANHAN

Mr. MANHAN. Thank you very much, Mr. Chairman, for inviting the Veterans of Foreign Wars to participate in your hearing this morning.

Because it is an overview hearing regarding the VA administration of various life insurance programs, we believe that generally speaking they have been doing an excellent job. I can't add much more to what my colleagues have already said.

The VFW does maintain a service officer at the VA's Regional Office and Insurance Center in Philadelphia, Pennsylvania, and according to the information he gave me, it takes the VA about 2 working days to turn around a death claim. We think that is very responsive to widows.

Generally speaking, we notice that the trend in all these types of life insurance programs are going more toward the commercial carriers, that is the SGLI, the Servicemen's Group Life Insurance which is administered by Prudential Insurance Company. Today, of all of the almost six million insurance policies in effect, approximately half of them are SGLI. Therefore, we wonder what will happen to the VA staff that is taking care of those earlier life insurance programs in the outyears as the older veterans slowly pass away.

We recognize that the VA itself has initiated some recent suggestions for expanding two or three different insurance programs in the future. The VFW statement does not comment on Vice President Gore's study. However, the VFW is now preparing a station-stand on all of Mr. Gore's suggestions as they effect the VA. The VFW does not support that "improvement" which says VA should be permitted to recover administrative costs of veterans' insurance programs from premiums and dividends. We certainly don't see how that would benefit a veteran nor how this would streamline the VA. We do see this recommendation, however, as a cost-saving measure, and we don't think it is right to save money at the expense of our older veterans.

This summarizes our position. Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Manhan appears on p. 54.]

Mr. SLATTERY. Thank you very much, Bob.

One of the things I would like to ask all of you is that one proposal that has been suggested to us is an expansion of the eligibility criteria for participation in the Veterans Mortgage Life Insurance program for all totally disabled service-connected veterans who are unable to obtain life insurance coverage from other sources, and as you know, this program is not self-supporting, and an expansion of it would require additional money.

First of all, do any of you have any idea how much it would cost to do a change like this and how would you suggest paying for it?

Mr. MANHAN. The VFW will attempt to respond. My organization has absolutely no idea of the cost, sir, because we don't know how many veterans are totally disabled. But generally speaking, because the VFW considers all veterans as equal with the service-connected veteran, the 100 percent disabled veteran as being first among equals, we would support all efforts to allow totally disabled veterans to participate in a mortgage insurance program.

Having said that, yes, we think that this would be a small cost that the American taxpayer should be able and willing to underwrite for all totally disabled veterans to receive some sort of extra protection from the Federal Government in the form of a mortgage life insurance program.

Mr. SLATTERY. Okay.

Mr. RHEA. Well, conceptually, sir, the Non Commissioned Officers Association, I believe, would support it. I have no means avail-

able here this morning, at least, to try to estimate any costs that would be involved in it. Beyond that, though, if there is some work that I could do to maybe get some of that, I would certainly be happy to do that for you and try to get back to you, even though I imagine it would be a rather substantial undertaking.

Mr. SLATTERY. That would be helpful.

Mr. RHEA. But in addition to that, I certainly echo what my colleague here on my right has said in regard to it.

Mr. SLATTERY. At a time when we are dealing with these terrible budget restrictions and freezes on discretionary spending and all this thing, what I am trying to do is identify certain areas that are particularly in need of change perhaps, and in this regard maybe we should focus on just dealing with the totally disabled, those that are unable to acquire insurance from other sources, and by doing that it may not cost very much and we may be able to find a way to pay for something like that, so that is what I was driving at.

Mr. DUPREE. Mr. Chairman, PVA would also like to suggest a way to modify the VMLI program. We believe it could be incorporated into the VA home loan program. When a veteran initially applies for a veterans home loan, or applies to refinance a current home loan, the veteran would be given the opportunity to apply for mortgage life insurance; the policy would be paid over the life of the loan. The amount of insurance would be no less than the current outstanding mortgage, not to exceed \$90,000 and would be decreasing term. Upon the veteran's death, the beneficiaries would be relieved of the mortgage debt, and the VA would be able to reduce the property inventory obligation to the lender.

We also believe that those veterans rated at 100 percent disabled and currently ineligible for veterans mortgage insurance, be considered for mortgage life insurance under this proposal. Currently, only veterans eligible for the specially adapted housing grant qualify for veterans mortgage life insurance.

Mr. SLATTERY. We like things that might be too easy. We will get a cost estimate on it. I was just curious what you all thought about that.

Bob, you didn't comment on the question on the Vice President's proposal to fund administrative costs from the surplus funds. I assume you share the views of your colleagues? I just wanted to get you on record in terms of what your reaction was to the proposal to fund the administrative costs from the surplus funds.

Mr. MANHAN. Thank you very much, Mr. Chairman, for giving the VFW the opportunity to go on record. We are preparing a statement addressing each one of the Vice President's points on National Performance Review as it affects the Department of Veterans Affairs.

The one that deals with the insurance programs being administratively funded out of the veterans' premiums, is not supported by the VFW. Our position is very much that as stated by the Non Commissioned Officers Association in the testimony they submitted this morning. The VFW, like the NCOA, cannot support the concept of diverting veterans' life insurance dividends to help defray administrative costs associated with running the several insurance programs.

Mr. SLATTERY. Bob, you raised some questions about the VA administration of the SGLI program. I am just curious what would you think about the idea of the VA administering the SGLI program directly?

Mr. MANHAN. The VFW could support that idea, Mr. Chairman. As I have previously stated the VA has a very competent staff who have a very fine track record of administering six or seven insurance programs over the last 50 or so years. It is even possible to save money by handling SGLI with government civil service employees. Perhaps even at some time in the future another Administration might change this group term policy into a permanent life program with premiums much as the earlier, pre-SGLI programs have.

I know that Congress is now passing the National Service Act. Therefore, the youngster who looks at his option, whether to join the uniformed services and get lesser benefits or to join some domestic civilian counterpart program today would be inclined to opt for the latter program. Hence, a better veteran life insurance program would be an incentive to enlist in the Armed Forces. The short answer to you is yes, this could be a very nice recruiting tool.

Mr. SLATTERY. Thank you very much. I will recognize Mr. Bilirakis at this time.

Mr. BILIRAKIS. Thank you, Mr. Chairman. I don't know that I will have any questions. I did want to note, as I sometimes like to do, because it may be the only committee where we have Administration witnesses who testify and then stay to listen to the other witnesses. I haven't seen it in any other committees. There may be some, obviously I am not a member of all of them, but I think the fact that Mr. Vogel and his associates, if I can call them that, and the other members of the staff stayed, I think it speaks very well of our Veterans Affairs Department.

I would say to you, Mr. Rhea, the Delta dental plan, interest. You talk about it being self-sustaining, et cetera, et cetera. You know, we have got big problems facing our veterans. If something like that is doable and self-sustaining, I don't know why in the world we shouldn't take a good look at it. So, I would just suggest that you might submit to us some of this material so that you have in your proposal. We can take a look at it. I think we should. I think it would be ridiculous not to. So if you would do that, sir.

Mr. BILIRAKIS. On the Vice President's proposal, and we don't mean to be picking on the Vice President here, but if there are savings of dollars based on his proposal, it sure as hell is not likely to be available to be used for other veterans programs. It is going to go—part of that general revenue fund which is—well, we know how that is spent, and certainly the Chairman has been one of the leaders in the Congress in opposing the irresponsible spending of our taxpayers' dollars. Again it would be just taking away again from veterans programs, and we see too much of that. The budget reconciliation package did that to veterans.

I worry, and I don't want to get off the track here, but I worry about this medical thing in which we are all in favor. I mean, we are all for reform, but we have got to make sure it doesn't badly and negatively impact veterans' health care. I guess about the last thing I would have to say to you, which is what I have said many

times, not only at the hearings, but also at the reception for the American Legion national commander, is to be diligent, not meaning to sound negative, but be diligent. Let's be careful here as to what might be happening downstream to veterans' health care by virtue of some of these so-called alliances and the choices that the veterans might have downstream somewhere.

Having said all that, Mr. Chairman, I will just turn it back to you. Thank you.

Mr. SLATTERY. Thank you, Mike.

Mr. Dupree, Mr. Rhea, Mr. Manhan, as always, we appreciate and value your input today and thank you very much for coming over and giving us the benefit of your thoughts. Thank you for being here. I have no further questions, and I appreciate it.

Mr. RHEA. Thank you, Mr. Chairman.

Mr. MANHAN. Thank you, Mr. Chairman.

Mr. SLATTERY. Our next panel is Mr. Joe Violante, the Legislative Counsel for the Disabled American Veterans and Colonel Chuck Partridge, Retired, United States Army, Legislative Counsel for the National Association for Uniformed Services Society of Military Widows.

STATEMENTS OF JOSEPH A. VIOLANTE, LEGISLATIVE COUNSEL, DISABLED AMERICAN VETERANS AND COLONEL CHARLES C. PARTRIDGE, USA (RET.), LEGISLATIVE COUNSEL, NATIONAL ASSOCIATION FOR UNIFORMED SERVICES SOCIETY OF MILITARY WIDOWS

STATEMENT OF JOSEPH A. VIOLANTE

Mr. VIOLANTE. Good morning, Mr. Chairman.

Mr. SLATTERY. Good morning. Welcome. We are prepared to receive your testimony.

Mr. VIOLANTE. Thank you. On behalf of the members of the Disabled American Veterans and its women's auxiliary, we welcome and appreciate this opportunity to present our views on the Department of Veterans Affairs insurance programs.

Initially, Mr. Chairman, let me state that we were saddened to learn of your plans to retire after this current year. We wish you success in your future endeavors. We are encouraged by your opening remarks, and we hope that we will be able to see the passage of legislation in the very near future that will meaningfully improve the VA's adjudication and appeals process.

Mr. Chairman, we are pleased to take this opportunity to publicly acknowledge and compliment the VA for the very effective way in which they manage and administer their insurance programs. Information we have received from our Philadelphia and St. Paul National Service Office staffs confirm that insurance inquiries and problems are handled in a very professional, efficient, and timely manner with few complaints regarding services rendered.

The focus of our testimony will be upon two life insurance programs administered by the VA: Service-Disabled Veterans Insurance, commonly referred to as RH Life Insurance, and Veterans Mortgage Life Insurance.

Mr. Chairman, at our 1993 national convention, our membership adopted three resolutions seeking enhancements and program im-

provements in two VA insurance programs—RH Life Insurance and Veterans Mortgage Life Insurance. With respect to the RH Life Insurance program, our members adopted two resolutions seeking an increase from \$10,000 to \$20,000 in the face value of RH Life Insurance and legislation that would authorize an open period for eligible service-connected disabled veterans to apply for RH Life Insurance.

With respect to Veterans Mortgage Life Insurance, our membership adopted one resolution seeking an extension of eligibility for this program to all veterans rated permanently and totally 100 percent service-connected disabled by the VA.

We are fully cognizant of the fiscal restraints confronting not only the VA but the Federal Government. Nevertheless, Mr. Chairman, service-connected disabled veterans continue to be limited in their insurability by private sector life insurance companies as a direct result of their service-connected disabilities, and many possess only RH Life Insurance at the maximum \$10,000 face value.

Mr. Chairman, at the DAV's request you introduced H.R. 3003 during this Congress, a measure that would accomplish the goals of increasing RH Life Insurance maximum face value coverage to \$20,000. We respectfully urge that the subcommittee favorably consider H.R. 3003 in order to offer service-connected disabled veterans an opportunity to provide more equitable life insurance coverage for their family members.

Mr. Chairman, Title 38 provides eligible veterans a two-year period to apply for RH Life Insurance from the date service-connected has been established. For one reason or another, many eligible service-connected veterans have not applied and do not apply for this benefit within the time period.

At our request, House Veterans Affairs Committee Chairman Sonny Montgomery introduced H.R. 2978, a measure that would provide an open period to apply for RH insurance. We respectfully request this legislation be favorably considered by the subcommittee.

Mr. Chairman, our final remarks this morning will focus on the Veterans Mortgage Life Insurance program administered by the VA, and our resolution seeking an expansion of eligibility for this insurance program.

There exists many severely disabled veterans who, as a result of service-connected disabilities are rated permanently and totally 100 percent disabled and are unable to purchase mortgage insurance protection from commercial insurers at any cost. Additionally, many of these severely disabled veterans have not accumulated the savings necessary to insure financial security for their families.

Mr. Chairman, at our request Chairman Sonny Montgomery introduced H.R. 2976, a measure that would extend to all 100 percent permanently and totally disabled service-connected veterans mortgage protection life insurance. We respectfully request this legislation be favorably considered.

Mr. Chairman, this concludes our testimony. I again wish to thank you and the members of the subcommittee for permitting us this opportunity to present our views on the insurance program. I will be pleased to respond to any questions you may have.

[The prepared statement of Mr. Violante appears on p. 57.]

Mr. SLATTERY. Oh, thank you, Mr. Violante.
Colonel Partridge.

STATEMENT OF COLONEL CHARLES C. PARTRIDGE, USA (RET.)

Colonel PARTRIDGE. Thank you, Mr. Chairman. We are going to miss you, Mr. Chairman, but having spent a delightful year at Fort Leavenworth, I don't blame you for wanting to return to Kansas.

Mr. SLATTERY. Thank you, Colonel. The other day several of my colleagues expressed the fact that they were going to miss me. I said only for about 5 minutes, and they looked at me and said, no, two or three, so I am looking forward to spending more time around Fort Leavenworth. It is a beautiful area, as you know.

Colonel PARTRIDGE. Yes, sir. We very much appreciate the opportunity to testify and would like, first, to talk about the effects on DIC widows resulting from the passage of the Omnibus Budget Reconciliation Act of 1990 wherein remarried widows forfeit the right to have DIC reinstated once their husband, second husband dies, and the problem comes by the fact that this law affected those widows who had already remarried, and we would like to see some sort of insurance program that could be put into place to help these women when their second husband dies because many of them were old, sick, and unable to get commercial insurance. They had planned on having DIC reinstated, but of course there was nothing they could do about it when the law changed that impact. Therefore, we think that a DVA-sponsored insurance program specially designed for this program to keep the cost down perhaps could be made available, at least looked at.

The second issue concerns the fact that in the past several years major changes have taken place within the insurance industry, and some of these insurance plans, we believe, should be reviewed toward making these products available to service members, retirees, and other veterans through the Department of Veterans Affairs.

Active duty personnel, for example, could be offered insurance which would build equity for the future. This equity could be used to assist in the payment of survival benefit premiums upon retirement. Such insurance would help offset the 20 percent reduction in the value of the military retirement program for 20 year retirees that was enacted in 1986, and it would enable more retirees to provide for their survivors.

For the lifetime insurance benefit along these lines, such as Whole Life, Universal Life that the individual could begin paying into when he is young, he or she is young, and this would be a great help for professional military personnel who retire late in life and therefore face expensive choices when buying post service insurance.

