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AMENDING EXISTING LAW TO PROVIDE PRIVILEGE OF RENEWING EXPIRING 5-YEAR LEVEL-PREMIUM TERM POLICIES FOR ANOTHER 5-YEAR PERIOD

APRIL 2 (legislative day, MARCH 24), 1947.—Ordered to be printed

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

REPORT

[To accompany H. R. 1327]

The Committee on Finance, to whom was referred the bill (H. R. 1327) to amend existing law to provide privilege of renewing expiring 5-year level-premium-term policies for another 5-year period, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

PURPOSE OF THE BILL

The purpose of the bill is to authorize holders of 5-year level-premium-term policies of United States Government life insurance to renew such policies for a fifth 5-year period, at the premium rate for the attained age without medical examination. The 5-year level-premium-term policy was first authorized in 1926. There have been three renewals since authorized for periods of 5 years each making a total period of 20 years during which such Government insurance may be carried on the 5-year term plan. A bill similar to this one was last enacted on May 14, 1942 (Public Law 556, 77th Cong.). The committee feels that anyone who has such a policy at present should not be denied the privilege of renewing this type of insurance if he so desires. The committee also recognizes that there are cases where protection of a veteran's family in the next few years is a matter of primary concern to him. From this standpoint, the renewal of term insurance may well have advantages over an attempt to convert to other types of insurance at the present time.

However, in the long run, the committee wishes to point out the marked disadvantages of a level-premium-term policy to veterans as they become older in point of age.

At every 5-year period, as the veteran becomes older, the annual premium will sharply increase. And, furthermore, a veteran relying upon 5-year-term insurance does not have the cash, loan, or paid-up values in his insurance which he would have if he converted to another type of policy.

Nevertheless, the committee takes the position that veterans who wish the protection of term insurance during the years of the immediate future and who simply cannot afford at present to convert their policies to other types of insurance should not be denied the right to continue their term insurance.

The report on this bill to the committee from the Administrator of Veterans' Affairs is self-explanatory and is as follows:

MARCH 19, 1947.

Hon. EUGENE D. MILLIKIN,
Chairman, Committee on Finance,
United States Senate, Washington, D. C.

DEAR SENATOR MILLIKIN: Reference is made to your request for a report on H. R. 1327, Eightieth Congress, an act to amend existing law to provide privilege of renewing expiring 5-year level-premium term policies for another 5-year period.

The purpose of the bill is to authorize renewal of United States Government life insurance on the 5-year level-premium term plan for a second, third, fourth, or fifth 5-year period at the premium rate for the attained age without medical examination. Under existing law such insurance may be renewed for a second, third, or fourth 5-year period.

The level-premium legal reserve system was devised in order to overcome the objections to the renewable term plan. Under this system the yearly term premiums for the entire period of life are adjusted to provide for level premiums payable throughout the period. During the earlier years the insured under this plan pays more than the amount of premium required under the yearly renewable term plan, the excess being accumulated at interest to create a fund which will provide for the excess cost at such time as the cost of protection exceeds the amount of premium being paid. This plan of insurance is more advantageous to the insured than the renewable term plan for the reason that not only will the premium never increase but on the average the total amount of premiums which the insured will be required to pay will be less under the level-premium plan due to the interest earnings.

The comparative results under these two systems may be shown by considering the insurance status at the end of 20 years of two veterans A and B now aged 55 years, on the assumption that both veterans live to attain the age of 75 years. Veteran A takes out an ordinary life United States Government life insurance policy issued at age 55 for $10,000 paying thereon a level annual premium of $451.30 which will never increase during his lifetime. Veteran B takes out a 5-year-level premium term policy issued at age 55 for $10,000, and it is assumed for purposes of comparison that at the end of each 5-year period, he is permitted to take out a new 5-year-term policy issued at his attained age. The annual premium on this term policy during the first 5 years is $207.90. During the second 5-year period the insured will be required to pay an annual premium of $306, during the third 5-year period $467.80, and during the fourth 5-year period $727.70.

At the end of the 20-year period; that is, at attained age 75, veteran A has an ordinary life policy under which there is a cash value of $5,401.10, or a loan value of $5,077.00. If he wishes to discontinue the payment of premiums he may secure a paid-up life policy in the amount of $6,747.30, or he may let his policy run under the extended-insurance provision in which case his insurance protection will be automatically continued in the amount of $10,000 for an additional period of 7 years and 75 days without the payment of any further premiums. If he desires to keep his policy in full force after attaining age 75, it may be continued until his death by the payment of the original annual premium of $451.30.

