

NATIONAL SERVICE LIFE INSURANCE

WILLIAM A. POISSANT

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GORDON D. MCKINNEY:

I am sure we all feel deeply indebted to Mr. Poissant for publishing his paper on National Service Life Insurance. No subject could be more timely. Nineteen hundred fifty has seen \$2.8 billion paid to veterans and servicemen under National Service Life Insurance. In May of this year, National Service Life Insurance was the subject of a month-long Congressional hearing in Washington. At this moment, there are the Rankin and Hardy bills pending in the House, and the Ferguson bill in the Senate. In spite of this, my guess would be that very few actuaries are conversant with this subject.

We could review Mr. Poissant's paper in detail commenting on his description of the background, the reasons for National Service Life Insurance, the determination of extra hazard claims, the mortality tables, dividends and cost of administration. Personally, I am in general agreement with the statements made. A better way of describing the importance of the paper is to refer to the situation which existed in 1949. As Mr. Poissant has stated, many misstatements were being made. On one extreme, the Associated Press stated that National Service Life Insurance costs 65 cents a month, commercial insurance \$1.25 a month; then added that the Government was paying a 55-cent dividend and, in general, companies paid no dividends on term insurance. At the other extreme, it was implied that the National Service Life Insurance dividend was nothing more nor less than a straight Government handout, implying that the Veterans Administration was doing the public, or the taxpayers, out of \$2.8 billion.

The ridiculousness of both approaches is apparent. You know that, as an actuary, you could have studied the National Service Life Insurance Act and, on general surmises, predicted the current dividend practically to the cent in 1940. Rather, these examples indicate the importance of information on this subject and emphasize our gratitude to Mr. Poissant for making his facts available. Anyone who tried to explain the National Service Life Insurance dividend to the field forces and the public based on simple logic and no facts, as some of us had to do in 1949, will second this vote of thanks.

Instead of discussing each item in the paper, it would seem important to briefly review the developments on National Service Life Insurance

since the paper was published. Before doing this, however, we should restate some of the important features of National Service Life Insurance. From a coverage viewpoint, the Act extended National Service Life Insurance protection only to those who applied for the insurance and paid the premium. If they did not apply, their dependents received no benefits. Secondly, deaths or disability claims under National Service Life Insurance are divided into two groups, extra hazard or war claims and non-extra hazard or nonwar claims. Only the nonwar claims were charged against the National Service Life Insurance premiums. The Government, *i.e.*, the taxpayer, paid all war claims. In addition, all administrative expenses, interest and other extraordinary items were borne by the Government out of taxes.

In May of this year, the Government Operations Subcommittee of the Committee on Expenditures, under the Chairmanship of Representative Porter Hardy, Jr., of Virginia, held extensive hearings on National Service Life Insurance. These hearings were the most complete ever held by a Congressional Committee on this subject. We recommend that anyone interested in the hearings write to the Government Operations Subcommittee and request a copy of the hearings and the Committee report.

In brief, these hearings developed the following facts:

1. Contrary to what has been stated on the subject, the National Service Life Insurance Act was not developed after a long and deliberate consideration of the problem. The hearings indicate that Congress obviously passed this complicated law in a period of prewar hysteria without holding hearings or debate, without receiving outside expert or technical advice, and without any evidence of the cost involved in the program.

2. The statistics developed indicated that 10% of the servicemen were not paying premiums and were not entitled to protection under National Service Life Insurance. This means that of the 374,399 deaths in the armed services between Pearl Harbor and V-J Day, approximately 37,440 men had no National Service Life Insurance. Only 56% had the full \$10,000 protection. In this connection, the Armed Services gave a breakdown of these figures based on four casualty lists. These statistics indicated that 22% of the enlisted men and 7% of the officers did not own National Service Life Insurance. The average amount of National Service Life Insurance owned by enlisted men was \$5,833. In practically all cases, the officers had \$10,000 of protection. In other words, the officers could afford and the enlisted men could not always afford to pay the premiums for National Service Life Insurance.

3. Of the 16 million servicemen and women who owned National Service Life Insurance at one time or another, only 3,500,000 veterans still

retained their protection, or slightly more than 1 in 5. In discussing this point, Mr. Harold Breining, Assistant Administrator for Insurance of the Veterans Administration, stated that it was a logical conclusion that those who retained their protection were in the more affluent class.

4. As you know, settlement options under National Service Life Insurance were based on the American Experience 3% Table. The Hardy hearings, for the first time, made it clear to Congress that this resulted in the veteran receiving not \$10,000 protection but rather—in the case of a life annuity settlement—something in the neighborhood of \$11,950.

5. Another first for the Subcommittee was an analysis of the administrative expenses. Based on work completed by the Bureau of the Budget, it was pointed out that, while a review of the budget might indicate that the cost for National Service Life Insurance was only \$45 million in fiscal 1950, the true cost, including all other departments, was conservatively estimated at over \$80 million. This \$80 million still did not include a number of Government expenditures such as the estimated cost to the army and navy of \$4 million involving personnel of 1,300 in 1950. In considering everything, it can be conservatively estimated that the fiscal cost in 1950 amounted to \$90 million. The staff of the Hardy Subcommittee indicated their belief that the total administrative expenses for 10 years was in the neighborhood of \$1 billion.