In closing, sir, we would just like to see some of these new policies and new insurance products looked at with a view toward making them available to military personnel. Thank you very much.

[The prepared statement of Colonel Partridge appears on p. 69.]

Mr. SLATTERY. Colonel Partridge, thank you very much.

Let me ask both of you your positions on the Vice President's proposal dealing with the administrative costs issue that we have talked about here today. I assume that you are probably in agree-

ment with the other service organizations that have expressed their views today. Is that true?

Colonel PARTRIDGE. Absolutely, sir, we would not support that at all.

Mr. VIOLANTE. I am not aware that we have formulated a position on that as of yet, but I know we are very concerned about the continued erosion of veterans benefits and programs, but as soon as we do have a formal position on that we will certainly make it known.

Mr. SLATTERY. The other question I have deals with the Veterans Mortgage Life Insurance program for totally disabled service-connected veterans who are unable to obtain life insurance coverage from other sources, and I am just curious, do you all have any ideas about how we can address this and do so in a sort of budget-neutral way? I know that when I ask these kind of questions I am asking you to sort of make a choice between your children in a way, but I see some areas here.

Colonel Partridge, you just defined dealing with the widows that remarry, and that is something I am determined to try to address before I complete my tour of duty here, and I welcome your input in terms of how we can address this in a budget-neutral way because I am not going to be able to deficit spend, in effect, to deal with some of these problems, and if there are areas that we can make choices in within the VA budget, I need your input on this if we are going to get this done, so it is going to have to be budget-neutral. I am not going to be able to get appropriated money from other accounts to do it. We are going to have to find it within the VA budget.

In some of these areas we are only talking about a few million dollars a year, but we are going to have to find the money to pay for it, and I need your input on that. Any ideas that you might have?

Colonel PARTRIDGE. I would like to look at the mortgage insurance. I cannot tell you offhand, but I would like to look at that and perhaps submit something. I thought the idea that was presented by an earlier witness, tying it to the mortgage perhaps might be able to do it.

Mr. SLATTERY. Have some merit?

Mr. VIOLANTE. I would have to agree with that, Mr. Chairman.

Mr. SLATTERY. Okay.

Any other questions?

Before we adjourn, I might let you all know that the status of the legislation that we passed out of the House earlier, the Kreidler bill, dealing with the effective date of the SGLI increase from last year. As you recall, we passed that out of the House, and the Senate is apparently including that in their DOD authorization bill, so one way or the other we will probably see the enactment of H.R. 2647 which will establish the international date line as the time effective for the increase in the SGLI benefits that we enacted last year, so it will address some of the problems that our colleague, Mr. Kreidler, identified, and bottom line, we will get that enacted and completed one way or the other, either a stand alone bill or as part of the DOD authorization bill, and I will be a member of the conference apparently dealing with that if it is in the DOD au-

thorization bill. So I want everybody to know that we are moving forward with that and hopefully we will get that done.

I appreciate your testimony today, I appreciate your attendance, and as always we value your input, so thank you very much for coming today. I have no further questions.

If you don't have any further comments for the good of the order, then we will stand adjourned.

Colonel PARTRIDGE. Thank you, Mr. Chairman.

[Whereupon, at 11:20 a.m., the subcommittee was adjourned.]

APPENDIX

Statement of R.J. Vogel
Deputy Under Secretary for Benefits
before the
Subcommittee on Compensation, Pension and Insurance
Committee on Veterans' Affairs
House of Representatives

September 23, 1993

Mr. Chairman and Members of the Subcommittee:

I am pleased to have this opportunity to provide the subcommittee with a report on the current position of the Government life insurance programs that are administered or supervised by the Department of Veterans Affairs. With me today are Tom Lastowka, Director of the Philadelphia Regional Office and Insurance Center, and Paul Koons, his Assistant Director for Insurance.

In addition to discussing the present financial condition of the eight programs, we will report on the program benefit enhancements and service improvements that have been implemented since the last oversight hearing, and on the construction of the new Regional Office and Insurance Center facility in Philadelphia.

The insurance programs administered and supervised by the Department of Veterans Affairs provide more than \$506 billion of insurance protection to 6.3 million veterans and members of the uniformed services. When compared with 2,000-plus commercial insurance companies nationwide, the amount of coverage provided by the VA-sponsored programs would rank us as the third largest life insurer in the country. (Exhibit A)

Generally, we break the eight programs into two broad groups: the six that we administer entirely in-house and the two that we supervise under a group contract with the Prudential Life Insurance Company of America and approximately 150 reinsuring companies.

Four of the six administered programs are self-supporting in that sufficient reserves have been invested in U.S. Treasury securities to ensure that each of the programs' future liabilities will be met without the need for any appropriated funds. These are the United States Government Life Insurance (USGLI) program, which covers World War I and post-World War I veterans; the National Service Life Insurance (NSLI) program, which primarily insures World War II veterans; the Veterans Special Life Insurance (VSLI) program, which was designed to insure Korean War veterans; and the Veterans Reopened Insurance (VRI) program, which insures disabled NSLI and VSLI policyholders who dropped their insurance and were given a one-year period beginning in 1965 to apply for this replacement insurance. The only expenses incurred for these four programs are VA's costs associated with administering the USGLI, NSLI, and VSLI programs, and a relatively small amount for what are referred to as extra-hazard payments for the USGLI and NSLI programs; by law, these are paid for by the Government.

Extra-hazard payments are authorized for death or disability claims when the death or disability was directly attributable to an injury or disease resulting from the extra hazards of military or naval service. These extra-hazard payments amounted to \$2 million in 1992, less than one-tenth of one percent of the programs' income. They generally represent payments to annuitants of USGLI or NSLI policyholders who died as a result of war-incurred injuries, or premium payments for policyholders whose premiums were waived because they became totally disabled as a result of war-related injuries. The expenses that VA incurs in administering the VRI program are paid for by a reimbursement from the VRI's trust fund each year.

The reserve levels for each of these programs are reviewed and adjusted each year by VA's actuarial staff to ensure that the programs remain financially sound. These determinations, which are based on mortality studies and the yield on investments, are reviewed on an annual basis by a group of eminent actuaries from the commercial insurance industry who provide their advice and guidance as a public service. In addition, VA's financial statements have been audited for the past two years by Price Waterhouse under a contract with the Inspector General and prior to that by the General Accounting Office (GAO). There were no qualifications made by Price Waterhouse for these programs in their most recent opinion.

We have provided a report (Exhibit B) on the amount of funds invested in U.S. Government securities and loaned to policyholders, and the average rate of return on these investments for each of the trust funds as of December 31, 1992. The pie chart in Exhibit C shows the percentage of trust funds invested in U.S. Treasury securities and the percentage that has been lent to policyholders. Exhibit D provides a comparison of the average rate of return on the NSLI trust fund investments and the rate of return on the aggregate investments of all commercial life insurance companies in the United States.

The average yield on our trust fund portfolio still reflects the relatively high rates of interest that we are earning on the segment of investments made in the early and mid-1980's. For example, the average yield on the NSLI trust funds as of June 30, 1993 was 9.2 percent. The portfolio is arranged to reflect the long-term nature of the liabilities so that 1/15th of the investments mature each year. Consequently, we still have NSLI securities that were invested in 1984 which are yielding interest at the rate of 13.375 percent.

The income the programs have earned on their investments has enabled the programs to pay fairly substantial dividends to policyholders and to increase some of the other benefits that the programs provide to policyholders and their beneficiaries. However, if the current trend in interest rates continues, the rate of return will gradually decline as the older investments are replaced with lower-yielding new investments. This will have an effect on dividends and on the interest that we credit to policyholders who leave their dividends in interest-bearing accounts, and on annuitants and beneficiaries, whose payments are affected by the current interest rate earned on the trust funds. The decline in interest rates has already had a significant effect on the rate that we charge policyholders who borrow funds. Since 1981, the interest rate charged for policy loans has been a variable rate that is tied to the U.S. Treasury's 10-Year Constant Maturities Index. Under our current regulations, the rate is adjusted on October 1 of each year based on the index rate for the preceding June. Currently, the rate is 7 percent and will be reduced to 5 percent on October 1, 1993. The only exception is USGLI loans, which by law are fixed at 5 percent and cannot be changed.

The two administered life insurance programs which are not financially self-supporting are the Service-Disabled Veterans Insurance (SDVI) and Veterans Mortgage Life Insurance (VMLI) programs. Both of these programs insure the lives of disabled veterans, and were intended to restore the insurability these veterans lost as a result of their disabilities. That is, they were designed so the veterans could acquire insurance at the same rates a non-disabled healthy individual could from a commercial company. Consequently, the premium rates that are charged are based on rate scales that were comparable to those used by commercial companies to insure healthy individuals when the programs were established. Since the mortality rates for the individuals insured by these VA-administered programs are significantly higher than the mortality rates for a comparable group of healthy individuals, the premium income is not sufficient to cover the claims' costs and annual subsidies are required. These subsidies are provided through the Veterans Insurance and Indemnities (VI&I) appropriation.

During fiscal year 1992, \$19,804,000 was transferred from the VI&I account to the SDVI program. Unlike the other programs, there are no reserves to fund the future liabilities of the SDVI program. Our actuarial staff estimates that if all SDVI policies are carried to maturity, the current unfunded liability amounts to \$388 million. This amount was calculated on a statutory accounting basis.

In the Veterans Mortgage Life Insurance program, a subsidy of \$3.3 million was required in fiscal year 1992. Approximately \$3 in appropriated funds are required for every \$1 in premium income to cover the costs of the VMLI program, which currently insures approximately 4,300 veterans who were entitled to a specially adapted housing grant. The total coverage provided by this program amounts to \$214 million.

Exhibits E-1 through E-6 provide a statistical profile for each of the administered programs as of the end of calendar year 1992. The profiles include the number insured by each program, the average face amount of each policy, the total coverage provided, the annual death rates and other significant program data.

The total disbursements including policy loans for the USGLI, NSLI, VSLI, VRI and SDVI programs this year are projected to be approximately \$2 billion. Of this total, nearly \$1 billion will be paid in dividends to 2,511,500 policyholders with participating policies.

The two supervised programs are the Servicemen's Group Life Insurance (SGLI) and Veterans Group Life Insurance (VGLI) programs. The SGLI program currently provides full-time insurance protection to approximately 2,995,000 members of the uniformed services, the Ready Reserves and the Retired Reserves, representing a total amount of coverage of \$458 billion. The primary insurer, the Prudential Insurance Company of America, administers the program from the Office of Servicemen's Group Life Insurance (OSGLI), located in Newark, New Jersey. Although the primary insurer is responsible for the day-to-day administration of the program, VA has retained primary responsibility for policy and program management decisions that involve legislation, nonroutine coverage determinations, and service delivery issues. VA and Prudential share responsibility for the financial management of the program and for setting premium rates that will ensure that the program operates on a self-supporting basis.

The program has maintained a strong financial position due, in part, to the high interest income from the invested reserve funds that was earned in the early and mid-1980's and to the continued improvements in the mortality experience of the active duty members. As a result of these two favorable factors, the SGLI program accumulated a surplus, which was invested in short-term Treasury securities and held in the SGLI revolving fund for the benefit of the members. We have gradually liquidated the surplus over the last nine years by supplementing the premium income collected from the members and providing coverage at a below-cost rate of 8 cents per \$1,000 per month. With the need to strengthen the reserves to cover the increased coverage amounts that were authorized by Public Law 102-568, this surplus fund, which was designated as "the premium stabilization reserve," will soon be depleted. Consequently, we are planning to increase the premium rate for active duty and reserve members from 8 cents per \$1,000 per month to 9 cents per \$1,000 per month as of July 1, 1994. The result will be an increase in the monthly premium from \$16 to \$18 for \$200,000 in coverage, which is the maximum amount available.

It is worth noting here that the SGLI program has been entirely self-supporting financially since 1974, which was the last time the Government contributed funds under the extra-hazards provisions of the enabling legislation. During the Vietnam War, approximately one-half billion dollars in extra-hazard payments were made by the military services to cover the claims that were attributable to the deaths that occurred as a result of the wartime hostilities. Since that time, all of the claims and administrative expenses have been covered by the members' premium payments and the investment income.

The second program supervised by VA is the Veterans' Group Life Insurance (VGLI) program. VGLI provides post-separation coverage to active duty personnel and to a small group of Individual Ready Reservists and Inactive National Guard members who are in a nondrilling status. Although originally VGLI was limited to a single five-year term period, Public Law 102-568 allows VGLI to be renewed for an indefinite number of five-year term periods. We currently insure 334,230 veterans and members of the Individual Ready Reserves and Inactive National Guard for \$22 billion in insurance coverage. Unlike SGLI, where the active duty death rate (.7 per 1,000) is less than one half the death rate (1.81 per 1,000) of the general civilian population for the same average age, the VGLI death rate (2.55 per 1,000) is 30 percent higher than the comparable civilian rate (1.96 per 1,000). Consequently, the premiums are significantly higher than the 8 cents per \$1,000 per month that we have been charging the active duty and reservist members. The VGLI program also incurs significantly higher administrative expenses, since individual records must be maintained for each account, including premium collection and policy service actions. With the indefinitely renewable feature of VGLI, we have had to extend the premium rate tables for VGLI and make some other minor adjustments in the rate structure. These new rates, which we have provided in Exhibit F-1, will take effect on the insured's next renewal date. Although VGLI insureds may now renew their coverage, they still retain the option of converting to a permanent plan of commercial insurance with one of approximately 150 participating companies. The premium rates charged for a converted policy are guaranteed to be the same as the companies would charge individuals who are classified as standard (healthy) risks.

The SGLI and the VGLI programs are subject to the competition of the marketplace. There are several "fraternal associations" that offer insurance protection to servicemembers and veterans. A few of these organizations offer coverage at lower rates for certain ages. This is possible because of their underwriting and health requirements, which allow them to exclude "bad health risks." They also do not have the costs associated with the 120-day free post-separation coverage period or the costs associated with the conversion privilege to a permanent plan of commercial insurance. Premiums for SGLI and VGLI are based on the mortality experience of the entire group and also cover the expenses associated with administering the program. Except for a relatively small risk charge which is shared by all of the reinsurers, the program operates on a cost-reimbursement-only basis. That is, the primary insurer is reimbursed only for the expenses it incurs in administering the program. These expenses are periodically audited by an independent accounting firm. Exhibits F-2 and F-3 provide detailed statistical profiles of the SGLI and VGLI programs.

I will turn now to some of the benefit enhancements and improvements in the delivery of insurance benefits and services that we have implemented since the last oversight hearings. Many of these enhancements were made possible by legislation that was strongly supported by this committee. In managing both the administered and supervised programs, we are committed to identifying and meeting the needs of our customers both in terms of maximizing the benefits they receive and in providing service to them as policyholders and beneficiaries.