On the other hand veteran B, upon attaining age 75, has no cash, loan, paid-up or extended-insurance values. If he desires to continue his insurance on the 5-year-term plan it will be necessary for him to pay the increased annual premium required, which for ages 75 to 79, inclusive, is $1,111.60. The annual premiums required under this plan for further periods are as follows:

Ages 80 to 84, inclusive	$1, 769. 60
Ages 85 to 90, inclusive	3, 129. 20

If veteran B, upon attaining age 75, desires to continue his protection under a permanent life plan it will be necessary for him to pay the premium at the ordinary life rate for age 75, which is $1,449.40 per year.

An examination of the above figures and the comparative results under the two plans show the advantage in an average case of placing insurance under one of the permanent forms of level premium life insurance at as early an age as possible, thereby securing the maximum benefit from interest earnings.

The group of term policyholders of United States Government life insurance is composed of a larger percentage of impaired lives than any other group and death and disability experience of this group show a high ratio to the claims expected under the mortality tables. Many of the losses are not traceable to the extra hazard of service and must be borne by the United States Government life insurance fund.

All United States Government life insurance policies include a provision granting benefits on account of total permanent disability, without limit as to the age before which disability must occur, for which no additional premium is charged. The probability of becoming totally disabled increases with advancing age and at the older ages practically becomes a certainty. The liability assumed on account of the disability provision must be met from what would otherwise be considered as surplus earnings if no disability provision were included in the policy. It is, therefore, necessary to accumulate from these earnings, a fund which will be sufficient to provide for the liability assumed. The margins available for this purpose are smaller under the 5-year level premium term plan than under any of the other plans of converted insurance. The longer the holders of this plan of insurance are permitted to continue their insurance on the term basis, especially if evidence of insurability is not required, the more difficult it will be to make provision for the liability assumed on account of the disability provision; in fact, in the case of the older policyholders it will be impossible to make provision for this liability from their own contributions.

Sound insurance underwriting requires that safeguards should be established to minimize the chances for adverse selection. Commercial life insurance companies grant total disability protection only to persons in a preferred classification as to risk who are below a certain age limit, and the protection generally ceases when the insured attains the age of 60 years. Under Government insurance there is no restriction as to the classification of risk or limit as to the age before which disability must occur and no age limit for the granting of new insurance. If the holders of 5-year-term insurance are permitted to renew their insurance on this plan without requiring evidence of insurability it is evident that the adverse selection will be great and that the burden of this adverse selection will fall upon the other policy holders and not upon the 5-year-term group.

The United States Government life insurance fund is a trust fund created and owned by the policyholders, the Government acting as administrator and trustee of the fund. In the administration of this fund the rights and interests of the great body of policyholders should be considered and protected. To grant special rights and privileges to one class of policyholders, known to contain a large percentage of impaired risks, at the expense of the other policyholders, would be unjust and discriminatory.

It is impossible to estimate the cost of this proposed legislation to the United States Government life insurance fund since such cost will depend upon the degree of impairment among the members who continue on the 5-year-term plan, but there is no doubt that the cost will be considerable and will extend over a period of years. The Government pays for the extra hazard due to military and naval service no matter what plan of insurance is selected, this cost being determined by the difference between the face amount of insurance and the reserve. Since the reserve on 5-year-term insurance is very small compared with the other plans of insurance the cost to the Government on account of claims which have a service connection will be greater if impaired lives are permitted to continue on the 5-year-term plan than if they were carried under some other plan having a larger reserve. The increased cost will extend over a number of years and will continue even after the completion of the additional 5-year period, but it is impossible at this time to estimate the additional cost to the Government.

The following table shows the number of 5-year-level-premium-term policies in force as of December 31, 1946, the aggregate face values of such policies and the periods in which such policies are being carried.

	Policies	Aggregate face value
First period	10,998	$85,910,577
Second period	7,215	41,738,704
Third period	6,161	37,479,393
Fourth period	12,821	82,954,875
	37,195	248,083,549

It will be noted that only about one-third of such policies are running in the fourth period and would require legislation to continue on the term plan after their respective expiry dates.

For the foregoing reasons, the Veterans' Administration is unable to recommend favorable consideration of the proposed measure.

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

Sincerely yours,

OMAR N. BRADLEY,
General, United States Army, Administrator.

The committee is in accord with the purposes of the bill and recommends its enactment.

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