6. An interesting feature of the testimony was the statements by Representatives of the Secretary of the Treasury, the Bureau of the Budget and the General Accounting Office that, in their opinion, trust funds such as National Service Life Insurance should not be paid an arbitrary interest rate, such as 3%, but rather should be paid the current rate applicable to long-term Government securities. If this approach had been used from 1940 to 1949, the savings to the Government would have been \$200 million. In some quarters, this has been labeled a straight Government subsidy.

7. The aviation cadet situation is an indication of the confusion which can result from such a program as National Service Life Insurance. A Special Act of Congress stated that aviation cadets were entitled to \$10,000 National Service Life Insurance, the premium to be paid by the Government. The theory was that this was a hazardous occupation. However, if the cadet was killed as a result of his training, the claim was not charged to the National Service Life Insurance fund but was treated as an extra hazard claim and paid by the Government. In turn, when the dividend fell due, the dividends were paid to the cadets and not to the Government. In brief, the Government paid the premiums, the Government paid the claims and the cadets got the dividends. An interesting

sidelight was that if cadets had been given \$10,000 gratuitous indemnity, the Government would have saved 40%.

8. In conclusion, we would refer to the testimony given by Mr. Harold Breining on May 25, 1950. Mr. Breining outlined the tremendous problems under which he had operated the National Service Life Insurance program during the war. He indicated that it was impossible to find space, equipment and, above all, suitable manpower. His conclusion was that in case of another emergency, National Service Life Insurance was too unwieldy a program to meet the situation.

One brief personal comment on these hearings. The hearings themselves and the published report take a very vitriolic attitude towards the Veterans Administration. This may be understandable but, in my opinion, is unjustified. My published statement in this connection is: "This story is not written as a criticism of the Veterans Administration. The Veterans Administration was given an Act to administer and the authority granted them was granted by Congress. Their duty was to carry out those prerogatives to the best of their ability."

The Subcommittee published its report on July 28, 1950. This report left no doubt that National Service Life Insurance should be replaced by a new program which would more suitably meet the situation. Two weeks after the report was presented to Congress, Congressman Rankin of Mississippi and Congressman Hardy of Virginia introduced bills to replace National Service Life Insurance by what is popularly termed gratuitous indemnity. Senator Ferguson of Michigan also introduced a bill into the Senate, which bill was a companion bill to the Rankin bill.

In brief, the Rankin and Ferguson bills would provide \$10,000 protection to all members of the armed services. This protection would be provided on a gratuitous basis with the further provision that a serviceman, on leaving the services, would be guaranteed standard insurance. If this standard insurance could not be purchased from a commercial company, it would be provided under the National Service Life Insurance program.

The Hardy bill is practically identical. The main difference is that the amount of death gratuity would be reduced to \$5,000 in case of non-extra hazard claims. In presenting his bill to Congress, Congressman Hardy made the statement that if his bill had been in effect since 1940, instead of National Service Life Insurance, the total cost to the Government would have been reduced by \$1¼ billion. Our estimate is that the Rankin bill would have saved the country just under the \$1 billion mark. Congressman Hardy also indicated that these bills would mean a significant reduction in the 13,000 civil service employees required to administer the present National Service Life Insurance.

Unfortunately, these bills were introduced too late in the session to receive action before Congress recessed. During the recess, the staff of the Committee on Veterans Affairs have been holding joint studies with the various government agencies and veteran organizations. They have developed a "group insurance for servicemen and mutual insurance for veterans" bill. This bill is very similar to the Rankin bill during the service period except that, instead of giving the \$10,000 gratuitously, it requires every serviceman to contribute the same flat amount each month. These contributions would amount to between \$3.00 and \$4.00 a month. On withdrawal from the services, the veteran would have the privilege of applying for a mutual insurance policy of up to \$10,000 on a permanent plan of insurance, the premium rates for these policies to be on the CSO Mortality Table, 2 $\frac{1}{4}$ % interest, with a loading to cover administrative expenses. It is expected that the Rankin, the Hardy and the new bill will be considered at a Committee hearing around the first of December.

In view of these pending hearings, it seems important that actuaries, as a group, should be aware of the advantages and the disadvantages of the various bills. In other words, are we in favor of changing the National Service Life Insurance Act? If we are in favor of revising National Service Life Insurance, do we favor the gratuitous indemnity (Rankin, Hardy or Ferguson bills), or would we rather have the suggested group approach?

In the first place, I believe most thinking actuaries will favor the termination of National Service Life Insurance. If any do not, it is recommended that they take time out to read the Hardy Subcommittee report. The tremendous administrative expenses, the wastage of manpower in both war and peace, the lack of complete coverage for all servicemen (particularly enlisted servicemen), and the expensive veterans' program, which only covers the top 20% income bracket (where they can well afford to buy their own insurance), would seem sufficient reason to reach this conclusion.

If you want other reasons, let me ask you seriously what you are going to do when Universal Military Training is introduced. If Universal Military Training becomes law, and it would look as if the survival of our democratic way of life depends on Universal Military Training, in 20 years from now how many men in our civilian population will not be entitled to National Service Life Insurance? How will this affect the life insurance business? Finally, we all should take Mr. Breining's warning seriously. Believe me or, if not, believe the Hardy Subcommittee or, failing that, believe Mr. Breining—National Service Life Insurance in its present form cannot meet another emergency.