In managing the trust funds for the administered programs we have followed what the actuaries would describe as "contribution principles" in allocating the investment earnings that the funds have yielded. Based on this approach, the Secretary approved a 25 percent increase over the guaranteed amount of the monthly payments made to NSLI annuitants in June of 1990. This was added to a 50 percent increase that was authorized in 1988. The increases were approved by the Secretary on the basis that the reserves held for these annuitant payments were generating income which should be properly shared by the annuitants. As a result, the total increase in monthly payments has amounted to 75 percent over the guaranteed amount. In January 1993, a similar 75 percent increase was authorized by the Secretary for VSLI annuitants. These increases make our total annual payout to this group of 103,000 beneficiaries approximately \$72 million.

Similar reasoning led to the payment of interest to beneficiaries of USGLI, NSLI, VSLI, and VRI policies who have received lump sum payments since May of 1991. Interest is paid on the amount payable to the beneficiary from the date of death of the insured to the date payment is made by the Treasury. The interest rate is tied to the average yield on the trust funds, where the money is held until payment is authorized. Although proceeds are generally paid to a beneficiary within five days of the receipt of claim, there are occasions when payment may be delayed. This can happen if a beneficiary cannot be located, there is a contested claim, or when payment to an estate or minor beneficiary is involved. This action was authorized by Public Law 100-687.

We frequently receive requests from policyholders for information on how they can obtain additional insurance. The maximum amount of a policy issued under the NSLI, VSLI, and VRI programs is \$10,000. However, since 1972 policyholders in these programs have had the option of using their dividends to buy additional insurance. Some policyholders have accumulated as much as \$30,000 in additional coverage using this option. In January of 1990, the Secretary authorized a 10 percent increase in the amount of paid-up additions that had been previously purchased by policyholders, based once again on the favorable interest earnings of the reserves. A similar 15 percent increase had previously been approved in 1987, which we reported on during our last oversight hearings.

Additional coverage became available as a result of the legislation introduced by this committee and enacted in Public Law 102-86, which gave 337,000 policyholders who were holding their dividends in a dividend credit or deposit account the opportunity to use their accumulated dividends to buy paid up additions. In September of 1991, a one-year "open season" was declared for this purpose. Approximately 30 percent of the eligible policyholders took advantage of this option and purchased \$423 million in additional coverage.

Another benefit enhancement was approved by the Secretary, as part of his annual dividend declaration, for policyholders who have purchased the total disability income provision (TDIP) rider. This optional policy rider provides for monthly income payments to policyholders who become totally disabled for six months or more. The Secretary declared a dividend for this group, payable to both totally disabled policyholders who are receiving monthly payments and to those who are still paying for the rider. The payments for totally disabled policyholders with the rider were increased by 50 percent as of July 1991. Those who are still paying for the rider received a dividend that essentially decreased their payment amount by 50 percent beginning in October 1992. These dividend payments will continue for an indefinite period and have resulted in increased TDIP payments of approximately \$13 million annually.

The most significant changes in the insurance benefit structure went into effect last December 1 as a result of the Veterans' Benefits Act of 1992, Public Law 102-568. The four programs affected were SGLI, VGLI, WMLI and Service-Disabled Veterans Insurance (S-DVI).

The maximum amount of SGLI coverage available was increased from \$100,000 to \$200,000. The maximum amount of VGLI coverage was also raised to \$200,000 for those separating on or after the effective date of the law. Additionally, VGLI is now renewable for life in five-year term periods, with conversion to a commercial permanent plan policy available at the end of each term period.

Unlike previous SGLI increases, which were applied automatically, application must be made for the additional \$100,000 in coverage, and an open season was declared from December 1, 1992, to March 31, 1993, for this purpose. To prepare for this open season, more than four million applications were redesigned to accommodate the new coverage amounts and distributed throughout the military. We have some concerns about the impact of requiring an affirmative application for the coverage as compared with the negative enrollment feature that exists for the first \$100,000 in coverage. Under the negative enrollment approach, servicemembers are automatically insured unless they decline the coverage in writing. With the affirmative application requirement for the additional \$100,000, we have already encountered several difficult cases where the beneficiaries have claimed that the application was completed but lost, or that the member was never advised of the additional coverage option or given the opportunity to apply. We will continue to review this situation to determine whether a change in the enrollment requirements is warranted. I should note that despite these cases, both the Office of Servicemen's Group Life Insurance and the military services did an outstanding job in printing and distributing the applications to members of the uniformed services throughout the world between October 29, the date the law was passed, and the December 1 effective date.

The Veterans Benefits Act of 1992 also gave totally disabled policyholders in the S-DVI program who are under the age of 65 the option of purchasing an additional \$20,000 in coverage. A one-year open season was granted to the 51,000 currently eligible policyholders to apply for the additional coverage. An application was mailed to each policyholder. Approximately 5,500 applications for the coverage have been approved and more than \$101 million in coverage has been issued. The open season ends on October 28 of this year. Policyholders who become totally disabled in the future will have one year from the time they are granted a waiver of their premiums to apply for the supplemental coverage.

The new act also increased the maximum coverage amount in the WMLI program from \$40,000 to \$90,000. The increase was granted on a negative-enrollment basis to the 2,000 policyholders who had mortgages in excess of \$40,000. Only 196 declined the additional coverage. An additional \$54 million in coverage was issued as a result.

As managers of the VA insurance programs, we strongly support the concepts associated with the President's efforts to "reinvent Government." In addition to implementing the preceding benefit enhancements, we have also concentrated our efforts over the past several years on identifying our customers' needs and meeting those needs as best we can with the resources available to us. As one result of our efforts, the employees at the Philadelphia VA Regional Office and Insurance Center were recognized by the Federal Quality Institute in 1992 as one of the Quality Improvement Prototype Award recipients.

As part of our total quality management efforts, we have streamlined several of our key work processes and service delivery systems. For example, last December we introduced a new dividend option which we call the net premium billing option, which allows policyholders to use their annual dividends to pay their premiums. Under this option, the dividend is automatically applied to pay as many monthly premiums as possible and the insured is billed for the balance of the annual premium. If the dividend amount is greater than the amount of the annual premium, the excess amount is refunded, used to buy additional insurance or reduce an outstanding loan balance. Approximately 30 percent of those eligible for this option have elected it as a convenient premium payment alternative.

We have also encouraged the use of FAX numbers and special post office box numbers to speed the processing of claims and loan applications. Our average processing times for these two critical end products is 5 workdays for a claim and 2 1/2 days for a policy loan, which compare very favorably with the average processing times for commercial insurers.

The most significant service improvement that we have made in the past few years has been the introduction of nationwide toll-free telephone service for policyholders and beneficiaries. We have answered more than 3.5 million calls since we began this service in 1988. We are currently answering approximately 3,500 calls each day. The demand for this type of service has continued to grow and we have been challenged to find innovative ways to meet the demand within the limits of staffing resources available to us. Since the inception of the service, we have added additional lines two times, and introduced technology (an "automated attendant") that allows us to route routine calls to a part-time unit that works during peak hours. The automated attendant also offers after-hours callers the option of leaving a message with a promise of a call back the next day, or of listening to prerecorded answers to the most frequently asked insurance questions.

The Insurance Service is also working with the Veterans Assistance Service on a project that is designed to acquire what is referred to as interactive voice response technology, which would give policyholders the option of accessing their account through a touch-tone phone to obtain information on the status of their account. For example, they would be able to check on the due date and amount of their next premium, or on the current loan or cash surrender values that are available to them. They could also check on the status of their next or previous dividend payment.

We have also taken advantage of the wealth of information that is available from our callers to identify their most pressing service needs, and to identify the forms and form letters that cause the most confusion or frustration. We have already modified several of our forms as a result of this feedback from our toll-free telephone "listening post." In response to our callers' needs for information, we will begin mailing an annual statement to all policyholders early next year. The statement will provide the information most frequently asked by policyholders when they call about the status of their policies. The new statement has been reviewed by a focus group of policyholders to ensure that it is easy to understand.

We have made it easier for veterans benefits counselors around the country to obtain information on an insured's policy and to respond to routine requests for status reports when a policyholder calls VA's new national veterans assistance toll-free telephone number. We have also assisted the Office of Servicemen's Group Life Insurance with the establishment of a nationwide toll-free telephone number for questions concerning SGLI and VGLI, which will begin operation next month.

We are experimenting with an alternative worksite initiative, or what has been called a "flexiplace" prototype, where an employee works at home or at an approved remote site. Flexiplace will allow us to hire and retain individuals who cannot work in a conventional office setting for various reasons, such as persons with small children or eldercare responsibilities, and for some specially-abled individuals. Flexiplace provides a way to remain competitive with opportunities available in the private sector, allows trained employees to be retained, gives management flexibility in handling excessive workloads, and provides alternate scheduling, which allows us to provide better service to customers.

There is one other administrative area that I want to report on today, and that is the ADP system that supports the insurance programs. Since the last oversight hearing, we have made significant progress in modernizing the system. All of the computer programs have been rewritten in a modern language, which allows for greater flexibility and therefore easier programming. The majority of policy service actions that require ADP support can now be accomplished through the use of a video display terminal. We have virtually eliminated our reliance on antiquated technology such as punch cards and optical character readers. We have successfully incorporated the use of barcode technology in work processing to enhance the delivery of services to policyholders. Barcoding is especially useful for high volume applications, where it has been shown to reduce processing time dramatically when compared to applications processed manually.

The Insurance programs are an integral part of the Veterans Benefits Administration's modernization plans, and as part of those plans we are currently installing new workstations that will provide on-line access to manuals and reference material for faster processing. These workstations will also provide advanced word processing to improve the accuracy and timeliness of correspondence. We hope to have both of these applications available by the end of the year.

However, we still have one major hurdle to overcome, which is to expand the insurance data base so it can handle larger field sizes. We are still handicapped in our ability to process certain payment amounts that were not anticipated when the data base was designed in the 1960's. As a temporary measure, we frequently have to split large policies into two or more smaller policies in order to make these payments through the ADP system. This occasionally causes some confusion and frustration to our policyholders. Most of these situations involve accounts that have accumulated large amounts of paid-up additional insurance. We are currently working on the expansion of the fields and plan to have it completed by the end of next year. In addition to eliminating the confusion, the expanded data base will also allow us to eliminate a significant amount of calculations that our workforce must now perform clerically. This in turn will help us improve our processing timeframes.

The last topic I would like to address is the new building site at the Philadelphia Regional Office and Insurance Center. In 1988, Congress appropriated \$54 million to GSA to construct a new facility for VA. The intent of the project is to provide VA with a modern facility to replace its outmoded, turn-of-the-century industrial space and help us meet the challenges of the 1990's and beyond. GSA subsequently proposed that VA be housed in a Federal building to be constructed at 30th and Walnut Streets on a site owned by the postal service and adjacent to the main post office in Philadelphia. VA objected to the downtown location because we believed the Regional Office and Insurance Center, with an average grade of GS 6.7, could not be a competitive employer in a building housing regional headquarters of other agencies and so close to the postal operations.

This facility will be occupied by the VA Regional Office and Insurance Center, District Counsel, Inspector General's Office, National Cemetery Area Office and the GSA Field Office. The Benefits Delivery Center (BDC) provides day-to-day, on-line operational support to the Insurance Centers here and in St. Paul, to the Regional Office, and to the thirteen other regional offices on the East Coast. It also provides ADP services to the Veterans Health Administration and the National Cemetery System.

The plan calls for a four-story building with a total of 375,000 square feet. The Insurance Center, which is the headquarters for the VA insurance program, has a total net square footage of 87,029. This includes approximately 40,844 square feet for insurance files. The collections section, which receives and deposits to the Federal Reserve Bank more than \$2,000,000 per day in insurance and other remittances, will occupy 5,000 square feet of space, sharing heating, ventilation, lighting and other utilities with the computer center.

Ground breaking is scheduled for December 1993 or January 1994. GSA is in the process of obtaining two bids. One bid is for an 18-month completion date and the other has a 24-month deadline.

GSA and VA have worked closely together to ensure the building is designed with features that allow for a more cost-efficient building and will make future changes and alterations easier and less expensive. Provisions have been made for back-up support capabilities to ensure continuous operation, especially the Benefits Delivery Center computer site, along with the Regional Office and Insurance Center's nationwide 800 telephone system. To do this, a number of features have been planned which are above GSA standards and do not exist in our present building.

These features include dual power/telecommunication entrances, dedicated terminal electrical circuits, horizontal telecommunications wiring, and additional UPS system capacity. VA has requested funding of \$6.2 million for these additional features.

VA and GSA believe that this modern office building will facilitate economic and effective operations of the various VA facilities in today's environment of increasing reliance upon electronic data communication and manipulation.

Mr. Chairman, this concludes my prepared remarks on the status of the VA's insurance programs. We will be pleased to answer any questions you may have and provide any additional information that you may require on any of these programs.