Based on this premise, what should we favor—the Rankin bill or the

group insurance approach? In considering these two propositions, the subject might be divided into two parts, protection for servicemen and protection of the veterans' interests.

During service, the main difference in the Rankin and the group bills is that each serviceman is mandatorily required to pay a flat sum (between \$3.00 and \$4.00) each month under the group bill. He must pay this amount whether he owns National Service Life Insurance or not. In other words, the enlisted man's pay is reduced from \$90 to \$87, or from \$75 to \$72. If he already owns National Service Life Insurance he has two options, drop the National Service Life Insurance or pay both premiums. If he pays both premiums, his combined protection cannot exceed \$10,000. In effect, therefore, the group bill, while not requiring, will tend to force the termination of existing National Service Life Insurance policies. Considering the dividends being paid on National Service Life Insurance, its net cost to the serviceman will be lower than the new group insurance. The insurance business has always condemned twisting. This would seem to be twisting on a grandiose scale.

My second condemnation of the group plan is that it is forcing servicemen to base their protection on term insurance. We all know the advantages and disadvantages of term insurance. The disadvantage from a Government program viewpoint has been demonstrated this year. When the fifth renewal came up under USGLI term contracts, many World War I veterans found the new premium prohibitive. A bill was introduced into Congress to freeze the premium rate. If Congress acted favorably on this bill for the benefit of the 28,000 veterans involved, it would cost an estimated \$150 million.

Another point is the inequity of the flat premium under the group bill. On the average, the age of enlisted men is less than that of officers. However, both must pay the same premium. The group bill would ask the G.I.'s to subsidize the officers.

On the other hand, the Rankin bill would not, by mandatory means, require a payment from servicemen. It would not force the termination of existing National Service Life Insurance policies. It would not require servicemen to contribute to a term program. Instead, by giving the protection free, it would enable the serviceman to use any free funds to purchase a permanent plan of insurance with a commercial company, which plan would accumulate cash values and be in his best interests.

Finally, I raise the question of how long it would be before servicemen's complaints about the arbitrary reduction in their income would result in a raise in their pay scale. Also, what answer are the group companies going to give when the group rates for servicemen are less than corresponding

company rates? In addition, how soon will other Government group plans be suggested for civil service and other groups once this plan is in force?

The obvious corollary to a Government group plan for servicemen is a conversion option, or the mutual insurance program suggested for veterans. Under National Service Life Insurance we have stated that the Government program was not truly an insurance scheme in view of the subsidies from general taxes. Under the new mutual insurance program, all interest, expense and other subsidies from the Treasury will be eliminated. If you like, the plan amounts to another Savings Bank Life Insurance program on a federal level. If Universal Military Training is adopted, it will be available to most of your prospective policyholders in another 20 years.

Quite aside from the selfish interest, is such a Government insurance scheme desirable? What about participation? As stated, the Hardy Subcommittee proved that only 1 in 5 veterans retained National Service Life Insurance. It also indicated that only 1 in 3 National Service Life Insurance policies were on a permanent plan of insurance. This might indicate that at most, 1 in 10 or 15 veterans would take advantage of the new plan.

In this connection, one should consider the role of the insurance agent. The fact that 1 in 10 or 15 veterans converted the National Service Life Insurance to a permanent plan has been largely due to the sale of National Service Life Insurance by the life underwriter. NALU and its members have always advocated that the veteran should retain, reinstate and convert his National Service Life Insurance. Will these underwriters recommend the new program when there is no large saving to the policyholder? I doubt it. Why should an underwriter recommend a plan which will not give the individual service, which is complicated by red tape and which is not as flexible to his clients' needs? If this is the case, probably only 1 in 20 or 30 veterans will convert to the new insurance.

What about the expense of such a program? Will the true cost be determined and charged to the fund or will you and I, as taxpayers, subsidize it? The 1 in 20 who take the insurance will tend to be in the top income brackets. They will be people who can afford to buy their own insurance. The cost of the insurance to the policyholder plus any Government subsidy will equal or exceed the cost of commercial insurance. If there ever was an undemocratic approach to a Government program, this would seem to be it.

In conclusion, it is suggested that we all want the Government out of business. The only excuse for Government entering a business is that they can do something commercial companies cannot do or that they can do it

more cheaply. In this case, with the exception of disabled veterans, the commercial companies can not only do the job but do it better. Let's be consistent. We opposed death benefits under Social Security on the grounds that the Government should not be in the life insurance business. Here the issue is the same, only more important.

Finally, let's look at psychology. In Washington in recent years the life insurance business has been on the defensive. Now we have a chance, through the Rankin bill, to be for a constructive program. This bill protects the men in the services. It guarantees the veterans' insurable interest on leaving the services. It gets and keeps the Government out of our business. It would be my hope that companies and individuals would line up with public opinion on this subject to urge passage of this bill at the earliest opportunity.

CHARLES F. B. RICHARDSON:

Mr. Poissant has done a valuable service in recording in our *Transactions* the history of NSLI to the present time. In his concluding paragraphs, he makes it clear that the paper does not profess to discuss such controversial questions as whether the government should ever have entered the field or whether the job could have been done more efficiently in some other fashion. In this discussion I should like to cover those topics.

The recent inquiry into National Service Life Insurance, conducted by the Hardy Congressional Subcommittee, established basic defects in the present program which led the subcommittee to recommend that consideration be given to a gratuitous life indemnity for all men serving in the armed forces, in lieu of the present NSLI program. The chief defects in the present program were found to be (a) failure to achieve its specific objective of uniform protection for dependents of all persons dying while serving in the armed forces, (b) exorbitant cost and (c) probable unworkability in the event of a future national emergency. The various defects of NSLI as brought out in the Hardy Committee Report were covered by Mr. McKinney's discussion.

The following are the amendments that would be needed to correct the present weaknesses of NSLI:

1. The coverage would have to be made automatic for all service personnel in the same amount.
2. No premiums should be collected from the insured, first, because of the discrimination involved between enlisted men and officers on account of ability to pay, and, second, to avoid the enormous complications of keeping individual accounts. The requirement of a premium payment

would almost make it essential to give the servicemen the opportunity to decline to take the coverage, which conflicts with number 1.

3. The premium structure would have to be revised, the premiums being computed on a realistic basis to cover only the mortality expected from non-service-connected deaths.

4. A realistic interest rate such as $2\frac{1}{4}\%$ is needed for policy reserves and any settlement option reserves.

5. A realistic mortality basis for any life income option granted is required.

6. The insurance should be nonparticipating to the insured, any earnings by NSLI in excess of requirements being paid back to the Government as an offset to the Government subsidy for administrative expenses.

7. The excessive power now given to the administrator under Section 608 should be repealed to bring his powers in line with that of other Government agencies.

8. The above is on the assumption that NSLI is continued as coverage for both service-connected and non-service-connected deaths. Actually, we would prefer to see it restricted to a service-connected death, in which case there need be no premiums and no insurance setup at all and the whole plan would become a gratuity plan without any of the technical structure of a life insurance operation.

9. The privilege of conversion to permanent insurance is unnecessary and should be replaced by some method of providing coverage only for uninsurable veterans.

It is apparent from the above that, in order to correct all of the defects of NSLI, we come to the inevitable conclusion that what is needed is not an insurance plan at all, but a gratuity as proposed in the Hook Commission report.

The following is a very brief summary of the Hook Commission proposal:

1. Benefit to be gratuity without cost to servicemen.
2. Payable on death either (a) in service, or (b) after retirement on pension, whether death occurred from civilian or service-connected causes.
3. Payable only if there are specified dependents, *viz.*, wife or husband, children under 18, or parents, and ceasing on remarriage, death of beneficiary or attainment of age 18 of children.
4. Monthly Income (nontaxable) equal to base pay plus longevity pay if active, or pension if retired, payable until instalments total \$10,000.
5. Discontinue NSLI and present 6 months' death gratuity.

This proposal appears to be sound in the following respects:

- (a) A gratuity rather than an insurance benefit.
- (b) A benefit payable only if there are specified dependents.
- (c) A benefit in the form of a monthly income related to pay.
- (d) Discontinuance of NSLI.

The proposal, however, in my opinion, goes too far in suggesting that the gratuity be paid in the event of death after retirement on pension, as well as in event of death during service, and whether death occurs from civilian or service-connected causes. I believe it should be limited to service-connected deaths, and that some provision should be made for insurance to noninsurable veterans.

Provision for uninsurable veterans could be made in a number of different ways, among which are:

(1) Have the policies issued by a commercial company, estimating the extra mortality in advance. The company would be entitled by law to collect extra premiums on the estimated scale from the Veterans Administration and the amount of the extras would be renegotiated with the Veterans Administration, say, every 5 or 10 years on the basis of the actual experience.

(2) Another way would be to set up a supercorporation to underwrite all policies on disabled veterans, in which case the renegotiation of the Government subsidy would be between the corporation and the Veterans Administration.

(3) The gratuity allowed during service might be extended for the life of a disabled veteran without the issuance of any permanent form of insurance, somewhat as follows:

- (a) the gratuity would be automatically paid to any veteran, whether disabled or not, who died from service-connected causes within two years after discharge;
- (b) any veteran who within two years after discharge was refused standard insurance by two commercial life companies would be qualified to apply to the VA for life insurance of, say, \$10,000 at standard rates. This insurance would be issued at a nonparticipating rate fixed at, say, the average rate of the three largest nonparticipating companies. Such insurance would be issued and administered by the VA, and NSLI would be closed to new entrants.

Of the three alternative methods, I prefer (3).

The defects of NSLI are so serious, and involve such a tremendous waste of the taxpayers' money, that it is to be hoped that a satisfactory and much less costly substitute will be found in the very near future. One of its most obvious shortcomings is the fact that an attempt has been made to apply the techniques and accounting methods of individual contracts to cover a need which is essentially a mass coverage proposition.

HORACE R. BASSFORD:

Mr. Poissant's paper is particularly welcome at this time because it supplies badly needed factual information about National Service Life Insurance. There has been a certain amount of misunderstanding of the purposes, history, and operations of National Service Life Insurance and the facts cited by Mr. Poissant should be helpful to all concerned with the proposal to substitute for National Service Life Insurance some form of gratuitous coverage against death in active military service. Several bills intended to provide such coverage and at the same time terminate National Service Life Insurance for new entrants are now pending before Congress.