VA-Administered Insurance Programs

Face Amount of Coverage	
VA versus Commercial Insurers	Exhibit A
Investment Formula	
Investments per Program	Exhibit B
Trust Fund Investments	Exhibit C
Yield on Investments	Exhibit D

Individual Program Summaries
VA-Administered Insurance Programs

United States Government Life Insurance	Exhibit E-1
National Service Life Insurance	Exhibit E-2
Veterans Special Life Insurance	Exhibit E-3
Service-Disabled Veterans Insurance	Exhibit E-4
Veterans Reopened Insurance	Exhibit E-5
Veterans Mortgage Life Insurance	Exhibit E-6

Individual Program Summaries
VA-Supervised Group Insurance Programs

Veterans' Group Life Insurance Premium Rates	Exhibit F-1
Servicemen's Group Life Insurance	Exhibit F-2
Veterans' Group Life Insurance	Exhibit F-3

Face Amount of Coverage

VA vs. Commercial Insurers

(in Billions)

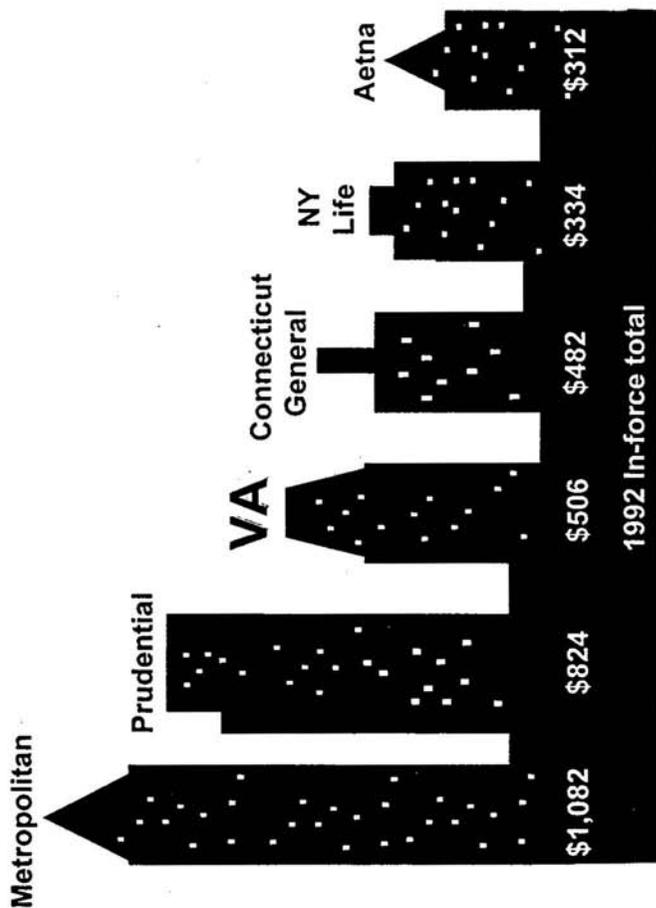


Exhibit A

Insurance Trust Fund Investments

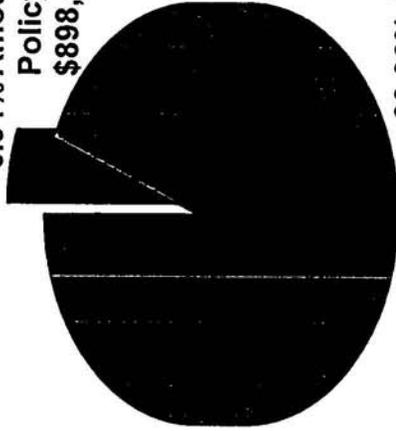
September 30, 1992

Fund	NSLI(V)	USGLI(K)	VSLI(RS/W)	VR(I,J,R,J,S)
General Authority	38 USC 720(b)	38 USC 755(b)	38 USC 723(c)	38 USC 725(d)
Formula for Obtaining the Yields on US Security Investments	The average market yield on all marketable interest-bearing obligations of the public debt of the US that are not due or callable until after the expiration of 3 years. (minus 1/4% for funds invested prior to January 1, 1985). Calculated as of the end of the preceding month.	The average market yield on all marketable interest-bearing obligations of the public debt of the US that are not due or callable until after the expiration of 3 years. (minus 1/2% for funds invested prior to January 1, 1985). Calculated as of the end of the preceding month.	The average rate of interest (coupon rate) borne by all marketable interest-bearing obligations of the US, forming a part of the public debt that are not due or callable until after at least 5 years from the date of original issue.	The average market yield on all marketable interest-bearing obligations of the public debt if the US that are not due or callable until after the expiration of 4 years. Calculated as of the end of the preceding month.
Portfolio Arrangement	All new and rollover investments are spread over periods of 1 to 15 years so that there are equal amounts of maturities each June 30 for all funds except "K". Because of cash flow requirement, the investments being made in the "K" fund are all with maturity dates of the next June 30th.			
Formula Established By	1985 Agreement between VA and Treasury	1985 Agreement between VA and Treasury	PL 85-896	PL 88-664
Amount Invested in US Government Securities	\$11,310,124,000	\$134,384,000	\$1,405,847,000	\$509,442,000
Average Rate of Return on all Investments in US Securities	9.52%	8.17%	9.84%	9.98%
Interest Rate on New Investments in US Securities (April, May, June)	7.18%	7.09%	8.83%	7.35%
Amount Invested in Policy Loans	\$775,837,827	\$10,680,982	\$78,082,590	\$24,806,491
Percentage of Trust Fund Investments in Policy Loans	6.42%	7.36%	5.26%	4.64%
Average Rate of Return on Policy Loans	5.40%	4.34%	6.46%	6.53%
Total Investment Amount	\$12,085,961,827	\$145,064,982	\$1,483,929,590	\$534,248,491
Rate of Return on all Investments (Loans and US Securities)	9.26%	7.89%	9.66%	9.82%

Exhibit B

**Insurance Trust Fund Investments
as of June 30, 1993
U.S. Government Securities**

**6.04% Amount Invested in
Policy Loans
\$898,515,726**

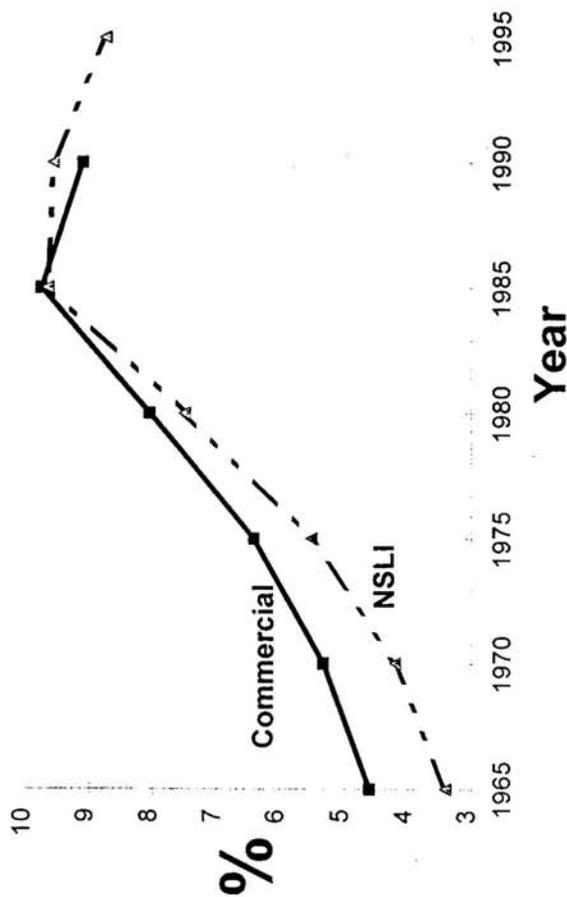


**93.96% Amount Invested in
U.S. Government Securities
\$13,974,444,000**

**Total Investment-
\$14,872,959,726**

Yield on Investments

NSLI vs. Commercial Life Insurance Companies



* 1993 through 1995 rates are projected

Exhibit D

**United States Government Life Insurance
(Policy Numbers Prefixed with "K")**

The War Risk Insurance Act of 1917 authorized the issuance of yearly renewable term policies to service personnel in amounts ranging from \$1,000 to \$10,000. These policies were issued from October 6, 1917 until June 7, 1924 when authority for their issuance was rescinded by act of Congress. During that period, approximately 4.4 million policies were issued for a face value of over \$4 billion of insurance. The final expiration date of any yearly renewable term policy not converted to a permanent plan or a five-year convertible policy was July 2, 1927 unless the policyholder became disabled prior to that date.

The USGLI program was established in 1919 to handle the direct issuance of new permanent plan policies and conversions from War Risk term insurance. Very few new USGLI policies were actually issued until after June 7, 1924, when the issuance of War Risk term policies was terminated. New insurance could only be issued upon entry into the services until May 29, 1928 when the law was amended to permit anyone, in or out of service, who served honorably during World War I, to apply for new insurance at that time. The USGLI program was closed to new issues on October 8, 1940, except for World War I veterans who could apply for such coverage until April 24, 1951.

A total of approximately 1.15 million USGLI policies were issued, of which about 600,000 were in force in 1940 when the program closed to new issue for all but World War I veterans. The amount of insurance in force is currently decreasing at the rate of between nine and ten percent per year (9.9 percent in 1992). As of September 30, 1992, only 32,552 of the original 1.15 million USGLI policies issued still remain in force.

Program Statistics:

Opening Date-----	January 1, 1919
Closing Date (Non-World War I Veterans)-----	October 8, 1940
Closing Date (World War I Veterans)-----	April 24, 1951
Number of Policies Issued (new issues and conversions from War Risk Term Insurance)-----	1,153,000
Face Value of Policies Issued-----	\$4,857,600,000
Average Amount per Policy Issued-----	\$4,213
Number of Five-year Term Policies in Force-----	256
Number of Permanent Plan Policies in Force-----	32,296
Face Value of Policies in Force-----	\$114,040,652
Average Amount per Policy in Force-----	\$3,503
Average Attained Age in 1992-----	78.9 years
Average Annual Death Rate-----	76.5 per 1,000
Total Investments of USGLI Fund-----	\$148,106,911
Average Rate of Return on all Investments (As of September 30, 1992)-----	7.8 percent
Total Disbursements in FY 1992-----	\$28,862,253

National Service Life Insurance
(Policy Numbers Prefixed with "V", "H", "N" or "AN")

The imminence of large scale military inductions into World War II resulted in the enactment of legislation on October 8, 1940 which created a new insurance program known as National Service Life Insurance (NSLI). This legislation also closed the USGLI program to new issues for all but World War I veterans. The NSLI program was established in order to protect the USGLI fund surplus from depletion due to wartime claims and to permit the updated total disability and beneficiary selection provisions. Incoming service personnel were eligible to apply for the issuance of five-year, non-renewable term policies in sums ranging from \$1,000 to \$10,000, which were convertible to permanent insurance after one year.

The end of World War II brought several changes similar to those which occurred after World War I. The Insurance Act of 1946 provided the following:

- a. Removal of restrictions on beneficiary selection;
- b. Expanded optional settlement;
- c. An optional total disability income provision;
- d. Additional permanent plans available for conversion from term insurance;
- e. Availability of insurance to World War II veterans who were no longer in service;
- f. Availability of insurance to World War II veterans lacking coverage due to a service-connected disability less than total in degree.

Subsequent legislation provided that permanent plan insurance could be issued without preexisting term coverage and that the term policies in force could be indefinitely renewed. The Insurance Act of 1951 closed both the NSLI and USGLI programs to new issues on April 24, 1951.

Over 22 million policies were issued under the NSLI program, of which 2,493,909 remain in force, for a total amount of \$20,982,310,346 of insurance coverage. Included in the 2,493,909 total NSLI accounts are 2,096 "H" accounts. This insurance was issued between August 1, 1946 and December 31, 1949 to certain veterans with service-incurred disabilities. This insurance has the same premium rates and policy provisions as "V" insurance except that it is non-participating (i.e. the policyholders do not receive dividends).

Program Statistics:

Opening Date-----	October 8, 1940
Closing Date-----	April 24, 1951
Number of Policies Issued-----	22,177,000
Face Value of Policies Issued-----	\$173,765,000,000
Average Amount per Policy Issued-----	\$7,835
Number of Five-year Term Policies in Force-----	675,897
Number of Permanent Plan Policies in Force-----	1,818,012
Average Amount Per Policy in Force-----	8,413
Average Attained Age in 1992-----	69.1 years
Average Annual Death Rate-----	29.0 per 1,000
Total Investments of NSLI Fund-----	\$12,381,299,067
Average Rate of Return on All Investments (As of September 30, 1992)-----	9.4 percent
Total Disbursements in FY 1992-----	\$2,022,374,896

Veterans' Reopened Insurance
(Policy Numbers Prefixed with "J", "JR" or "JS")

In 1964, Congress enacted a piece of legislation which provided for a limited reopening of NSLI for a period of one year beginning May 1, 1965 to veterans (not on active duty at date of policy issue) who met the following conditions:

- a. They must have been eligible to obtain NSLI between October 8, 1940 and January 1, 1957 and
- b. They must have had either:
 1. A service-connected disability which was compensable, or would have been compensable if it were rated ten percent or more on degree, without any serious nonservice-connected disability which would have disqualified them for standard insurance (prefixed with "J" or "JR"), or
 2. A nonservice-connected disability, or combination of service-connected and nonservice-connected disabilities, so serious that they could not obtain commercial insurance at the highest rates (prefixed with "JS").

All plans of insurance available under the NSLI program, except term insurance, are available under the Veterans' Reopened Insurance program. Approximately 227,900 policies were issued under this program, of which 113,651 remain in force for a total of \$819,965,929 of coverage.

Program Statistics:

Opening Date-----	May 1, 1965
Closing Date-----	May 2, 1966
Number of Policies Issued-----	227,882
Face Value of Policies Issued-----	\$1,601,504,500
Average Amount per Policy Issued-----	\$7,028
Number of Policies in Force-----	113,651
Average Amount per Policy in Force-----	\$7,215
Face Value of Policies in Force-----	\$819,965,929
Average Attained Age in 1992-----	69.5 years
Average Annual Death Rate-----	30.1 per 1,000
Total Investments of VRI Fund-----	\$547,889,576
Average Rate of Return on All Investments (As of September 30, 1992)-----	9.9 percent
Total Disbursements in FY 1992-----	\$81,241,386

Veterans' Mortgage Life Insurance (VMLI)

VMLI is designed to provide financial protection to cover an eligible veteran's outstanding home mortgage in the event of his or her death. The Veterans Affairs Regional Office and Insurance Center in St. Paul, Minnesota administers the mortgage protection program.

The insurance is restricted to those disabled veterans who have received grants for the purchase of specially-adapted housing under the authority of title 38, United States Code, Chapter 21. Such grants are available to those veterans who are entitled to compensation for service-connected permanent and total disability due to one or more of the following conditions:

1. Loss, or loss of use, of both legs, which precludes locomotion without the aid of braces, crutches, canes or a wheelchair; or
2. Blindness in both eyes, having only light perception, plus the loss, or loss of use, of one leg; or
3. Loss, or loss of use, of one leg together with the residuals of organic disease or injury which so affect the functions of balance or propulsion as to preclude locomotion without resort to a wheelchair.
4. Loss, or loss of use, of one lower extremity together with the loss, or loss of use, of one upper extremity, which so affect functions of balance or propulsion as to preclude, or render medically inadvisable, locomotion without specific aids.

The grant is for the purpose of acquiring adaptations needed for the eligible veteran's residence because of his or her disabilities and is conditioned upon residence in a home owned by the veteran or family member.

The maximum amount of VMLI allowed an eligible veteran may not exceed \$90,000 or the total mortgage loan if it is less than \$90,000.

The insurance is not available to veterans who have reached their 70th birthday.

The insurance is payable at the time of the death of the veteran only to the holder of the mortgage loan. No insurance is payable if the mortgage is paid off prior to the veterans death.

A veteran is automatically insured upon receipt of a grant and the securing of a mortgage on the property. The premiums for this protection are based only on the mortality costs of insuring non-disabled individuals and should, therefore, be lower than any of commercial insurance premiums for similar coverage. In addition, the Government bears the administrative costs of the insurance and all cost for claims in excess of the premiums paid by the insured veteran.