Mr. Poissant's paper makes it possible to answer a number of criticisms of National Service Life Insurance which were advanced before the facts relating to the operations of this system became available. For instance, the comparison of the non-extra hazard mortality under National Service Life Insurance with the intercompany experience under Ordinary recent issues, given by Mr. Poissant in Table 4, indicates that the determination of whether particular claims were or were not traceable to the extra hazard of military service was, on the whole, fair. Similarly, Table 6 shows that the dividends paid on National Service Life Insurance early in 1950 were for the most part a return of mortality savings with respect to the non-extra hazard coverage but included also a sizable element of interest.

Some of the criticisms of National Service Life Insurance have all of the wisdom of hindsight but do not appear reasonable when considered in the light of the conditions that existed when the National Service Life Insurance Act of 1940 was enacted. For instance, the use of the American Experience Table and 3% interest for National Service Life Insurance premiums and reserves was obviously in line with the practices of private life insurance companies in 1940; and it was only a year or two earlier that life insurance companies had begun to change to the Standard Annuity Table as a basis for life income settlement options.

It has been alleged that the National Service Life Insurance Act of 1940 was passed in a period of prewar hysteria, without hearings or debate, without outside or technical advice, and without any evidence of the cost involved in the program. This allegation does not appear to be well founded. In the historical account of National Service Life Insurance, Mr. Poissant brings out clearly that National Service Life Insurance was conceived essentially as a continuation of the United States Government Life Insurance. In line with this objective and in order not to provide materially smaller benefits to beneficiaries of World War II servicemen

than had been provided under United States Government Life Insurance, the American Experience Table of mortality was continued as a basis for the life income settlement options in National Service Life Insurance. While such use of the American Experience Table has required the government to make good to the NSLI Fund the difference between the present value of life income payments made to beneficiaries and the face value of a policy under extra hazard claims, some critics have apparently not realized that this difference in the case of non-extra hazard claims is paid out of the funds that would otherwise have been available for dividends on National Service Life Insurance. The very rapid growth in the number of National Service Life Insurance policies during 1942 and 1943 (from 700,000 to over 13,000,000) and the very sharp drop in the number of such policies in force during 1946 illustrate the size of the operations that confronted the Veterans Administration upon the outbreak of war and at time of mass discharges from service, respectively. It is not surprising that under the circumstances there were many delays and failures to give adequate service to the holders of National Service Life Insurance policies. I believe that no private organization could, under the wartime conditions of extreme shortage of machine equipment and trained personnel, have undertaken operations of similar magnitude with the expectation of providing policyholders the service which they normally could have furnished. Some of the criticism of the Veterans Administration also overlooks the point that it was the duty of the Administrator of Veterans Affairs to carry out the National Service Life Insurance Act with all of its deficiencies, real or alleged.

Much ado has been made of the fact that some 10% of the servicemen were not covered by National Service Life Insurance. This has been characterized as discriminatory against those servicemen who after being urged to purchase National Service Life Insurance chose not to do so. To begin with, some of the figures quoted as to the proportion of servicemen who died without any National Service Life Insurance appear to be misleading. There is reason to believe that many men in service at the time of Pearl Harbor had little need for insurance. Moreover, during the period from December 1943 to December 1945 when most of the deaths occurred the proportion of servicemen who carried National Service Life Insurance ranged from 89% to 96%.

National Service Life Insurance (like its predecessor United States Government Life Insurance) was enacted as a *voluntary* insurance program, under which a serviceman was explicitly given the right to select any amount of insurance from \$1,000 up to \$10,000 in multiples of \$500; since National Service Life Insurance was obviously not intended to pro-

vide uniform protection, there is little point to criticizing it for having failed to accomplish something which it was not intended to do. While possibly not in the interests of those with *bona fide* dependents, I feel that a voluntary insurance program under which each individual is given an opportunity to purchase as much coverage as he thinks he needs (up to a maximum of \$10,000) is basically more democratic and to be preferred to a compulsory system of uniform benefits.

We should not forget, however, that despite the fact that some criticisms of National Service Life Insurance were unreasonable, there is no denying that the system has been very costly in terms of both dollars and manpower and that it has produced a great deal of dissatisfaction with the service which the system can reasonably make available to civilian holders of National Service Life Insurance policies. We should further keep in mind that the original purpose of government life insurance was to avoid an undue expansion of pension benefits and to restore the insurability which servicemen lost by entering on active duty. The first of these purposes was apparently lost sight of. It was through the provisions for renewal of the term insurance and for conversion to permanent plans that government life insurance was transformed into the present system which furnishes permanent coverage predominantly to civilians who in the great majority of cases regained normal insurability upon return to civilian life.

The present concern for replacing National Service Life Insurance with a more satisfactory form of coverage for the personnel of the armed forces who are on active duty reflects not only a desire to correct the deficiencies of National Service Life Insurance, such as those mentioned above, but also more importantly the fear that the present system could not be operated satisfactorily in times of emergency. Some form of coverage against death while in active military service which will continue upon discharge from service only for those rendered uninsurable as a result of active military duty may furnish us with a better solution of this difficult problem. Careful thought will, however, have to be given to the arrangement for permanent coverage to servicemen rendered uninsurable as a result of active military duty and to provisions which will prevent undue overlapping with outstanding government life insurance in force.

(AUTHOR'S REVIEW OF DISCUSSION)

WILLIAM A. POISSANT:

I want to thank Mr. Bassford, Mr. McKinney and Mr. Richardson for their valuable comments and for their contribution of additional material bearing on the National Service Life Insurance program.

The paper was purposely made factual and there was not then, nor is there now, any intention or inclination to discuss highly controversial questions of policy which could easily be extended to include very basic questions of political economy and governmental ideologies.

In reply to, and in clarification of, some of the specific points raised by either or both Mr. McKinney and Mr. Richardson, I am inserting into the *Transactions* a letter dated May 22, 1950 from the Administrator of Veterans' Affairs to the Chairman of the Government Operations Subcommittee of the Committee on Expenditures in the Executive Departments, offering general comments and observations on the staff memorandum A Study of National Service Life Insurance, dated April 21, 1950.

VETERANS ADMINISTRATION,
Washington 25, D.C., May 22, 1950.

Hon. PORTER HARDY, Jr.,

Chairman, Government Operations Subcommittee of the Committee on Expenditures in the Executive Departments, House of Representatives, Washington, D.C.

DEAR MR. HARDY: Since it is believed that a reading of the staff memorandum report and attachments under the subject Analysis of Cost to the Government of National Service Life Insurance would be likely to lead to misconceptions and a general misunderstanding of national service life insurance, I am submitting comments upon what would appear to me to be the outstanding points in need of clarification.

The report erroneously assumes that the passage of this legislation has resulted in tremendous costs to the Government. This is not the case as the enactment of the National Service Life Insurance Act did not enlarge the benefits already allowed under existing legislation. On the other hand, the National Service Life Insurance Act reduced the interest rate from $3\frac{1}{2}$ percent to 3 percent, and also eliminated the previous provision of law which matured policies in event of permanent and total disability. The latter provision proved itself to be very costly and difficult of administration under the previous law. It should be borne in mind, however, that the principal motivating factor for recommending a new insurance law for persons entering the armed forces was to preserve the equities of the policyholders under United States Government

life insurance. Since the conferees carefully examined the provisions of the proposed legislation, section by section, and were offered every facility for obtaining information from the Veterans' Administration, it would be assumed they were fully aware of the consequences of the enactment of this legislation. In this connection, may I observe that in 1946 a number of major amendments were made to the act, many of which were born in the committees of the respective Houses handling the legislation, and it would seem that the very nature of the amendments would lead to the conclusion that a careful study of the whole act was made at least by the committees of the Congress at that time.

The staff report on page 5 under the heading "The Paradox of NSLI" has listed three reasons for the establishment of national service life insurance. May I suggest that the reasons given were not the motivating reasons for the establishment of national service life insurance, but rather were applicable to the insurance program inaugurated by the amendment of 1917 to the War Risk Insurance Act. The World War Veterans' Act of 1924, as amended, was in full force and effect on October 8, 1940, and, as before explained, in some respects was more generous than the National Service Life Insurance Act. The primary objective, as previously stated, for the new insurance was to preserve the equities of United States Government life-insurance policyholders. Bearing in mind that the original life-insurance act was passed for the purpose of restoring insurability which for all practical purposes was lost to persons entering the armed forces, and viewed in the light that it was intended merely to provide a system whereby persons in the armed forces could avail themselves of the opportunity of securing insurance protection, if desired; it would not appear paradoxical that some persons did not carry all or part of the insurance, since the same situation would have prevailed in any event, if military service had not been a bar to insurance from private sources.

With reference to the position taken in the staff report that the national service life insurance fund suffered no liability if death was determined to be traceable to the extra hazards of military and naval service and that the fund profited significantly by retaining the premiums in such cases, this conclusion completely ignores the fact that the fund was on the risk and would have been compelled to pay the loss had death occurred from a non-extra-hazard cause. As a matter of fact, many such deaths did occur, and the premiums paid on all national service life insurance were used to pay the losses as the law required. In this connection it should be borne in mind that the premiums of all persons subject to exposure are the contributions that pay the liabilities of the fund.

This can be illustrated as follows: Supposing a group of 1,000 persons are insured at age 20, for 1 year, for \$1,000 each, on the assumption that 8 non-military deaths were to be expected during that year, the premiums collected would amount to \$8,000, or \$8 for each individual insured, disregarding interest. If there were in fact 8 nonmilitary deaths, as assumed in this example, and, in addition, 800 military deaths during the same year, in the event that the premiums paid by the persons who suffered death due to extra-hazard causes

were not retained in the fund, there would be available only \$1,600 (the amount of premiums paid by the remaining 200 persons) to pay the claims on account of the 8 nonmilitary deaths, which amount to \$8,000.

Under the heading "Cost to the United States arising from insurance provisions of national service life insurance," the report states that the costs, while enormous, could not in most instances, under the act as written, be reduced; but that had the act been patterned after more modern insurance principles and practices the costs could have been substantially reduced.