Program Statistics:

Program Issue Date	August 11, 1971 to present
Number of Members Covered (As of June 30, 1993)	4,375
Average Face Amount in Force (As of June 30, 1993)	\$49,098
Total Face Amount in Force (As of June 30, 1993)	\$214,805,024
Average Annual Death Rate (As of December 31, 1992)	37.6 per 1,000

MONTHLY PREMIUM RATES - VGLI**AMOUNT OF INSURANCE ***

AGE	\$200,000	\$150,000	\$100,000	\$50,000	\$10,000
Thru 29	\$24.00	\$18.00	\$12.00	\$6.00	\$1.20
30 thru 34	40.00	30.00	20.00	10.00	2.00
35 thru 39	52.00	39.00	26.00	13.00	2.60
40 thru 44	68.00	51.00	34.00	17.00	3.40
45 thru 49	88.00	66.00	44.00	22.00	4.40
50 thru 54	130.00	97.50	65.00	32.50	6.50
55 thru 59	176.00	132.00	88.00	44.00	8.80
60 thru 64	**225.00	168.75	112.50	56.25	11.25
65 thru 69	300.00	**225.00	150.00	75.00	15.00
70 thru 74	450.00	337.50	**225.00	112.50	22.50
75 & Over	900.00	675.00	450.00	**225.00	45.00

* Available in increments of \$10,000

**Level Premium for Decreasing Term Option

To determine premium rates for coverage amounts not shown, multiply the \$100,000 premium rate at the desired age by the desired coverage amount in thousands divided by 10. For example, the premium rate for \$120,000 coverage at age 40 is \$40.80 determined as follows: \$3.40 x (120/10) = \$40.80.

Servicemen's Group Life Insurance

Servicemen's Group Life Insurance (SGLI) was instituted in 1965 to meet the insurance needs of the Vietnam-era servicemember. Although the United States Government had provided life insurance coverage to the Armed Forces since World War I, the SGLI program of protection took a different approach. Unlike the previous, VA-administered programs that provide individually underwritten and issued policies, the law creating SGLI provided for group coverage. Thus, the establishment of SGLI in 1965 resulted in the then Administrator of Veterans Affairs purchasing from a primary insurer (Prudential Insurance Company of America) what was at that time the largest group policy in the world.

Since the program's inception, it has undergone several significant modifications to meet the changing insurance needs of those it was designed to protect. The more notable of these developments have been the program coverage expansions and increases in the maximum amount of insurance. Currently, SGLI provides up to \$200,000 life insurance coverage for individuals currently in military service and for certain specified periods after separation or release from periods of reserve duty. At the present time, there are about 3 million members of the uniformed services, the ready reserves and the retired reserves covered under SGLI, representing a total coverage amount of \$458 billion.

Program Statistics:

Opening Date-----	September 25, 1965
Closing Date-----	Open
Number of Policies in Force-----	2,995,939
Face Value of Policies in Force-----	\$457,835,085,000
Average Amount per Policy In Force-----	SGLI - \$153,350
	Retired Reserves - \$62,233
Average Attained Age in 1992-----	SGLI - 29.4 years
	Retired Reserves - 54.0 years
Average Annual Death Rate-----	SGLI - 0.85 per 1,000
	Retired Reserves - 8.05 per 1,000
Death Claims in Policy Year 1992-----	\$317,782,0191

Veterans' Group Life Insurance

Veterans' Group Life Insurance (VGLI) is a program of post-separation insurance which provides for the conversion of Servicemen's Group Life Insurance (SGLI) to a five-year term policy. This program, like SGLI, is supervised by the Department of Veterans Affairs but administered by the Prudential's Office of Servicemen's Group Life Insurance (OSGLI).

Initially, VGLI provided five-year, nonrenewable term coverage to recently discharged veterans and was later extended to members of the Individual Ready Reserve and the Inactive National Guard. At the end of the five-year period, VGLI may be converted to a commercial permanent plan policy with any one of 168 participating life insurance companies. The policy is issued at standard premium rates regardless of the veteran's health at the time of application. Effective December 1, 1992 VGLI coverage is renewable for life in five-year term periods. At the end of any term period, a member also had the right to convert the insurance to an individual commercial life insurance policy with any one of 168 participating commercial companies.

VGLI is issued in multiples of \$10,000 up to a maximum of \$200,000, but not for more than the amount of SGLI coverage the member had in force at the time of separation from active duty. Currently, there are 334,230 veterans and members of the Individual Ready Reserves and Inactive National Guard insured for \$22 billion in VGLI coverage.

Program Statistics:

Opening Date-----	August 1, 1974
Closing Date-----	Open
Number of Policies in Force-----	334,230
Face Value of Policies in Force-----	\$22,148,485,000
Average Amount per Policy In Force-----	\$66,267
Average Attained Age in 1992-----	30.0 years
Average Annual Death Rate-----	2.55 per 1,000
Death Claims in Policy Year 1992-----	\$47,088,921



STATEMENT
OF
CLIFTON E. DUPREE
ASSOCIATE LEGISLATIVE DIRECTOR
PARALYZED VETERANS OF AMERICAN
BEFORE THE
SUBCOMMITTEE ON COMPENSATION, PENSION, AND INSURANCE
OF THE
HOUSE COMMITTEE ON VETERANS' AFFAIRS
CONCERNING
THE DEPARTMENT OF VETERANS AFFAIRS' INSURANCE PROGRAMS
SEPTEMBER 23, 1993

Mr. Chairman and Members of the Subcommittee, on behalf of the members of Paralyzed Veterans of America (PVA), I thank you for this opportunity to testify today on the operation of the Department of Veterans Affairs' (VA) Insurance programs.

For many of PVA's members, VA life insurance and mortgage protection represent the single source of insurance coverage available to individuals otherwise ineligible for commercial coverage due to severe and total disabilities. Consequently, PVA and other Veterans Service Organizations (VSOs) advocated for increases in the maximum face value of VA life insurance policies available to eligible veterans.

As we have contended in the past, the need for providing such additional insurance protection was most apparent in the Service Disabled Veterans Insurance (SDVI) program that offered life insurance to veterans with service-connected disabilities. Many of these veterans, due to the disabilities for which they were service-connected, were unable to supplement their basic \$10,000 SDVI policies with commercial life insurance due to the cost prohibitive premium rates.

Therefore, Mr. Chairman, I would like to thank you and the Members of this Subcommittee for all of your efforts and help in passing Public Law 102-568, "Veterans' Benefits Act of 1992," Title I, "Dependency and Indemnity Compensation Reform Act of 1992."

Along with reforming DIC for our widows and surviving children, this law made major changes to the VA insurance programs.

The changes that became effective December 1, 1992, included:

- Permitting service-connected veterans insured under the Service-Disabled Veterans Insurance (SDVI) who qualify for a waiver of premium to purchase additional coverage not to exceed \$20,000; and
- Increasing Servicemen's Group Life Insurance (SGLI) and Veterans Group Life Insurance from a maximum of \$100,000 to \$200,000;
- Changing Veterans' Group Life Insurance (VGLI) to a five-year renewal term;
- Increasing the maximum amount of Veterans Mortgage Life Insurance (VMLI) from \$40,000 to \$90,000.

The continued efficient operation of these programs are of vital importance to those of us who hold VA policies and to our beneficiaries.

Mr. Chairman, PVA believes that VA's management of both the administered and supervised insurance programs continues to represent one of the highlights of the Veterans Benefits Administration (VBA). While providing more than \$214 billion in insurance protection, these programs make significant contributions toward providing adequate insurance protection for all veterans, their families, and dependents.

Life insurance protection is provided under eight separate programs for the Nation's servicepersons and veterans. Six of these programs are administered directly by the Department of Veterans Affairs and the remaining two are supervised through contractual relationships with private companies. The Servicemen's Group Life Insurance (SGLI) and Veteran's Group Life Insurance (VGLI) programs are administered by the Prudential Insurance Company of America, Newark, New Jersey.

Established in 1971, the Veterans Mortgage Life Insurance (VMLI) program is funded from the Veterans Insurance and Indemnities Fund that is a direct appropriation which supports the cost of insuring disabled veterans. Veterans Mortgage Life Insurance maximum coverage is \$90,000; this insurance should help the vast majority of survivors of severely disabled veterans retain their homes. The insurance is restricted to those disabled veterans who have received grants for the purchase of specially adapted housing. Presently 4,390 veterans are participating in the program with an average of \$50,361 in mortgage insurance.

The Veterans Insurance and Indemnities Fund is the only veteran's insurance fund that requires annual appropriations. Veterans insurance and indemnities direct appropriation provides for:

- Payments to the USGLI and NSLI trust funds on claims for death and total disability traceable to the extra hazards of service and waiver of premiums while in service.
- Funding and administration for the Veterans Mortgage Life Insurance (VMLI) program which provides mortgage protection life insurance to individuals who have received a grant for specially adapted housing. Policies are issued at standard premium rates to individuals who are considered high health risks.
- Payments to policyholders of war-risk insurance issued to veterans of World War I, who are permanently and totally disabled. Payments are also made on non-participating policies issued to World War II veterans with service-connected disabilities.

- Payments to the Service-Disabled Veterans Insurance fund to supplement premiums and other receipts of the fund to allow veterans with service-connected disabilities to obtain coverage at standard premium rates.

Except for Veterans Insurance and Indemnities payments, veterans' insurance benefits programs are self-supporting. VA's consolidated insurance funds finance the following insurance programs:

Service-Disabled Veterans Insurance (SDVI)

This is the only VA administered insurance program remaining open to new issues. SDVI was designed as an insurance program for veterans discharged with a disability rating of 10 percent or greater, and provides coverage at standard rates. There are approximately 169,344 policyholders with an average face value of \$9,235.

Veterans Reopened Insurance (VRI)

The program was established on May 1, 1965, and closed on May 2, 1966. It offered veterans, who served between October 8, 1940, and January 1, 1957, the opportunity to obtain life insurance coverage.

Coverage was extended to individuals with service-connected disabilities who were either uninsurable or who could not qualify for standard rates and were not on active duty at the date of issue of the policy.

Servicemen's Group Life Insurance (SGLI)

SGLI provides insurance coverage for military personnel, reservists, members of the National Guard, Service Academy cadets and midshipmen, and certain ROTC students.

National Service Life Insurance (NSLI)

NSLI, sustained through premium collections and interest on investments, was established in 1940 to serve the insurance needs of World War II service personnel and veterans. Issuance of new policies ended in 1951. This is the largest Government administered insurance program.

United States Government Life Insurance (USGLI)

USGLI was established in 1919 to receive premiums and pay claims on insurance converted from War risk term insurance of World War I.

Veterans Special Life Insurance (VSLI)

VSLI was made available for the payment of claims for the insurance program authorized for insurable veterans who served in the Armed Forces after April 24, 1951, through January 1, 1957.

Since the start of these insurance programs, VA has issued more than 24 million policies and has collected about \$68 billion in income from these policies, disbursed \$54.3 billion to policyholders or beneficiaries, and currently holds \$13.7 billion in reserve to cover future liabilities to these funds.

Vice President Al Gore's efforts to create a more effective government through the Report of the National Performance Review has recommended changes to the VA's Insurance Program which potentially would recover veterans' insurance administrative costs from premiums and dividends. These administrative costs are currently borne by the Department of Veterans Affairs under laws established by Congress.

PVA is concerned with this recommendation to recover veterans' insurance administrative costs. We regard this potential shift in costs from VA to the veteran as an undermining of a program founded on the sacrifices of America's veterans over the years. The proposal, in effect, produces a reduction in a benefit to which veterans and their survivors are entitled. According to VA, this proposal to recover insurance administrative costs from premiums and dividends will amount to \$135 million in lost benefits to veterans.

We ask you Mr. Chairman and Members of this Committee to reject this purportedly minor revision in VA's insurance programs. Based on past experience, we know that such minor changes become the forerunner of a future avalanche of change.

Mr. Chairman, this hearing, once again, indicates your deep concern for the insurance needs of all veterans. Such concern has enabled VA to become increasingly responsive to those needs. That concludes my testimony. I will be glad to answer any questions you might have.



Non Commissioned Officers Association of the United States of America

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STATEMENT OF

LARRY D. RHEA

DEPUTY DIRECTOR OF LEGISLATIVE AFFAIRS

BEFORE THE

SUBCOMMITTEE ON COMPENSATION,

PENSION AND INSURANCE

COMMITTEE ON VETERANS AFFAIRS

U. S. HOUSE OF REPRESENTATIVES

SEPTEMBER 23, 1993

Chartered by the United States Congress

The Non Commissioned Officers Association of the USA (NCOA) is grateful for the opportunity this oversight hearing provides to discuss the general subject of insurance for veterans and members of the Armed Forces. Since slightly more than four years have elapsed since a hearing on this important subject has been conducted, today's hearing is a welcomed opportunity for the more than 160,000 members of NCOA which represent all segments of the enlisted military community and their families.

At the onset, the Association wants to express abundant thanks to the distinguished Chairman, members of the subcommittee, and the entire Congress, for the attention given over the years to the unique insurance needs of veterans and Armed Forces members. With origins dating to World War I, the Congress has been steadfastly mindful to ensure the adequacy of insurance coverage to meet financial requirements of veterans and servicemembers. Given the hazards and risks associated with day-to-day life in the military, during peacetime and war, the requirement for continued subcommittee attention to this important area will not diminish in the years ahead.

PROGRAM IMPROVEMENTS

Prior to commenting on specific insurance programs and discussing areas of concern, the Association wants to acknowledge and express gratitude for recently enacted improvements to several programs.

The increase to \$200,000 of optional Servicemen's Group Life Insurance (SGLI) and Veterans Group Life Insurance (VGLI) were positive, realistic improvements to ensure that the survivors of servicemembers and veterans will be able to maintain a reasonable standard of living. The increased optional levels of coverage, coupled with the five-year renewable feature of VGLI, affords servicemembers and veterans a greater degree of flexibility to adjust to changing life-cycle factors. Likewise, the rise to \$90,000 in Veterans Mortgage Life Insurance (VMLI) and the increase to \$20,000 in Service Disabled Veterans Insurance (SDVI) takes into account the additional special insurance needs of disabled veterans. NCOA is particularly grateful for each of these improvements.

ADMINISTRATION AND MANAGEMENT

For the purposes of this hearing, NCOA does not believe that a comprehensive review of each of the eight VA administered or managed insurance programs is necessary since the subcommittee has access to the facts and figures regarding the soundness of each program.

The question of how well or how poorly these programs are working can best be measured by answers to the following questions: (1) Are veterans receiving the very best coverage possible in terms of today's economic realities? and, (2) Are administrative services responsive to the

claims and inquiries of policyholders? **The Association believes that both questions can be answered in the affirmative as supported by our policyholder members as well as NCOA Veterans Service Officers nationwide and by annual VA reports.** In this regard, the Association would be remiss if we did not acknowledge the sustained efforts of the VA and specifically the insurance program management staff to continually seek improvements in the administration and management of these valuable programs.

Generally speaking, the Association is not aware of any particular problems with the administration or management of any of the eight Veterans Administration supervised or administered life insurance programs. In the Association's view and as evidenced by annual VA reports, all eight programs are financially sound and administered and supervised very effectively. Each year, VA actuarially determines the appropriate level of reserves needed for each program. In making this determination, the VA takes into account current policy reserve levels, mortality rates, interest rates on current investments, the cash values of current policies, and expected premiums it will collect throughout the year. Excess annual earnings, which represent the balance of funds after claims are paid and reserves are funded, where appropriate, are returned to policyholders in the form of dividends.

COST SHARING

In March 1992, the General Accounting Office (GAO) reported (GAO/HRD-92-42) to the Chairman of the Senate Veterans' Affairs Committee that the administrative costs of three VA administered life insurance programs should be paid from excess funds. Specifically, the GAO recommended that policyholder dividends should be used to pay the administrative costs of (1) United States Government Life Insurance (USGLI), (2) National Service Life Insurance (NSLI) and (3) Veterans Special Life Insurance (VSLI). The GAO report reasoned that such a move would result in only a minimal reduction in dividends to policyholders. GAO estimated the dividend reduction would average approximately \$10 per year per policyholder.

NCOA has previously opposed such a change to these three insurance programs. The Association restates its opposition again today. Clearly, as stated in the VA response to the GAO report, the \$10 per year per policyholder not only amounts to a \$27 million reduction in dividends but would have the net effect of a \$27 million increase in premiums charged to insured individuals long after they entered into their insurance contracts. **In the Association's view, if legislation were enacted to implement the GAO recommendations, it would constitute a serious breach of faith with an elderly community of veterans.**

Neither the GAO report nor the VA response addressed the composition of the veterans community who are insured through the three programs reviewed - World War I, World War II, and Korean War era veterans. Overall, one-third of the Nation's total veteran population will soon pass age 65. The veteran population over age 65 more than doubled during the last decade.

By the turn of the century, more than 9 million veterans will be over age 65. Today, the average age of the approximately 34,000 World War I veteran (USGLI) is 85+ years. The average age of the approximately 8.5 million World War II veteran (NSLI) is topping 70 years. Korean War era veterans (VSLI) average 68 years of age for the 3.9 million individuals who comprise that group.

Approximately, 2.9 million World War I, World War II and Korean War era veterans have USGLI, NSLI, and VSLI coverage. As demonstrated in the age statistics in the preceding paragraph, these insurance programs provide coverage to a group of veterans who can ill afford to absorb \$27 million in additional premiums. **The veterans covered by these three programs have already sacrificed at three critical junctures in our Nation's history. It is appalling to NCOA that it would even be considered that they be required to sacrifice again in the twilight years of their lives.**

The Association would also like to point out to the Subcommittee that the USGLI, NSLI, and VSLI programs have been targeted by President Clinton's National Performance Review (NPR). The NPR is also recommending to shift the administrative costs of these three programs to be payable from premiums and dividends. Preliminary estimates of the NPR are that such a change would accrue \$135 million in savings. **Savings or not, the net effect of the NPR recommendation is the imposition of a blatantly unfair burden five fold greater than that recommended by GAO. In the Association's view, it is not a reinvention of government to require more sacrifice from those who have contributed so much to the Nation.**

RECOMMENDATIONS

In the balance of our testimony, NCOA requests that the Subcommittee consider two insurance needs of veterans, retirees, and members of the National Guard and Reserve.

First, as you are aware, veterans lose dental care upon their severance from active military service, except for the one year period following their separation or for service connected conditions. Retirees, for all practical purposes, likewise lose dental care upon retirement, although retirees can be treated on a space available basis. The reality of the situation regarding retirees is that dentists and dental care resources are scarcely available to only treat active component personnel.

Surveys of National Guard and Reserve members have revealed that more than sixty percent of these members do not have dental coverage through their civilian employers. The magnitude of the dental readiness problem in the reserve components was vividly brought to light during activation of these members for the Persian Gulf War. During that process, the surprise expressed by many DoD and military service officials at the magnitude of the reserve component dental readiness problem actually should have come as no surprise at all. For years the only

effort exerted by the military services has been to chart the dental condition of reservists during enlistment, reenlistment, and periodic physical examinations.

The Association requests that the Subcommittee explore the feasibility of a dental insurance program for veterans, retirees, guard and reserve members and their dependents along the lines of the Delta Dental Plan currently in effect for dependents of active servicemembers. Unlike the Delta Dental Plan, the Association envisions that such a program could be structured so as to be completely self-sustaining. Based upon input the Association has received, it appears that sufficient numbers of individuals from these communities would be interested in participating if the cost could be maintained at an attractive level. The Association believes that developing an attractive, low cost, self-sustaining program is possible simply as a factor of the large population base of potential eligible participants. In the Association's view, not only would a critical need be addressed but the overall readiness and deployment posture of the reserve components would be substantially enhanced. Therefore, the Association believes that a dialogue on this issue should be undertaken.

Secondly, the recently enacted Dependents Indemnity Compensation (DIC) Reform Act brought great equity to this survivor compensation program. NCOA fully supported the changes made in DIC and admires the committee for making those changes.

Nevertheless, an unfortunate consequence of those changes was the reduction in benefits for prospective beneficiaries who served in military pay grades above E-8. Since many of these disabled veterans made financial planning decisions on the basis that their survivors would very likely be eligible for the higher benefits of the old DIC program, their prior financial planning decisions and assumptions have been rendered substantially less than anticipated. Increasing the limits of VGLI coverage and allowing optional lifetime program participation serves as an offset for the potential DIC loss for recently separated individuals as well as those in future years. Unfortunately, the recent VGLI program improvements do not help those who were discharged prior to the change in DIC law and before the enactment of the five-year renewable feature of VGLI.

Accordingly, NCOA recommends that Congress authorize a VGLI "open enrollment" period for disabled veterans whose survivors would potentially suffer a loss in future benefits under the DIC reform program.

CONCLUSION

In closing, the Association appreciates the opportunity afforded today to express our thoughts and concerns on an area that is extremely important to veterans and members of the Armed Forces. NCOA thanks the Subcommittee for your consideration of our comments and recommendations.

Thank you.

STATEMENT OF
BOB MANHAN, ASSISTANT DIRECTOR
NATIONAL LEGISLATIVE SERVICE
VETERANS OF FOREIGN WARS OF THE UNITED STATES

BEFORE THE

SUBCOMMITTEE ON COMPENSATION, PENSION AND INSURANCE
COMMITTEE ON VETERANS' AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES

WITH RESPECT TO

**OVERSIGHT HEARING ON THE DEPARTMENT OF VETERANS AFFAIRS
INSURANCE PROGRAMS**

WASHINGTON, DC

SEPTEMBER 23, 1993

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

Thank you for inviting the Veterans of Foreign Wars of the United States (VFW) to participate in this oversight hearing on the operation of the Department of Veterans Affairs (VA) insurance programs. Many of our present VFW 2.2 million members are directly involved in at least one of the seven insurance programs under review today. Government life insurance programs administered or monitored by the Department of Veterans Affairs are an important entitlement; an entitlement that the VFW wants to retain as a realistic economic benefit to veterans, particularly disabled veterans, and their beneficiaries.

By way of general information we note that all the programs under discussion today are administered or supervised by the VA Regional Office and Insurance Center (VAROIC) in Philadelphia, Pennsylvania, with a field operating office at the VAROIC in St. Paul, Minnesota.

The VFW is very satisfied with the overall administrative management and program improvements of all insurance programs the VA administers and the one it supervises. At the beginning of 1993 the VA had some 5,800,000 policies in force with a total value of \$452 billion in coverage, to make VA the fourth largest insurer in the United States.

The six insurance programs that are *directly administered* by VA are:

- United States Government Life Insurance (USGLI)
- National Service Life Insurance (NSLI)
- Veterans Special Life Insurance (VSLI)
- Veterans Reopened Insurance (VRI)
- Service-Disabled Veterans Insurance (SDVI)
- Veterans Mortgage Life Insurance (VMLI)

USGLI has a \$10,000 maximum amount of basic coverage. In the event a veteran becomes totally and permanently disabled his policy is paid-up and he receives the proceeds in monthly installments. This program was first established in 1919 for World War I veterans and closed in 1940 with the exception of World War I veterans who could apply for coverage until April 1951. About 1,150,000 policies were issued with an average face value of \$4,213. Today

April 1951. About 1,150,000 policies were issued with an average face value of \$4,213. Today there are approximately 32,500 policies still in effect. The average age of the USGLI policyholders is 79 years. All USGLI policies were paid-up on January 1, 1983. VA estimates that during 1993 each policyholder will receive a \$263 dividend.

NSLI has a \$10,000 basic maximum coverage but policyholders can purchase additional protection by using their dividends to buy paid-up additional insurance. This policy also contains a waiver of premiums protection in the event of total disability at no additional cost. This program was created in October 1940 to handle the life insurance needs of World War II service members. Policies were issued until April 1951. About 22 million policies were issued in the average amount of \$7,835. Today, 2,500,000 are still in effect. The average age of the policyholder is 70. All NSLI term policy premiums were capped at the age 70 rate in 1984. The VA estimates the average dividend for each policyholder will be \$386 in 1993.

VSLI has a maximum \$10,000 basic coverage but again policyholders can purchase additional protection by using their dividends to buy paid-up additional insurance. This is the insurance program of the Korean Conflict. It became effective in April 1951 and from that date through December 31, 1956, individuals separating from service had 120 days to apply for Veterans Special Term Insurance which was 5 year level premium term coverage with unlimited renewals. However, effective January 1, 1959, these policies could be converted to permanent plans of insurance or exchanged for a limited convertible term policy which was not renewed after an insured's 50th birthday. There was once almost 803,000 policies in force with the average policy worth \$9,151. Today, there are 283,400 with the average age of policyholders at 60 years and seven months old. VA will dispense about \$398 in dividends to each one in FY 1993. All VSLI term policy premiums were capped at the age 70 rate in 1989.

VRI was established by Congress in 1964 which provided a one year reopening period from May 1965 to May 1996 of NSLI and VSLI for service-connected veterans of World War II and the Korean Conflict. About 228,000 policies were issued with an average value of \$7,028. Today, 113,600 remain in effect and the average age of a policyholder is almost 69 1/2 years old. The average dividend for 1993 is \$328.00.

SDVI is the only individual insurance program open to new issue for veterans with 10 percent or more service-connected disabilities. As originally enacted in 1951, an eligible veteran had one year from the date service-connection was established for a disability to apply for this policy. In August 1991, Congress extended the eligibility period to two years effective with service-connection grants made on or after September 1, 1991. In 1992, additional legislation allowed policyholders who are eligible for waiver of premiums to apply for up to \$20,000 of supplemented coverage. However, premiums may not be waived on the supplemented coverage. About 163,500 policies have been issued with an average value of \$9,235. About 163,000 policies are still in effect. The average age of the insuree is about 51 years. This program does not pay a premium. About 25 percent of all these policies have their premiums waived.

VMLI is the only *mortgage* insurance program the VA has. It is designed to provide financial protection for those eligible for veterans' home mortgage in the event of death. This program is limited to those severely disabled veterans who have received grants for Specially Adapted Housing from VA. The maximum amount of VMLI is \$90,000 and the insurance is paid if the veteran dies before the mortgage is paid off. The money is paid only to the mortgage lender. The average amount of each policy is \$50,360 and the average age is 49. About 4,400 such policies are presently in effect.

The newest insurance program, started in September 1965, is the Servicemen's Group Life Insurance (**SGLI**). This program represents very close to half the entire number of insurance policies presently in effect. SGLI is the only program supervised by VA but administered under contract to the commercial carrier, Prudential Insurance Company. SGLI provides low cost **group** life insurance with up to \$200,000 coverage for individuals currently on active duty and for certain specified periods after separation or release from periods of reserve duty. Ready reservists, members of the Commissioned Corps of the National Oceanic and Atmospheric Administration and the Public Health Service, cadets and midshipmen of the four service academies, and members of the Reserve Officer Training Corps use this program.

During 1993 there will be almost 3,034,000 policies in effect with a face value of \$455,030,000. These numbers are expected to decline in 1994 to 2,843,000 policies with a total value of \$426,510,000. The reduction of active duty personnel is the primary reason for this decrease. At the present time the SGLI program represents almost one half of the entire policies in effect. The average amount of these policies today is \$150,000 with an average age of 30.

The following points of contact for specific information on any of these policies or programs are current. The toll free phone number for the Veterans Insurance Phone Section (VIPS) is 1-800-669-8477 or to FAX VIPS use (215) 951-5466. All death claims should use FAX number (215) 951-5274. For inquiries regarding SGLI policies, the commercial phone number is (201) 802-7676.

In closing out this review of insurance programs, the VFW is aware of three pending house bills that deal with expanding the time frame and/or eligibility for veterans to participate in a specific program. These bills were submitted by request of the VA. H.R. 2976 offers to expand mortgage protection life insurance to certain categories of service-connected disabled veterans who do not presently qualify for the VMLI program. H.R. 2978 proposes to once again open up eligibility for qualified veterans, to participate in the SDVI program, and H.R. 3003 would permit certain eligible veterans to purchase up to \$20,000 total coverage in the NSLI program.

Thank you Mr. Chairman. This concludes the VFW's formal presentation. I shall be happy to answer any questions you or any committee member may have.

STATEMENT OF
 JOSEPH A. VIOLANTE
 LEGISLATIVE COUNSEL
 DISABLED AMERICAN VETERANS
 BEFORE THE
 SUBCOMMITTEE ON COMPENSATION, PENSION AND INSURANCE
 OF THE
 VETERANS AFFAIRS COMMITTEE
 U.S. HOUSE OF REPRESENTATIVES
 SEPTEMBER 23, 1993

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

On behalf of the more than 1.4 million members of the Disabled American Veterans (DAV) and its Women's Auxiliary, we welcome and appreciate this opportunity to present our views on Department of Veterans Affairs' (VA) insurance programs.

We commend you, Mr. Chairman, for convening this oversight hearing to examine the status of insurance programs administered by the VA, and to solicit our observations and permit our comments on the efficacy of these programs for members of the veterans community.

Mr. Chairman, we are pleased to take this opportunity to publicly acknowledge and compliment the Department of Veterans Affairs for the very effective way in which they manage and administer their insurance programs. The six life insurance programs administered by the VA contain over \$13 billion in cash reserves, providing considerable indemnity protection for our nation's veterans. Information we have received from our Philadelphia, Pennsylvania, and St. Paul, Minnesota National Service Office staffs confirm that insurance inquiries and problems are handled in a very professional, efficient, timely manner with few complaints regarding services rendered.

In these times when severe budgetary constraints have adversely impacted the delivery of some benefits and services to our nation's veterans, we commend the Department of Veterans Affairs and their Insurance Centers for a "job well done" and thank them for their dedicated public service to our nation's veteran community.

Mr. Chairman, the focus of our testimony will be upon two life insurance programs administered by the VA: Service Disabled Veterans Insurance (SDVI), commonly referred to as "RH" Life Insurance, and Veterans Mortgage Life Insurance (VMLI).

Service Disabled Veterans Insurance (SDVI)

RH Life Insurance is designed to provide life insurance protection to service-connected disabled veterans. Any service-connected disabled veteran released from active duty on or after April 25, 1951, under other than dishonorable conditions is eligible for this insurance. RH insurance is issued in incremental amounts from \$1,000 to \$10,000, and the maximum face value of RH Life Insurance is \$10,000.