It is beyond question that had benefits been reduced the cost of the benefits would have been reduced. It is equally obvious that the cost of benefits cannot be reduced without reducing the actual benefits. This is clearly exemplified as regards the cost of annuities involving life contingency. When the National Service Life Insurance Act was under study, careful consideration was given to the 1937 standard annuity mortality table for the purpose of calculating annuity benefits to beneficiaries, but it was decided not to reduce the basis for calculating benefits under the existing law, since there were nearly 200,000 persons in the armed forces then carrying United States Government life insurance, which provided for benefits based upon the American experience table of mortality. Therefore, the American experience table was used to determine life annuities, although it was fully recognized that that table was a generous one.

The same table was used for premium calculations to safeguard the Government against the possibility of the collection of a deficient premium. If a less-conservative table had been used and there had been a repetition of the loss experience of the 1918-19 period, the Government would have been called upon not only to bear the losses traceable to the extra hazards of military and naval service but also to pay the premium deficiency applicable to nonmilitary risks. It could not have been prophesied with any certainty that any war following the 1940 period would not have been attended by epidemics such as those experienced in previous wars.

Regarding the staff report on premium-waiver cost, if a lower premium had been charged, the value of the waiver would have been less and correspondingly the cost to the Government would have been less, but in that event the Government would not have had the safeguards which higher premiums based upon a more conservative table afford. On a purely insurance basis it is believed the value of the safeguard against possible large expenditures afforded by a conservative table far outweighs the comparatively small extra cost of the higher premium under the premium-waiver provision.

Concerning the comment in the staff report regarding the interest paid on national-service life-insurance investments, may I point out that the insurance companies earned on an average more than 3 percent on their investments over the 1940-48 period. The Government derived a very valuable advantage in having available money for investment in bonds which were not subject to open-market transactions. Moreover, the rate of interest on these investments does

not seem out of line with the Government's guaranty of interest to private lenders in excess of 3 percent.

It is difficult to understand how the interest paid on invested funds could be considered "hidden," since a record of the amount so paid is published Nation-wide by the Treasury every day and a copy of the report containing information regarding this interest is daily sent to each Member of the Congress.

Plainly the act indicates that the fund will be made whole for all losses traceable to the extra hazard, and interest is an integral part of the benefits paid. Unless the Government paid interest on money belatedly transferred from the appropriation to the fund, the obligation of the Government to the policyholders would not have been satisfied, in which event the fund would be subsidizing the Government.

The staff report questions the right of aviation cadets to receive a dividend. The Comptroller General, on March 29, 1949, raised the same question on a somewhat broader basis indicating that in addition to aviation cadets those who received a waiver of premiums because of a disability traceable to the extra hazard of service should also be excluded.

The Veterans' Administration advised the Comptroller General, April 27, 1949, regarding its reasons for deciding that all such persons are entitled to a dividend. Copy of our letter is attached. Also, a legal opinion on this subject was included in a brief filed with the committee by the Solicitor of the Veterans' Administration. In this regard, may I call your attention to the fact that the contention of the Comptroller General was presented by him to the Congress before the 1950 appropriations were made to the Veterans' Administration, and both the Appropriations Committees of the Senate and the House of Representatives made special inquiry into these contentions before reporting out the appropriation. Further, a provision which would have had the effect of prohibiting the Administrator of Veterans' Affairs from paying dividends to aviation cadets was debated on the floor of the Senate and rejected by that body, the subject being discussed in detail by Senator George of Georgia, chairman of the Finance Committee of the Senate, which committee handles veterans' legislation.

The report further states that, as a basis of administrative costs for fiscal 1950, set forth above, the average annual administrative cost per national-service life-insurance policy is approximately \$14 a year. It states the average cost per policy of the five largest commercial companies as taken from Best's Life Insurance Reports, 1949, is \$8.49.

It is evident that the picture of administrative cost in this connection is a distorted one. While I do not possess data to refute the allegation, it is not agreed that the total administrative cost of \$80,808,545.23 for fiscal 1950 represents a proper basis for establishing the cost per policy of Government life insurance.

However, even though it be assumed that this is a proper basis for determining the average annual administrative cost per national-service life-insurance policy, it is submitted that the figure of \$8.49, as representing the average cost

per policy of the five largest commercial insurance companies, is not a correct basis for comparison. While the report does not specify the method used in calculating this cost, it would appear to have been reached by multiplying the amount of the average policy by the renewal expense ratio per thousand of insurance, as shown by Best's Life Insurance Reports, 1949. This method ignores the much higher cost to the companies of first-year business due to acquisition, underwriting, and the setting up of the initial records, which, in this publication, is estimated to be five times that of renewal expense under "ordinary" business. In addition, if comparisons are to be made, the commodities being compared should be alike. Of the five largest companies, only one writes exclusively "ordinary" business, the rest also being engaged in the writing of "industrial" and "group" insurance. Since national-service life insurance only writes "ordinary" business, if any comparison is to be made, then the only reasonably fair comparison would be with a company exclusively writing similar business. From published data it is indicated that the company among the five largest writing exclusively "ordinary" business has an average per policy cost of \$16.11. It is my understanding that this company only receives two remittances per policy per year, whereas the Veterans' Administration receives approximately six remittances per policy per year. In fact, most commercial insurance companies do little monthly premium business, and some companies do not even issue such policies. The National Service Life Insurance Act prescribes a monthly premium basis and this results in a corresponding need for monthly billing, receipts, clerical posting, and so forth. Also, may I point out that, because of the field force, home offices of commercial insurance companies rarely receive premiums in other than the correct amount, whereas in the Veterans' Administration an appreciable number of remittances require adjustment.