Certain service-connected veterans insured under the SDVI policy and who qualify for a waiver of premium are eligible to purchase additional amounts of Supplemental Service Disabled Veterans Insurance (SSDVI) not to exceed \$20,000 effective December 1, 1992.

Veterans Mortgage Life Insurance (VMLI)

Veterans Mortgage Life Insurance provides mortgage protection life insurance to certain severely disabled service-connected veterans who qualify for the Specially Adapted

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Housing Grant. These veterans are automatically entitled to Veterans Mortgage Life Insurance upon receipt of the Specially Adapted Housing Grant. Premiums for this life insurance are automatically deducted from VA compensation payments and the insurance remains in effect until the mortgage loan is paid in full, the home is sold, the veteran reaches age 70, or the veteran dies. VMLI was increased from \$40,000 to \$90,000 effective December 1, 1992.

Mr. Chairman, as you are aware, membership in the Disabled American Veterans is limited to those veterans who incurred a service-connected disability while serving during time of war. The Legislative Program of the DAV is derived from the desires of our membership, expressed annually in resolution format. At our 1993 National Convention in San Francisco, California, our membership adopted three resolutions seeking enhancements and program improvements in two VA insurance programs: RH Life Insurance, and Veterans Mortgage Life Insurance.

With respect to the RH Life Insurance Program, our membership adopted two resolutions seeking:

1. an increase from \$10,000 to \$20,000 in the face value of RH life insurance; and
2. legislation that would authorize an "open period" for eligible service-connected disabled veterans to apply for RH life insurance.

With respect to Veterans Mortgage Life Insurance, our membership adopted one resolution seeking an extension of eligibility for this program to all veterans rated permanently and totally 100% service-connected disabled by the Department of Veterans Affairs.

Prior to discussing the merits of these proposals, Mr. Chairman, I would like to briefly discuss the history of RH Life Insurance and the spirit and intent of Congress when they wisely and compassionately designed and passed legislation creating RH Life Insurance for service-connected disabled veterans.

Public Law 82-23, creating RH Life Insurance, was passed by Congress April 25, 1951. Not only did Public Law 82-23 create RH Life Insurance but it also established mandatory universal life insurance in the amount of \$10,000 for all active duty Armed Forces personnel.

Historically, World War I Armed Forces members could voluntarily participate in a government life insurance program (USGLI established by Public Law 65-90), with coverage up to \$10,000. Eighty-three percent of World War I active duty personnel participated in this program and the average face value of their policies was \$8,700 -- a value considered five times higher than the average life insurance policy held by Americans in 1917.

Identical life insurance coverage was provided to World War II Armed Forces personnel (NSLI established by Public Law 76-801) on a voluntary basis. At the peak of World War II, 95% of servicemen and women participated in this program and the average face value of their policies was \$9,500.

Mr. Chairman, when hostilities in Korea required mobilization of our forces, including the recruitment and retention of additional servicemen, several factors motivated Congress to examine government life insurance programs and enact legislation to create a more equitable form of life insurance for active duty Armed Forces members and veterans.

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First, Congress was dissatisfied that 18% of overseas Korean servicemen, and 22% of state-side Korean Era servicemen neglected to obtain any life insurance and, that of those Korean Era veterans who did participate in life insurance, only 54% had the \$10,000 maximum coverage.

Mr. Chairman, according to a House Committee on Veterans Affairs Report (Committee Print No. 6, 82nd Congress, dated January 17, 1951), Congress was struck with the "basic inequity and inadequacy" of the existing insurance program for servicemen who did participate, and Congress was moved by the circumstances of the surviving dependents of those servicemen who neglected to participate in life insurance altogether, and were killed during the war.

Another factor motivating Congress was a GAO study cited in this House Committee report that stated "during the period 1940 to 1949 the VA had to set up approximately 26 million independent files based on that number of applications for insurance in varying amounts. Had [mandatory insurance] been in effect during that period, the total number of files with respect to an indemnity would have been \$438,000 representing the total number of in-service deaths from October 1940 to December 31, 1949."

Further clarification of the intent of Public Law 82-23 can be found in evidence considered by Congress, contained in Senate Committee on Veterans Affairs Report (Committee Print No. 91, 82nd Congress, dated February 14, 1951) where Carl R. Gray, Jr., Administrator of the VA, stated "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." Elmer B. Staats, Assistant Director, Bureau of the Budget, informed the Senate Committee on Veterans Affairs that the "assurance of universal survivor protection in the amount of \$10,000 [contained in proposed legislation] appears to us to be desirable, and would result in greater equity for all."

Finally, Mr. Chairman, on January 15, 1951, in his annual budget message, President Truman provided further impetus for equitable life insurance for both active duty servicemen and women, as well as disabled veterans by stating the following:

Government liabilities for life insurance programs for servicemen and veterans are mainly for the cost of Administration and for payments on account of deaths traceable to the extra hazards of military service.

In view of the Korean hostilities and the current enlargement of the Armed Forces, there is a pressing need for new legislation to assure financial protection to the families of servicemen. The present national service life insurance program does not meet this need. Because it is optional, the protection is not carried by some servicemen and is held in less than adequate amounts by others. The system is complex and costly and absorbs excessive manpower, especially when the Armed Forces are large and manpower scarce.

It would be more equitable and over the last decade it would have been more economical, to provide a free and automatic \$10,000 indemnity to the survivors of all who died while in military service, and to establish a special new system of voluntary insurance open only to veterans whose insurability at

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standard rates has been impaired by military service. I recommend that this Congress now enact such legislation and extend its benefits to the dependents of those servicemen who have died while on active duty since June 27, 1950, if they did not have a like amount of serviceman's insurance protection. (Emphasis added.)

Mr. Chairman, Public Law 82-23, conferred entitlement to mandatory free \$10,000 life insurance coverage for all active duty servicemen and women and simultaneously established a voluntary life insurance program in the amount of \$10,000 for all veterans whose insurability was impaired by a service-connected disability. Congress, very sensibly and compassionately, felt it important that there be universal equitable life insurance for active duty Armed Forces members, and that veterans with a service-connected disability have access to identical life insurance coverage in view of their sacrifices for our country.

Mr. Chairman, since the enactment of Public Law 82-23, the maximum life insurance coverage for members of the Armed Forces quite properly has been periodically increased to the current \$200,000 maximum (effective December 1, 1992). Unfortunately, the maximum RH Life Insurance coverage for most service-connected disabled veterans has not been increased since the inception of this program 38 years ago, and continues to be \$10,000, an amount woefully inadequate to provide for the life insurance needs of service-connected disabled veterans.

Public Law 102-568, effective December 1, 1992, provides policyholders eligible for waiver of premiums in the SDVI program and under age 65 to purchase an additional \$20,000 in coverage at standard premium rates, based on the insured's current age. No waiver of premiums can be granted on the supplemental coverage. Over 51,000 applications were mailed to all eligible SDVI policyholders in December 1992. It is anticipated that approximately 5,000 applications for this new coverage will be received during the first year resulting in approximately \$75 million in increased coverage being issued to these disabled veterans. Hereafter, an insured will have one year from the time he or she is granted a waiver of premiums to apply for the supplemental coverage.

Mr. Chairman, I am aware that we need not remind the distinguished members of this Subcommittee of the sacrifices born by so many of our disabled veterans who live with the consequences of their service-connected disabilities. Clearly, these service incurred disabilities are a factor -- often a major factor -- in their inability to acquire suitable life insurance coverage at a standard rate.

As noted earlier, \$10,000 life insurance was considered to be five times greater than the average life insurance held by Americans in 1917, and this amount was initially selected as adequate to meet life insurance needs of American servicemen (raised to \$200,000 in December 1992) and disabled veterans in 1951.

Today, according to life insurance industry standards, adequate life insurance should be equal to five times the gross wages of the household wage earner. In 1950, the average mean salary of a wage earner in the United States was \$2,961, while today it is \$23,140 (Bureau of Labor Statistics, "Current Population Survey").

Mr. Chairman, life insurance for service-connected disabled veterans has kept pace with neither maximum life insurance coverage available to active duty servicemen, nor the mainstream

(5)

of non-veteran members of our society. Unfortunately, for many disabled veterans service-connected for severe gunshot wound and shell fragment wound injuries sustained in combat, or veterans service-connected for a variety of residual wounds, injuries and illnesses suffered while captive as prisoners-of-war, RH Life Insurance is the only coverage available to them at an affordable price. These men and women who incurred disabilities in defense of our country with families of their own, are underinsured by any standard, including life insurance industry standards, life insurance currently available to active duty Armed Forces personnel, and by comparison with their non-veteran counterparts.

Mr. Chairman, it seem to us that the intent of Congress in 1951 was to properly establish equity in the availability and the amount of life insurance for active duty Armed Forces members and for disabled veterans whose insurability was impaired by their service-connected disabilities, and to encourage maximum participation in these programs by those eligible.

In view of these factors, at our August 1993 National Convention in San Francisco, California, our membership again adopted the following resolution:

(6)

RESOLUTION NO. 199
LEGISLATIVETO INCREASE THE FACE VALUE OF
SERVICE DISABLED VETERANS INSURANCE (RH)

WHEREAS, certain veterans are eligible for National Service Life Insurance (NSLI) under Section 1922, Title 38, USC; and

WHEREAS, honorably discharged veterans released from active military duty on or after April 25, 1951, found by the Department of Veterans Affairs to be suffering from a disability or disabilities for which a compensable evaluation would be payable, shall, upon application, be granted insurance by the United States government under Section 1922(a), Title 38, USC; and

WHEREAS, this insurance, commonly referred to as RH insurance, is non-participating with no dividends payable; and

WHEREAS, many of these veterans are uninsurable by private insurance companies as a result of their service-connected disabilities; and

WHEREAS, inflation has rapidly increased and diminished the value of the insurance since the maximum was set at \$10,000; NOW

THEREFORE, BE IT RESOLVED that the Disabled American Veterans in National Convention assembled in San Francisco, California, August 15-16, 1993, supports an amendment to Title 38, USC, to increase the face value of Service Disabled Veterans Insurance (RH) to \$20,000.

* * *

(7)

Mr. Chairman, we are aware that the RH Life Insurance Program is not self-sustaining and requires annual transfer of funds from the Veterans Insurance and Indemnities (VI&I) appropriation (\$15,370,000 in FY 1993). We are also fully cognizant of the fiscal constraints confronting not only the Department of Veterans Affairs, but the federal government in these times of scarce federal dollars. Nevertheless, Mr. Chairman, service-connected disabled veterans continue to be limited in their insurability by private sector life insurance companies as a direct result of their service-connected disabilities and many possess only RH Life Insurance at the maximum \$10,000 face value that has not been increased since 1951, except for those limited service-connected veterans who qualify for additional amounts of SSDVI.

Mr. Chairman, at DAV's request, you introduced H.R. 3003 during this Congress, a measure that would accomplish the goal of increasing RH Life Insurance maximum face value coverage from \$10,000 to \$20,000. We respectfully urge the Subcommittee to favorably consider H.R. 3003 in order to offer service-connected disabled veterans an opportunity to provide more equitable life insurance coverage for their family members.

Mr. Chairman, Section 1922 of Title 38, USC, provides eligible veterans a two year period (increased from one year in August 1991) to apply for RH Life Insurance from the date service-connection has been established for a service-connected disability. For one reason or another many eligible service-connected veterans have not applied (and do not apply) for this benefit within this period of time.

According to August 1993 VA statistics, there are 198,791 Korean Era veterans, 681,482 Vietnam Era veterans, 482,813 peacetime veterans and 60,221 Persian Gulf War Veterans in receipt of compensation for service-connected disabilities. All Korean, Vietnam Era, Persian Gulf War and the vast majority of peacetime service-connected disabled veterans are eligible for RH Life Insurance. While over one million disabled veterans are potentially eligible, currently, there are only 162,967 RH Life Insurance policies in force.

The reasons for this low participation are not clear, Mr. Chairman. In most instances, service-connection is established for many veterans shortly following release from active duty when they are at a young age, when interest in life insurance for most young American men is at a minimum. Upon discharge from service many young veterans received voluminous correspondence from the VA and service department about their claims, Medical Board and Physical Evaluation Board findings, and other matters that seem to them of more pressing concern than "life insurance." Additionally, Mr. Chairman, veterans released from active duty after either a lengthy stay in service or the hospital (or both) are confronted with career and personal life readjustment problems that include establishing a residence, finding employment, selecting and applying for training and/or education, and re-acclimation with their families. Depending on the nature of their disabilities they may be further involved with obtaining post-service follow-up and rehabilitative care for service-connected disabilities.

To compound the problem, during the first year following release from active duty many veterans are contacted by private life insurance companies, adding additional elements of confusion to "benefits" they "must" apply for.

It seems to us Mr. Chairman, that these factors and circumstances experienced by young disabled veterans upon release from active duty contribute to -- if not cause -- their

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neglect or failure to familiarize themselves with and timely apply for RH Life Insurance coverage.

It is with this in mind, Mr. Chairman, that our membership adopted the following resolution at our August 1993 National Convention in San Francisco, California:

(9)

RESOLUTION NO. 008
LEGISLATIVE

TO PROVIDE AN OPEN PERIOD TO APPLY FOR
SERVICE DISABLED VETERANS INSURANCE (RH)

WHEREAS, service-connected disabled veterans are entitled to apply for Service Disabled Veterans Insurance (RH) within two years from the date the VA grants service-connection for any disability; and

WHEREAS, many eligible veterans, due to financial difficulties and problems associated with readjustment to civilian life, did not apply for this insurance within the one year eligibility period; and

WHEREAS, many of these service-connected disabled veterans are now prepared and can afford to purchase this insurance but are not able to purchase comparable insurance coverage in the private sector; and

WHEREAS, precedent has been established to extend previously closed "eligibility periods" for certain other VA benefits and services, including insurance; NOW

THEREFORE, BE IT RESOLVED that the Disabled American Veterans in National Convention assembled in San Francisco, California, August 15-19, 1993, seeks the enactment of legislation that would authorize an "open period" for eligible service-connected disabled veterans to apply for coverage under the Service Disabled Veterans Insurance Program.

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(10)

Mr. Chairman, at DAV's request, House Veterans Affairs Committee Chairman G.V. "Sonny" Montgomery introduced, during this session of Congress, H.R. 2978, a measure that would provide an open period to apply for RH insurance. We respectfully request this legislation to be favorably considered by the Subcommittee in an effort to provide these disabled veterans an opportunity to obtain RH insurance during this "open period."

Mr. Chairman, our final comments this morning will focus on the Veterans Mortgage Life Insurance program administered by the VA and our resolution seeking an expansion of eligibility for this insurance program.

The Veterans' Mortgage Life Insurance program, initially established by Public Law 92-95, provides mortgage protection insurance to severely disabled service-connected veterans -- in receipt of a certain level of special monthly compensation for anatomical loss or loss of use of extremities and/or in combination with blindness -- that qualify for the VA's Specially Adapted Housing Grant.

Mr. Chairman, there exists many severely disabled veterans who, as a result of service-connected disabilities, are rated permanently and totally 100% disabled and are unable to purchase mortgage insurance protection from commercial insurers at any cost. Additionally, many of these severely disabled veterans have not accumulated the savings necessary to insure financial security for their families.

In view of these circumstances, at our August 1993 National Convention in San Francisco, California, our membership adopted the following resolution:

(11)

RESOLUTION NO. 038
LEGISLATIVE

TO EXTEND ELIGIBILITY FOR VETERAN MORTGAGE PROTECTION
LIFE INSURANCE TO SERVICE-CONNECTED VETERANS
RATED PERMANENTLY AND TOTALLY DISABLED

WHEREAS, the VA Mortgage Protection Life Insurance is presently available to veterans entitled to the special adapted housing award under Section 2101(a) of Title 38, USC; and

WHEREAS, service-connected veterans rated as permanently and totally disabled cannot obtain Mortgage Protection Life Insurance through commercial insurance companies; and

WHEREAS, their widows and dependents must bear an undue hardship upon the death of such veterans; NOW

THEREFORE, BE IT RESOLVED that the Disabled American Veterans in National Convention assembled in San Francisco, California, August 15-19, 1993, seeks the enactment of legislation which would extend VA Mortgage Protection Life Insurance to service-connected veterans who are rated as permanently and totally disabled.

* * *

(12)

Mr. Chairman, at DAV's request, House Veterans Affairs Committee Chairman G.V. "Sonny" Montgomery introduced, during this session of Congress, H.R. 2976, a measure that would extend to all 100% permanently and totally disabled service-connected Veterans Mortgage Protection Life Insurance. We respectfully request this legislation be favorably considered by the Subcommittee in an effort to provide these severely disabled veterans an opportunity to obtain mortgage protection insurance.

Mr. Chairman this concludes our testimony. I again wish to thank you and the Subcommittee members for permitting us this opportunity to present our views on the insurance programs administered by the Department of Veterans Affairs and, more specifically, to present our views on insurance program improvements and enhancements that would favorably impact service-connected disabled veterans, their dependents and survivors. I will be pleased to respond to any questions you or the Subcommittee members may have.

**Statement of
Colonel Charles C. Partridge, USA (Ret)
Legislative Counsel**

**The National Association for Uniformed Services
and the
Society of Military Widows**

**Before the
Subcommittee on Compensation, Pension and Insurance
Committee on Veterans' Affairs**

U.S. House of Representatives

September 23, 1993

••• Veterans' Insurance Programs •••

Mr. Chairman, and members of the subcommittee, I welcome the opportunity to present the views of the National Association for Uniformed Services and the Society of Military Widows. The National Association for Uniformed Services represents all grades and branches of uniformed services personnel, their spouses and survivors. Our nationwide association includes active, retired, reserve and National Guard, disabled and other veterans of the seven uniformed services: Army, Marines, Navy, Air Force, Coast Guard, Public Health Service, and the National Oceanic and Atmospheric Administration. Our affiliate, the Society of Military Widows is an active group of women who were married to uniformed services personnel of all grades and branches and represents a broad spectrum of military society. With such membership, we are able to draw information from a broad base for our legislative activities.

The Omnibus Budget Reconciliation Act of 1990 (OBRA '90) precluded reinstatement of dependency and indemnity compensation (DIC) for DIC widows upon the death or divorce of subsequent spouses. Prior to passage of OBRA '90, DIC widows who remarried forfeited the DIC payment but if the subsequent marriage ended, DIC was reinstated. Unfortunately, when OBRA '90 was passed it did not provide protection for existing marriages which had taken place prior to the law's effective date. As a result, financial plans made by these families which included the reasonable assumption that DIC would be reinstated as the law provided were now inadequate. As these families reviewed ways to compensate for this loss, they learned that the insurance companies found them too old or too sick. Cost of insurance was too expensive or unavailable. As a result many of these widows face a bleak and a financially uncertain future upon the death of the spouse.

This situation could be alleviated by making available a Department of Veterans Affairs (DVA) sponsored, low cost life insurance policy, which would pay only if the widow survived the insured. Payment could be made on an annuity basis for further savings.

SERVICEMEN'S GROUP LIFE INSURANCE/VETERAN'S GROUP LIFE INSURANCE

SGLI/VGLI: In the past several years major changes have take place within the insurance industry. Some of these insurance plans should be reviewed with a view toward making similar products available to servicemembers, retirees and other veterans through the Department of Veterans Affairs (DVA). Active duty personnel, for example, could be offered insurance which would build equity for the future. This equity could be used to assist in payment of survivor benefit plan (SBP) premiums upon retirement. Such insurance would help offset the 20 percent reduction in the value of the military retirement program enacted in 1986, and enable more retirees to provide for their survivors. Further, a lifetime insurance benefit should be provided for professional military personnel who retire late in life and therefore face expensive choices when seeking post-service insurance.

In view of the wide variety of insurance products available today and the buying power represented by active duty personnel and

retirees and other veterans, a comprehensive review of the DVA insurance program should be made. The purpose of the review would be to increase the types of insurance programs available and to provide more choices of insurance products for members and veterans of the uniformed services.

In closing, Mr. Chairman, NAUS and SMW thank you for providing this opportunity to testify before this distinguished panel.

**STATEMENT OF GILBERT LAVERDA
CHIEF OF INSURANCE ACTIVITIES
NATIONAL VETERANS AFFAIRS AND REHABILITATION COMMISSION
THE AMERICAN LEGION
TO THE SUBCOMMITTEE ON COMPENSATION, PENSION AND
INSURANCE
COMMITTEE ON VETERANS AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES
SEPTEMBER 23, 1993**

Mr. Chairman and Members of the Subcommittee:

The American Legion appreciates this opportunity to comment on the present status and recent changes in the Department of Veterans Affairs (DVA) programs for providing life insurance protection and benefits for veterans and active duty members of the United States military services and their beneficiaries.

These programs are divided between those directly administered by DVA for veterans having had service into the 1950s, and for those who have service-connected disabilities - the United States Government Life Insurance (USGLI) and National Service Life Insurance (NSLI) programs - and those programs supervised by DVA, but administered by the Prudential Insurance Company in Newark, NJ for active duty and reserve personnel, and for those released from active duty from 1970 on. These latter programs are, respectively, Servicemen's Group Life Insurance (SGLI) and Veterans Group Life Insurance (VGLI). DVA also administers a small Veterans Mortgage Life Insurance Program (VMLI) for veterans who qualify for DVA housing grants for specially adapted homes.

As commented on for the oversight hearing of July 19, 1989, the overall performance of these programs continues to be generally adequate. Though service to NSLI and USGLI policyholders is somewhat adversely affected by operating budget cuts and hiring freezes, etc., the DVA Insurance Centers are continuing in their on-going programs of computer systems modernization to overcome these problems and to increase the timeliness and quality of service provided. However, much needed construction of a new DVA Insurance Center and Regional Office in Philadelphia, PA, on the site of the present DVA facility there, is now reported on hold pending another evaluation ordered by the Administrator of the General Services Administration, in response to the initiative of the Vice President in regards to government efficiencies. As the present DVA Insurance Headquarters in Philadelphia has been serving veterans for over 45 years now, and is in need of constant major repair operations, and as the present site has the land and offers ease of access for both veterans and DVA personnel, The American Legion believes the plans approved earlier for the new construction are correct and that work on the new facility be commenced as originally scheduled.

The past several years have seen a number of new and beneficial changes implemented in the government life insurance programs.

In the NSLI/USGLI programs, PL 100-687 permitted the payment of interest on settlements from the date of an insured's death to the date of the settlement check. This was effective May 16, 1991. Changes in DVA regulations effective April 8, 1991 allowed VA appointed fiduciaries to accomplish many life insurance transactions on behalf of the insureds they represent that were previously permitted only to court appointed guardians, thus greatly increasing the speed and efficiency with which family members and guardians could handle the insurance affairs of incompetent veterans.

In the Fall of 1992, new NSLI dividend options were implemented to allow policyholders greater ease in paying their annual premiums and using the net balances to buy more coverage or to repay loans, etc. Special dividends were also paid on those insureds receiving Total Disability Income Provision (TDIP) payments from separate riders they had previously purchased for their policies. These dividends, effected in 1991 and 1992, were composed of a 50% increase in the monthly disability payment for those who had the rider and became totally disabled in accordance with the provisions of the rider, and a one time special dividend for those still paying TDIP premiums which amounted to half their annual TDIP premium.

Public Law 102-86, the Veterans Benefits Programs Improvement Act of 1991, allowed the payment of Gratuitous Service-Disabled Insurance in a one sum to an approved beneficiary, and removed the "Unremarried Widow" stipulation from the old law, with the relationship at the time of a veteran's death governing the insurance settlement. This law also increased the eligibility period for regular Service-Disabled Insurance from one to two years for service-connected ratings done on or after September 1, 1991. PL 102-86 also provided, for the first time since 1972, for insureds with outstanding dividend credit and deposit balances the use of part or all of their balance to purchase extra paid-up insurance at very favorable rates, usually between two to one and a half times the monies so designated. This open period ran from September 1, 1991 to August 31, 1992. In addition, beginning with the 1991 tax year, interest on NSLI and USGLI dividend credit and deposit balances became tax exempt.

In 1992, the Dependency and Indemnity Reform Act (PL 102-568) instituted a major change in the Service-Disabled NSLI program by providing an option whereby an insured in that program who became totally disabled before age 65 and was placed on a disability waiver of premiums could purchase up to \$20,000 of additional coverage over and above the program's \$10,000 maximum face amount, though he or she would have to pay for this at standard service disabled rates. The Act also increased the face value of Veterans Mortgage Life Insurance from \$40,000 to \$90,000.

The American Legion has supported these changes as being of a positive and beneficial nature to the veteran population being served by them. However, there is an area in which The American Legion believes there is an inequity and in which The American Legion has a mandate to seek corrective legislation. From 1957 until 1965, there was no government life insurance coverage offered to new military servicemen and veterans. Servicemen's Group Life Insurance began in 1965, but those covered under that plan had only 120 days after leaving service to convert it to a private plan of insurance with a participating company or lose it. Veterans Group Life Insurance did not become available until 1974. Though it did offer a retroactive period to 1970 for those who had left service and did not convert their SGLI to private insurance, it is doubtful that many veterans received adequate notice of this provision, and in any case the provision did not cover the major period of the Vietnam War at all. It is obvious that, given the trauma of those times and the fact that most veterans of the Vietnam period were drafted from the lower socio-economic levels of American society, many leaving service during those years were not able to give full consideration to long run benefits such as life insurance, most especially not in a period of time as short as 120 days.

The National Service Life Insurance program, however, was opened for a one year period in 1965 for veterans of the World War II and Korean War periods who had service and nonservice-connected disabilities which prevented them from being insured at regular premium rates (veterans meeting good health standards are presumed able to purchase private insurance at regular rates). The American Legion, therefore, believes that the National Service Life Insurance program should, in equity and fairness, be opened again for a temporary period in the same manner for those of the Vietnam Era who have disabilities rendering them uninsurable at standard premium rates. In addition, as the NSLI service disabled insurance program for many years depended on an error prone manual system to apprise veterans receiving service-connected awards of their right to apply for its coverage, The American Legion also believes that program should have a reopened period as well for veterans who meet good health criteria except for their service-connected disabilities, but who may not have been able to apply for coverage due to not being properly informed of the benefit. Certainly veterans of the Vietnam Era should receive the same benefit opportunities for government life insurance as those of earlier wars; anything less creates an unconscionable discrimination between veterans of different national conflicts. Such reopened issues should also naturally be at face value maximums that reflect the inflationary changes of recent decades.

Significant and long overdue changes took place in the Servicemen's Group Life Insurance (SGLI) and Veterans Group Life Insurance (VGLI) programs as well in recent years. Public Law 102-25 was enacted during the Persian Gulf War and increased the face value of SGLI basic coverage from \$50,000 to \$100,000, and Public Law 102-568, enacted in October 1992, added an optional additional \$100,000 of coverage to the SGLI program, enabling a servicemember to carry a full \$200,000 if so desired. Lastly, PL 102-568 permitted Veterans Group Life Insurance, before limited to a nonrenewable single five year term period, if not converted to a private plan of insurance with a participating commercial carrier, to become renewable in five year increments for the life of the insured or such lesser period as desired, and to be converted in whole or part at the end of each five year period without having to meet regular industry health requirements. These changes have vastly increased the scope of the SGLI and VGLI programs and finally offer a somewhat adequate range of options for servicemembers and veterans (though some standard insurance benefits, such as a disability waiver of premiums, remain absent).

The American Legion naturally supports these additions to the SGLI and VGLI programs as being of a very positive and welcome nature. We would like, however, to draw the attention of the Committee to certain problems that have arisen from the rapid implementation of PL 102-568; the effective date of the insurance provisions of the Act being December 1, 1992, only a few weeks after it was signed into law by the President. Several cases have arisen involving fatalities to servicemembers who had already signed up for the additional SGLI coverage the Act provided for as an option, and who clearly showed thereby their full intent to take out the extra coverage, but who died before the December 1, 1992 effective date. Also, there are cases where fatalities occurred after the effective date stipulated in the Act, but where the military units involved had not received notice of the provision at all, and were therefore unable to communicate it to their commands; these servicemembers, in effect, were not given a chance to avail themselves of the optional coverage. The American Legion

believes that legislation should be proposed and enacted which would permit payment of the coverage increase for these cases as an obvious matter of equity, and we request the Committee take special note of this issue. We believe there is precedent for this in both the special indemnity paid to Desert Shield/Desert Storm era veterans for service prior to the April 6, 1991 SGLI increase to \$100,000, and in DVA General Counsel opinions which permitted payment of that increase to veterans out of service at the time, but still in the SGLI program.

In conclusion, The American Legion believes that the providing of life insurance benefits to our veterans and to those in active and reserve service for the protection of their beneficiaries is one of the fundamental compensations for their service to the nation. The various government life insurance programs which have been implemented over the years recognize not only the dangers of war, but the not inconsiderable hazards of peacetime military service for those in our Armed Forces at home and around the world. The American Legion fully supports the faithfulness of the Congress of the United States and the efforts of the Department of Veterans Affairs in continuing to provide a high level of service to the members of the Armed Forces, to veterans and to their beneficiaries. We also wish to commend you, Mr. Chairman, for your estimable work and that of this Subcommittee in maintaining continuing oversight of these important programs, and of the legislative actions of Congress to provide these improvements in them for those who serve and have served the United States military in war and in peace.

Mr. Chairman, that concludes our statement.