Prior to August 1, 1946, all national-service life insurance had been written as "term" insurance requiring renewal or conversion. Virtually all new insurance is still originally written under the "term" plan. In contradistinction most commercial insurance is retained in the original form written and there is no high percentage of policies subject to conversion or renewal.

Another factor of great importance is that the Veterans' Administration has 22,000,000 policy accounts of which only an inconsequential few can be classified as wholly inactive because even the 16,000,000 no longer in force accounts are semiactive due to the extensive volume of inquiries received regarding them and recurring lapses and reinstatements. In contrast, "inactive" accounts of commercial insurance companies normally mean "dead storage" accounts.

May I express the opinion that it is neither fair to the Veterans' Administration nor to the commercial insurance companies to make any comparisons unless it can be definitely said that the things being compared are in fact exactly comparable.

The report refers to provisions of section 608—underscoring the finality of Administrator's decisions as to law or fact. The report states that the results

that flow from section 608 are exemplified by the disagreement between the Comptroller General and Administrator with reference to the Government's rights to dividends.

The grant to the Administrator of final authority on decisions of law and fact was one which evolved from thorough legislative investigation of the Veterans' Bureau in 1923 by the Select Committee of the Senate on Investigation of the United States Veterans' Bureau, Senator David A. Reed, chairman, and which culminated in the enactment of Public Law 522, Seventy-first Congress, July 3, 1930 and Public Law 866, Seventy-sixth Congress, October 17, 1940. Specific legislation for National-service life insurance was enacted as section 608, Public Law 801, Seventy-sixth Congress, October 8, 1940, amended by section 12, Public Law 589, Seventy-ninth Congress, August 1, 1946.

The position of the Director of the Veterans' Bureau was made clear in 1923 in communications to the President, December 19, 1923, and to the Select Committee on Investigation, December 7, 1923. It was therein stated that the exercise of full authority necessary to efficient administration was impaired by the interposition of other agencies in the determination of many questions which were properly under the sole jurisdiction of the Bureau. Specifically, many questions were being submitted to the Comptroller of the Treasury which, the Director asserted in hearings before the House Committee on World War Veterans' Legislation, February 25, 1924, should be and the Congress intended to be considered in the Bureau.

This position was approved by the enactment of section 5 of Public Law 242, Sixty-eighth Congress, June 7, 1924.

Public Law 522, Seventy-first Congress, July 3, 1930, amended section 5 of the World War Veterans' Act to include questions of law as well as of fact. Here, again, the purpose of the legislation was made clear as reported in the conference report of the House of Representatives, July 3, 1930 (H.R. 13174): "... The effect of the amendment is to prohibit the Comptroller General from revising decisions of the Director on questions of law as well as of fact." After a committee of conference of both Houses had met on the bill, the bill was recommended and Senator Reed stated: "... the decisions of the Director both as to law and fact should be final and not reviewable by the Comptroller General" (Congressional Record, Senate, July 3, 1930, vol. 72, pt. II, p. 12197).

On October 17, 1940, in order to provide legislative uniformity as to the Administrator's authority, section 11 of Public Law 866, Seventy-sixth Congress, was enacted. This section reads as follows:

"Notwithstanding any other provisions of law, except as provided in section 19 of the World War Veterans' Act, 1924, as amended, and in section 817 of the National Service Life Insurance Act of 1940, the decisions of the Administrator of Veterans' Affairs on any question of law or fact concerning a claim for benefits or payments under this or any other Act administered by the Veterans' Administration shall be final and conclusive, and no other official or any court

of the United States shall have power or jurisdiction to review any such decisions."

Section 608 of the National Service Life Insurance Act of 1940 (Public Law 801, 76th Cong.) read, in part, as follows: "Except in the event of suit as provided in section 617 hereof, all decisions rendered by the Administrator under the provisions of this part, or regulations issued pursuant thereto, shall be final and conclusive on all questions of law and fact, and no other official or court of the United States shall have jurisdiction to review by motion or otherwise any such decision."

The question of the finality of the decisions of the Administrator of Veterans' Affairs was again considered prior to the passage of the act of August 1, 1946. The amendment of section 12, Public Law 589, Seventy-ninth Congress, changed the above-quoted portion of section 608 so as to read: "Except in the event of suit as provided in section 617 hereof, or other appropriate court proceedings, all decisions rendered by the Administrator under the provisions of this act, or regulations properly issued pursuant thereto, shall be final and conclusive on all questions of law or fact, and no other official of the United States, except a judge or judges of United States courts, shall have jurisdiction to review any such decisions."

But granting arguendo that the assumption be correct that the Comptroller General would, if he had the power, override the decisions of the Administrator, it does not follow that this would save anyone any money, for these questions are justiciable, and the courts have consistently held with the Administrator and against the Comptroller General on such matters (*United States v. Patryas*, *Hines v. March*, *Hines v. United States and Cavanagh*).

To have denied dividends as recommended by the Comptroller General would have raised a question which only the courts could decide finally, and it is inconceivable that the final decision would be different from that reached by me on the applicable legal principles.

Sincerely yours,

CARL R. GRAY, Jr., *Administrator*

This letter appears as Appendix 16 in the printed report of the Hearings of this Subcommittee on National Service Life Insurance.